Making the most of a salary increase

It's exciting to get a pay rise and when you've earned it, you often feel like it's a deserved reward to treat yourself with, but used in the right way it can also help you build towards a more financially fulfilling future.

Typically, the more people earn the more they spend which is often unfulfilling if you are constantly living day to day paying bills with nothing left over to give you confidence in your long-term or short-term future.

If you have been able to afford your lifestyle on your current salary and you receive an increase, then you should technically be able to save the extra money.

You're likely to want to improve your lifestyle with an increase in salary, so you would like to use at least some of it.

Perhaps you could save half and use half, thus improving your lifestyle plus building towards a more secure future. Or, if not half, a certain percentage or fixed amount of saving and a certain percentage or amount of spending.

Saving made easy

It's easier to commit to a savings plan if you have it automatically transferred out of your main spending account into another account, so you don't see it. The idea is that if you don't see it, you won't miss it.

Several financial institutions have savings accounts which pay extra interest (and act as an incentive) to not make withdrawals from this account.

Saving is really delayed gratification – not blowing all you have today but stretching out the ability to spend the money later.

If you are saving for short-term goals – deposit for a home, or a car, or a holiday you might like to use term accounts or easily accessible savings vehicles.

If you are saving for longer term projects – like children's private school fees or your retirement, you might like products such as investment bonds or superannuation.

It's all about choices – is it more valuable to you to spend your money today or are you keen to give yourself greater choices later in life.

One of the ways of thinking about your money and what you use if for is by consciously spending. Think about what you spend now and the opportunity cost of not having it to spend later.

Choose the expensive holidays, dinners and lifestyle now or put some away so that you'll be able to afford more later.

Making no change

If you're not tempted to use your pay rise to save for the future in a formal way but you have a budget which for example, according to the 50-30-20 rule where you use 50% of your income for needs, 30% for wants and 20% for savings – you will still increase the amount of money you allocate for both now and for the future.

Compound interest will allow your savings to build quickly over time – and what you may not have been able to afford in today's dollars may become more achievable in future dollars.

Super boost

Even if you do nothing with your pay rise, your super will be getting a "pay rise" from 1 July 2025. From this date your employer paid Super Guarantee will be increasing from 11.5% to 12%. This means that for a salary of $80,000 you will now be earning an additional $400 a year.

The Super Guarantee began in 1992 at 4% and has increased incrementally until the final legislated increase to 12% where it will remain.

Further information

For further information please contact us on (02) 4929 3266 or mail@mcgregorsca.com.au.

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