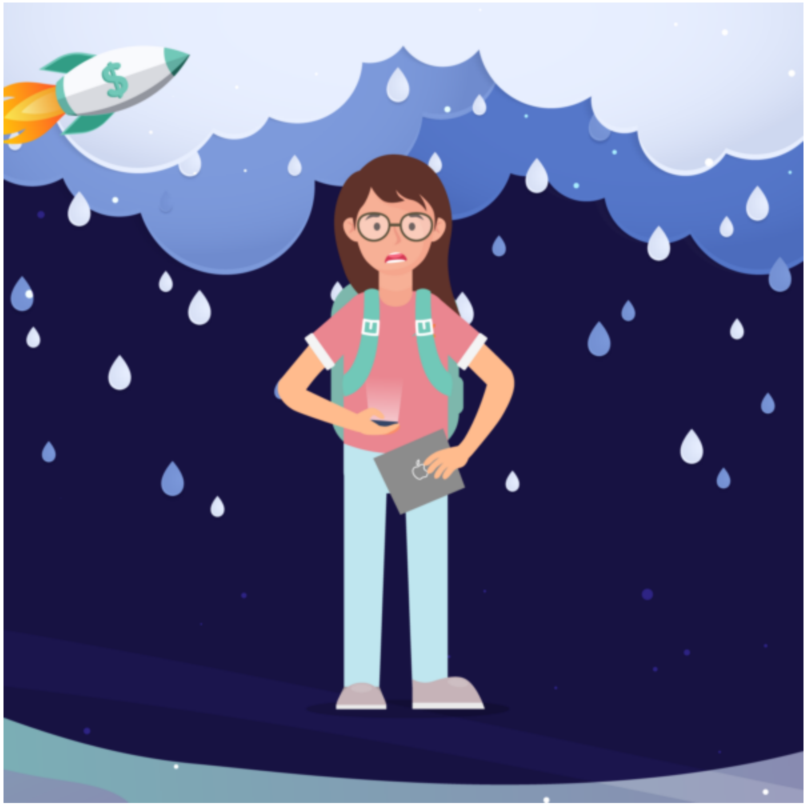
WHICH SMARTPHONE SHOULD I BUY?

May 24th, 2022

Categories: Finance, Self,

This series is provided in partnership with Financial Counselling Victoria and is around debt. We follow the journey of Young Carer Julie through understanding debt and putting her knowledge into practice. If you haven't read the first post 'Understanding debt' you should start there!

DREAMER DIARIES



Julie was pretty sure she had the most unreliable phone in the world – its battery could dive from 66% to 2% in a matter of minutes. One day in early March, she arrived late to soccer training and found the pitch completely deserted – the session had been cancelled because of bad weather. She took out her phone to find it was dead – then, not even five minutes later, the promised bad weather began. Julie had no way of calling her parents, so she waited two hours in the tropical downpour for them to pick her up. The rain ruined her boots and seeped into her school bag – her laptop never really charged properly after that.

After that, Julie decided her old phone just wouldn't cut it anymore. Besides, having a new phone was like being properly connected to the rest of the world – you needed one to do almost everything. How else would

Julie keep up to date with the group chat, get directions, stop Mum from stressing when she was late home from work… the list was endless!

At the phone shop, Julie was overwhelmed with choice. She had to choose a phone, work out how much data she was likely to use in a month, and then choose a payment method. With the help of the salesperson, Julie found a phone she liked – one with a special camera for videos. She could pay for the phone all at once (impossible!), or pay for it bit by bit over the course of a year or two. In order to buy this phone, the salesperson explained, Julie would have to pay $35 a month on top of the $30 a month she would pay for her calls and data.

Of course it wasn't cheap, the salesperson admitted, but good phones are expensive. And the best part was that Julie could take the phone away with her, that same day, and start using it immediately – and she didn't have to pay anything *to start with! All she had to do was sign on the piece of paper the salesperson had put in front of her, and the phone was hers.*

The thing that Julie is being asked to sign is a credit contract. For lots of young people like Julie, a mobile phone purchase is sometimes the first contract they're asked to sign. But when you sign that contract at the shop, what is it that you're really signing? What's all that fine print about? Did you just unknowingly sign away your soul? Today we're looking at how to choose a mobile phone, what it really means when you sign on the dotted line, and what to do when it all goes wrong.

SO WHAT *IS* A CONTRACT?

When someone doesn’t immediately pay the full amount for an item they buy – for example, if Julie takes home a fancy new phone, or if your parents buy a new television with their credit card – they owe the money they have not yet paid. This is how debt happens (click here to read our last post on debt). A **credit contract** is a verbal or written agreement between a consumer (in this case, that’s Julie) and a provider (that’s the phone company). It outlines the amount the consumer has borrowed from the provider, the repayments that are due and the interest rate and fees. When you sign a contract, you are agreeing to the terms and conditions laid out in it – and these become your obligations upon signing.

