

Can extreme budgeting work for you?

The emerging trend of extreme budgeting is being used by some as a way to achieve early retirement, but will it suit you? Bridges, our financial planning partner, explains what's involved.

The emerging trend of extreme budgeting is being used by some as a way to achieve early retirement, but will it suit you?

The phenomenon of extreme budgeting is gaining a lot of credence, as many households are keen to rein in their exposure to debt. As the name suggests, extreme budgeting requires a quantum leap in the approach to the household budget, involving a resistance to the pressures of consumerism and an emphasis on self-sufficiency and a more frugal lifestyle. While the changes required by extreme budgeting are quite dramatic, on the flip side the potential benefits are compelling.

Our debt addiction

Over the last three decades, the influence of a deregulated financial industry, persistently low interest rates and an increasing culture of consumerism has seen our addiction to debt skyrocket. By 2015 Australian average household debt had quadrupled over a 27 year period, rising from \$60,000 to \$245,000 (after taking inflation into account). This equates to an annual growth rate in household debt of 5.3 per cent above inflation, vastly outstripping the income growth rate of 1.3 per cent over the same period.¹

Perhaps this passion for consumption and spending is being driven by a sense of what we might be missing out on, rather than a focus on being content with what we have. Devotees of extreme budgeting would argue that a focus on personal happiness, rather than superficial accumulation of 'stuff' is a key motivation, together with the prospect of achieving financial independence at a much younger age.

The benefits are appealing

While extreme budgeting may sound like its adherents are confined to tree-changers or alternative lifestylers, many of those who proclaim its benefits have much more mainstream objectives in mind. Some are doing it as a 'detox' from personal debt that has gone out of control, while others have grander goals, such as achieving early retirement by directing large proportions of their income toward savings.

So what's involved?

Basically they live by the mantra that they must think critically about every dollar that they spend and that their ultimate financial goal is always of greater importance than the things that they give up. Nothing is taken for granted and every aspect of consumption is scrutinised.

This attitude is then brought to life in a range of everyday habits, rules and behaviours, which include things such as:

- **Never going into debt for a car.** Vehicles are one of life's biggest expenses. It's not just the purchase costs, but the ongoing insurance and maintenance and depreciation that you are buying into, so avoid treating the car as a status symbol and only buy what you can afford to pay for in cash and only upgrade your car when you have saved enough to pay in cash again.

- **Fight the fashion frenzy.** Only shop at second hand stores, op shops and garage sales for clothes. While this may be anathema to our fashion instincts or our affluent mindset, it is surprising how much choice and quality is available at a tiny fraction of the cost of buying the same item new.
- **Become a do-it-yourself devotee.** Develop skills in growing, repairing, maintaining and making, so that you can limit the need to buy in services. This can apply to anything from car maintenance and gardening, to pest control and basic building.
- **Get creative in the kitchen.** Eating out is a big money muncher, so make a decision to cut this out as a routine part of your lifestyle and start honing your cooking skills instead.
- **Grow your own.** Self-sufficiency can save hundreds if not thousands over a year, so make the effort to plant that vegetable garden, run some chickens and make your own processed foods, such as cheese, cured meats and preserved fruits.
- **Have a rigid attitude to cash windfalls.** Many of us will tend to use a pay rise or an inheritance as a way of boosting immediate lifestyle spending, but extreme budgeters will strictly apply such windfalls exclusively toward long term saving goals.
- **Save first and then spend the rest.** Make your savings target the first priority from your income and then budget your spending from what is left over (not the other way around).
- **Never ever pay top dollar for anything.** Be patient about waiting for sales on items that you really need and put the time into researching the best prices or opting for second hand.

Prioritising is the key

Many of us get caught up in the race to own the latest and best of everything in an attempt to live up to a perceived status or lifestyle that has been promoted to us in the media. Extreme budgeting seeks to press the pause button and take stock of lifestyle and what is really important, so that conscious choices can be made to live life more simply and conservatively.

This may not seem all that appealing on the surface, but if the end goal means something like retiring at 55 instead of 65, then the end certainly can justify the means.

Take the next step

To discuss your financial situation, make an appointment with a Bridges financial planner.

We have an established alliance with Bridges, to provide our customers with financial advice. Bridges has been helping Australians with financial advice for 30 years.

A Bridges financial planner will develop a plan specifically for you; one that's tailored to your needs and circumstances to help you achieve your goals.

To make an appointment with a Bridges financial planner, call 1300 665 553 or email us at info@wecu.com.au. The initial consultation is complimentary and obligation free.

1. Source: NATSEM Income and Wealth report – Buy now, pay later: Household debt in Australia.

Bridges Financial Services Pty Ltd (Bridges). ABN 60 003 474 977. ASX Participant. AFSL 240837.

This is general advice only and has been prepared without taking into account your particular objectives, financial situation and needs. Before making an investment decision based on this information, you should assess your own circumstances or consult a financial planner or a registered tax agent.

Examples are illustrative only and are subject to the assumptions and qualifications disclosed.

Part of the IOOF group

In referring customers to Bridges, Woolworths Employees' Credit Union does not accept responsibility for any acts, omissions or advice of Bridges and its authorised representatives.