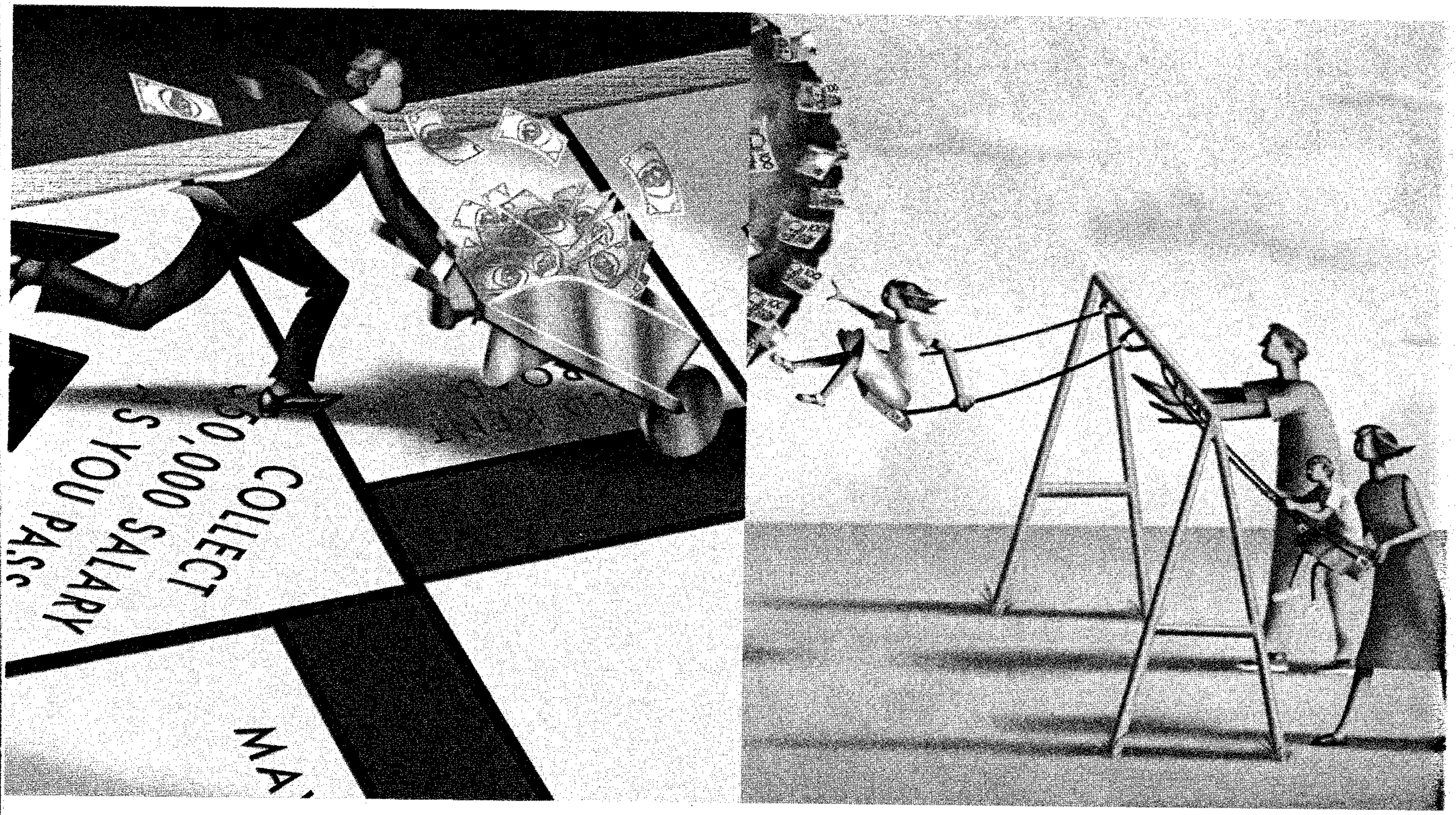

THE $50K

Money set four experts a challenge: how to make $50,000 in five years. We gave each of them a different scenario to work with – a young single in her first job, a young couple with children, an empty nester couple and a couple on their way to retirement. Here's what they came up with.

ILLUSTRATIONS JIM TSINGANOS

CHALLENGE

Off to a flying start

The young single in first job Her aim is to save $50,000 within five years. She might use the money to buy her first home, invest it, or use it for travel. How much will she need to save each month and what's the best way to do it?