But what does all of that mean? Let’s go through some of those key terms now.

TERMS AND CONDITIONS

The **terms and conditions** in a contract outline all the rights and responsibilities that both parties (that is, the consumer and the provider) have once the contract is signed. The consumer will need to indicate that they have read and understood these terms before they are allowed to sign the contract – most often, you can do this by ticking a box. Remember: it’s important that you understand what the terms and conditions of a contract are *before* you tick that box!

REPAYMENTS

Repayments are payments that the consumer is required to pay back to the lender at regular intervals in order to settle the debt they owe. The contract will outline how big these repayments are – and how often they are due. Make sure you can afford the payment schedule as it is outlined in the contract.

INTEREST

Interest is the cost the consumer pays in order to borrow money (this is in addition to the money they have borrowed). Interest is usually expressed as a percentage of the amount of money lent. The consumer most often pays this interest gradually, paying off a little bit with each repayment – but the overall cost of this interest can be **fixed** or **variable**. Fixed interest is determined in the contract and will not fluctuate over the term of the loan. In contrast, variable interest rates can go up and down over the term of the loan. Importantly for Julie – and anyone else thinking of signing a mobile phone contract – mobile phone contracts with telephone providers charge 0% interest – this means that Julia won't have to pay an additional amount *because* she has borrowed from the phone company for the phone.

SO WHAT'S THE CATCH?

Entering into a credit contract allows you to take home an item that you would not have been able to afford upfront. While this is incredibly useful for expensive purchases that are essential for school or work – like a computer, for example – there can be risks too.

The largest risk is that, by signing a contract, you commit yourself to making regular payments for a number of months or years. It can be hard to anticipate how your financial situation might change over that time, so it can be risky to commit to large monthly repayments. If your payments are late, you may be charged a fee (these are outlined in the terms and conditions), and these additional costs can get out of control quite quickly. So if Julie enters a two year mobile plan contract but then loses her job, she will still need to find another way to continue her repayments for the remaining two years. While it is possible to cancel a contract, this is accompanied by a large (and often unaffordable) early cancellation fee.

However, remember that you also have rights! Consumer Law in Australia requires that you're treated in a fair and reasonable way when you owe a debt, and that you can seek assistance if in financial hardship. For more information about your rights, click here.

A DECISION CHECKLIST

Julie didn't know it at the time, but when she signed that contract she was reacquainting herself with debt – that thing her parents had been so afraid of in her childhood. But this kind of debt wasn't the fanged creature Julie had imagined – it was more like a furry pet: helpful but not quite tame, loyal for as long as Julie stuck to the routine they'd agreed on. As long as Julie *paid a small amount of attention and care to her debt, there was no reason that she'd lose control of it.*

Julie was given lots of choices when she went into the phone store. She decided to choose the kind of phone that would lock her into a two year contract – but that's not the only choice she had.

Here are some questions you can ask yourself to help work out what phone is right for you.

WHAT DO YOU NEED YOUR PHONE TO DO?

Think about the calls and texts you make, and the amount of data and kind of coverage that you need. The MoneySmart site has a fun interactive activity to help you choose a suitable mobile phone – click here to access it.

WHAT IS YOUR BUDGET? HOW CAN YOU AFFORD TO GET A PHONE THAT DOES WHAT YOU NEED IT TO DO?

Depending on both your budget and your needs, you may prefer a pre-paid phone over a plan. Simple handsets can be purchased using the pre-paid option (for example, $30 per month) – this option is safer if your financial situation changes frequently, or if you don't want to commit to paying off your phone for the next two years. If you would prefer to enter a contract, there are still a lot of different phones and plans to choose from – and some are far more affordable than others. Telcos are required to provide a Critical Information Summary (CIS) for each phone and plan they offer. These give you the technical information about each of the options they offer and, while a CIS can be a bit tricky to read, it can help you to compare different options and find the one that is right for you.

DO YOU REALLY *NEED* ALL THE FEATURES YOU THINK YOU DO?

If you don't think you can afford the phone you'd like, it might be useful to consider whether any of your mobile phone 'needs' may instead be *wants* – this can help you choose a more affordable phone and plan, which will reduce the risk of money trouble down the line.

When deciding which phone you want, it may be helpful to consider the cost as another expense in your monthly budget. Once you add this expense to other necessary items such as rent, food and transport, you can work out if it is affordable for your income level. For example, a student working part time may not be able to afford the repayments for a new smartphone. To help you update your budget, you might like to check out the MoneySmart Budget Planner, which you can find here.

THE GOOD NEWS IS….

You are not alone! If you need help, you can connect with services to gain information and advice. For example, the Telecommunications Industry Ombudsman has a good advice line you can call to ask about any unfair practices you may have experienced: 1800 062 058

You can also meet with a financial counsellor if you are over 18 and find yourself in money trouble. Use the Carer Pathway to access free, confidential and independent assistance.