



# Becoming financially fit

Your step-by-step guide to financial freedom

# Becoming financially

**L**ife changes. It can happen in the blink of an eye – or it may be a more gradual process.

Fast changes aren't always positive. Illness or accident can change our lives dramatically, and the financial repercussions may be as stressful as the physical and emotional. Slower change, such as transition from full-time work to retirement, is often preferable; most of us need time to adjust to new circumstances.

The good news is that most of us have much more control over our life changes than we think. With the exception of accident and ill health, we can manage change to occur at a time and pace which suits us best. And planning our finances to match our lifestyle goals allows us to enjoy new ages and stages fully.

Many people put off financial planning because they don't really know what their life goals are, and so feel ill-equipped to meet with a planner and relate to financial goals. Other reasons we delay the planning process are the feeling that we don't have enough money to bother about, guilt over debt levels, or a sense that we have plenty of time before we give up full time work.

Sadly, delaying planning for any reason usually reduces the size of our potential nest egg. And when we do finally bite the bullet (often because we are forced into decisions regarding drawing down superannuation) we find our inaction has cost us dearly (see article xxx). The

simple truth is that most Australians do not have access to sufficient current tax and superannuation information to make informed decisions about their savings. Take, for instance, the opportunity to access the Pension Bonus Scheme – you may be aware that it exists, but did you know you need to have registered by xx or you simply won't receive it? With payments of up to \$25,000, this is a significant financial boost that you may miss out on due to a lack of planning, foresight, knowledge – or all three.

So make today the day that you become financially fit – find a planner who can assist you to take control of your financial future.

As with the quest for physical fitness, this is a four-step process:

1. Diagnosis – meet your “trainer” (planner)
2. Agree upon a program for your age and stage
3. Get moving
4. Review regularly.

The following Special Report will guide you through these steps, with a worksheet to prepare before your first meeting, case studies of people with similar financial challenges, and an explanation of risk and how to manage it. Don't forget, financial planning is a two-way process.

The more you know about your own situation, the more productive a partnership you enjoy with your planner. And asking the hard questions is the

best way to start your first meeting. To prompt your questions, see the list on page 10, including the summary of the ways planners are paid. If you are clear how your planner earns his/her remuneration, then you can be comfortable in knowing you are receiving value for money if your financial stress is alleviated, and your nest egg is growing.

## How financial advice can increase your nest egg

**A** recent independent study has found that financial advice can help immensely in growing your wealth. The study was commissioned by the Financial Planning Association (FPA) and carried out by Australian-owned firm Rice Warner Actuaries.

besides producing immediate monetary gain, advice helped people avoid future costs

When people experience, or anticipate, a change in their personal circumstances they often benefit from financial advice.

# fit

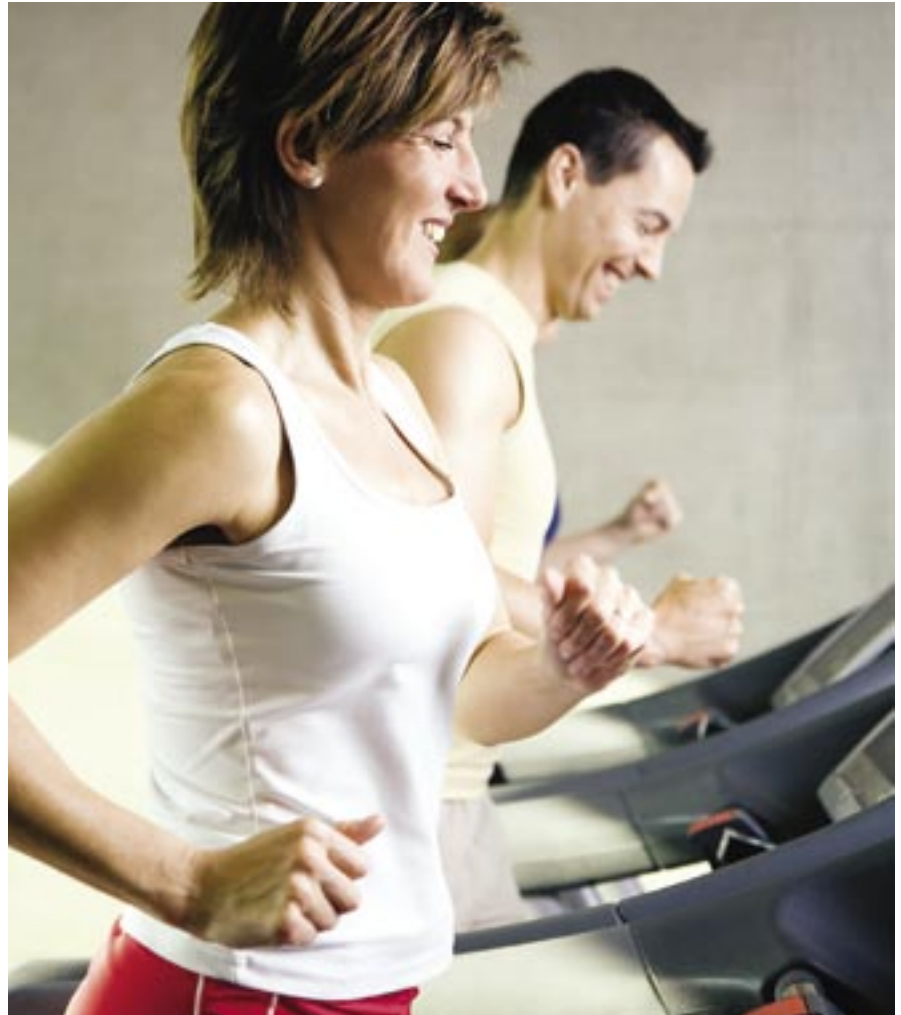
## e can significantly gg

Starting a second career, paying off a home, beginning or ending a marriage, inheriting money or planning for retirement are all times to adjust your strategy.

