

GENERATION Y

Like many generation Ys, Scott Gubbins is laying the foundations of his career. He completed a masters degree in aviation management last September to add to the skills he gained while studying for his Bachelor of Commerce, and is now working part-time in customer service for Qantas Airways. He hopes to land a job in management in the aviation industry soon.

He recognises his first aim should be to pay off his credit card but he's also keen to build a share portfolio, travel and, down the track, to go to Europe for further study.

Get out of debt

Matt Hern, a financial planner with Money-

Guide.com.au, says Scott is right to focus on repaying debt. But with surplus cash flow of \$80 a week, it would take more than six years just to repay the principal, let alone the interest. Hern suggests that he sell his investment portfolio to pay off the bulk of the credit card balance. No matter how good the investment, it's hard to beat the guaranteed 15 per cent return of removing the credit card debt. If he adds his cash savings and weekly surplus, he would pay it off in about a year.

Start good habits

Scott needs to be careful not to get into the bad habit of relying on credit, which could lead to trouble in the future. He should also develop budgeting and cash flow management practices that will help him throughout his life.

He should "save for the significant, minimise the insignificant", Hern says. A useful exercise would be to look forward seven or 10 years and then write down his answers to the following questions:

1. What is really important for me to achieve, own and experience?
2. When do I want to have fulfilled these goals and how often? For example, do I want to take an overseas holiday next year and then another one every three years thereafter?
3. How much each will cost (in today's prices)?
4. How much will I need to save each pay period so that I'll have enough?

When that's done, the obvious but often challenging final step is to save towards those goals. Set ground rules and stick to them. "Don't go to Europe unless you've saved the full amount upfront," Hern says. "No more whacking it on the credit card and thinking you'll deal with the debt later."

Save for the short term

After Scott has cleared his debt, he can start saving for other things. He should use a high-interest savings account to save for anything he plans to do or buy in the next seven years or so.

Young people often think that saving in a high-interest account means their money is not working hard enough. But the reality is that a high-interest savings account offers the best balance between the competing objectives of good returns and ready access.

Think long term

Scott is just starting out and won't be retiring for years, but it's never too early to start planning for a time when he can make work optional.

The first step he should take is to take control of his superannuation. He should actively choose a fund and not just accept the one his employer puts forward. A simple, low-cost product is probably best for him right now. Search for lost super accounts and roll these into the selected fund. A few hundred dollars here or there is still worth having.

As he is young, an investment option that's fully invested in mainstream growth assets would be better for him than a balanced option. He has the time to ride out the ups and downs of the market and should finish up with a higher balance.

Despite his youth and tight financial situation, Scott's greatest asset is his ability to earn an income. An income protection policy will act as a safety net. Holding and paying for the policy through super will allow him to afford it. He should consider this as one of the criteria for picking a super fund.



VITAL STATISTICS	
Scott Gubbins	
Age	26
Location	Sydney
Occupation	Customer service agent
Salary	\$42,000 a year
ASSETS	
Super	\$11,000
Investments	\$24,000
Cash in the bank	\$1000
LIABILITIES	
Credit card debt	\$26,000
HECS debt	\$40,000
THE AVERAGE WEEK	
Income	
After-tax salary	\$530
Total	\$530
Expenses	
Rent	\$200
Living expenses	\$250
Total	\$450
Insurance	Basic life cover in superannuation