WHEN YOU FIRST START work it is very easy to spend everything you earn and more, especially with easily available credit. But before you get stuck in a pattern of overspending, think about what you really want. If you really want to save $50,000 here's how to do it.

First, set your goal, that is to accumulate $50,000 within five years. To achieve this you would have to save at least $730 a month. This seems difficult but it is manageable if you work out your budget properly and invest your money wisely.

Obviously, saving $730 a month is going to be harder if you earn $30,000 than if you earn $55,000, but it is still possible. On a salary of $30,000pa, you would be earning $2,160 a month after tax. Deducting $730 a month from this will leave you with just $1430pm to spend. You would probably have to be living at home with low board paid to your parents. Even at $55,000 ($3500pm after tax, assuming you are also paying HECS), you will have to watch your spending.

But there are a number of ways to help yourself budget properly. Most importantly, only buy what you have cash for now – do not have a credit card.

You can keep living expenses low by living at home or sharing an inexpensive unit with a flatmate. Work out what you need to spend on groceries and utility bills, then work out how much is left over and limit your discretionary expenditure. Be careful with your choices for mobile, home phone and internet and remember you may not be able to afford the latest phone. Take your lunch to work, use public transport and if you have to buy a car, get a used one.

Set up a savings account and ask your employer to pay your savings directly into that account,

HOW TO DO IT

INVESTING OPTION, SAVING $730 A MONTH

	ONLINE SAVINGS	INVESTMENT ACCOUNT[1]	COMBINED FIRST HOME SAVER AND INVT ACCTS		
			FHS ACCT	INVT ACCT[2]	TOTAL
Rate of return	5.5%pa	6.8%pa	5.25%pa	7.5%pa	
End year 1	$9001	$9056	$6579	$3382	$9961
End year 2	$18,497	$18,723	$13,504	$7018	$20,522
End year 3	$28,515	$29,042	$20,793	$10,927	$31,720
End year 4	$40,058	$40,058	$28,463	$15,129	$43,592
End year 5	$50,235	$51,993	$36,576[3]	$19,702	$56,278
Total invt return	$6435	$8193	$4400[4]	$3403	$7803
Time to pass $50,000	5 years	4yr 10m		4yr 7m	

[1]Fixed interest 50%, shares 50%. [2]Fixed interest 20%, shares 80%.
[3]Includes annual goverment contribution of $935 (deposited after tax return submitted). [4]Excludes govt contribution = $4675

or direct debit it from your bank account soon after your salary is deposited.

The next step is to decide how to invest your savings. Your first option is a high-interest savings account, especially if you want to be sure that your savings never fall in value. As your balance grows, you could consider term deposits as well. This strategy could earn you 5%pa to 6%pa based on current rates, but this will fluctuate over time.

Your second option is an investment account that gives you access to growth investments. If you are happy to see your investment balance fluctuate, you could diversify your investments and direct some (perhaps 50%) of your savings into growth investments such as share funds, which may allow you to reach your goal a little earlier.

It's important to note this can't be guaranteed; it could end up taking longer. Including some Australian shares in your investment portfolio would also offer you the tax advantage of franking credits. Long-term capital gains are also taxed at half your marginal tax rate.

It is inevitable that at some point the sharemarket will fall. When this happens it's important to be able to remain invested. If you have invested 50% of your savings in shares and a market fall causes this allocation to drop to 45%, a good strategy is to "rebalance".

This would involve transferring funds from your cash investments to the share investments to bring the balance back to 50:50. Your losses are likely to be recovered faster this way. If you don't think you could do this, don't invest in shares.

Your third option, if you are definitely saving for a deposit on your first home, is to open a First Home Saver Account. There are a numbe of restrictions with these accounts that yo should check, but they do allow you to receiv an additional deposit from the governmen of up to $935pa if you deposit $5500pa int the account. The government's contributio effectively gives you a 34% guaranteed retur on your first year's savings if you deposit i monthly over the year (this effective retur falls as your balance rises, but remains attractive). The interest on these accounts is taxe at 15%, which is particularly good if you ar earning more than $37,000pa.

If you are saving to buy your first hom in five years, you should consider puttin $5500pa into a First Home Saver Account an the remainder into a higher-interest accoun or an investment account.

Finally, stay focused on your goal and stic to the plan. The rewards will be worth it.

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