Financial advisers assist with issues such as investing, tax, insurance, managing debt, maximising super and retirement planning. Rice Warner surveyed eight individuals or families who sourced personalised advice. Between them, the eight were able to unlock an estimated \$1.7 million dollars and most reaped immediate savings.

The study also looked at four generic case studies of people who consulted call centres about common situations.

The reason personal advice is so valuable is that most people need help to navigate complex financial products



and legislation. Superannuation tax concessions, for example, are extremely complicated but selecting the right option makes the difference between a pension and no pension for many retirees. As well, changes in the law, the economy and personal circumstances mean that an effective financial plan needs regular reviewing.

The study also highlighted many non-financial and emotional advantages of personal advice. It found that besides producing immediate monetary gain, advice helped people avoid future costs. It increased their stability through factors such as better-chosen insurance, earlier home ownership, and increased

eligibility for government support. This, in turn, improved their lifestyle opportunities and peace of mind.

Of all the benefits experienced by the people surveyed, the single most common was education. The understanding they developed from working with their advisers empowered them to use their money wisely and take more control of their financial lives.

Rice Warner deduced that in the long run, your nest egg gains will far outweigh the costs of personal financial advice.

# Managing debt

**L**ike it or not, debt is part of nearly everybody's life. The most common forms of debt are credit cards, personal loans and mortgages. But by managing your debts strategically, you can minimise their impact on your financial wellbeing.

Firstly, seriously consider whether you need to take on a debt. Using a trusted person as a sounding board may help you decide whether a purchase is wise.

Secondly, it may be possible to arrange your assets and liabilities so that you reduce 'bad' debt, which is not tax deductible, in favour of 'good', or tax deductible, debt.

Thirdly, and most importantly, always prepare a cashflow model, or projected cashflow budget, of your situation.

Many people have trouble keeping to a budget, so don't be afraid to seek advice from a specialist in cashflow modelling, debt reduction and wealth creation.

A specialist will work with you to determine your income, expenditure, assets and liabilities.

They will take into account future goals such as holidays, car upgrades and home improvements, while using conservative estimates of investments and interest rates.

This provides you with peace of mind by showing you what your financial journey will look like.

When you seek advice, you and your adviser have responsibilities to each other. The adviser must develop a thorough understanding of your situation and you need to be honest in disclosing all relevant information. The aim is to acknowledge what has taken place in the past and develop a plan to equip you for the future.

## Greg and Anne:

### WHEN DEBT IS GOOD

**G**reg and Anne, both 42, have a home valued at over \$450,000. They have a mortgage of \$110,000, \$70,000 in super and credit card debt of \$10,000. They pay their taxes and mortgage repayments and what's left over pays for bills and groceries. They have no surplus income and no other savings.

It will take 18 years to pay off their mortgage, leaving them little time to invest before retirement.

They can expect a retirement income from their super of \$24,000 in today's dollars – less than half what they currently earn.

A financial planning adviser creates for Greg and Anne a debt reduction, wealth creation and cashflow modelling plan. It uses good debt from equity in their home to invest into managed funds.

With regular investing and monthly monitoring of their plan, they can pay off their bad debt in half the time with no lifestyle impact and receive a retirement income of over \$50,000 per annum in today's dollars.

David Strybosch, Senior Financial Advisor, Authorised Representative No. 236811, MyLife Financial Planning, Ph. 1300 889 446, Web [www.mylife.com.au](http://www.mylife.com.au)

Specialists in cashflow modelling, debt reduction and wealth creation

My Life (Aust) Pty Ltd t/a My Life Financial Planning is a Corporate Authorised Representative of Infocus Securities Australia Pty Ltd ABN 47 097 797 049 Australian Financial Services Licence No. 236523



# Setting financial goals

*"A dream is just a dream, but a goal is a dream with a plan and a deadline."*

– **Harvey MacKay**

**T**raditionally, financial planning has focused on building wealth for clients, yet most people don't know what they want to do with their wealth.

Financial goals are about deciding what values and aspirations are important to you and finding strategies to achieve them. A financial planner's advice should be tailored to your personal objectives. To get the best possible advice, your goals need to be realistic, measurable

and clear. Rather than aiming for "financial independence" or "wealth creation", be more specific. For example:

- I want to travel every second year at a cost of \$10,000 per annum
- I want to retire at 58 on an annual budget of \$50,000.

Defining your goals clearly will help your adviser assess whether they are achievable. Also, make sure your goals are meaningful and important enough to work for. Ask yourself:

- Are my goals positive?

- Are the costs, monetary and otherwise, worth the benefits they will reap? For example, aiming to build my business aggressively over the next 12 months may reduce my family or lifestyle time.
- Do my goals conflict with each other?

Defining your goals  
clearly will help your  
adviser assess whether  
they are achievable.

## John and Michelle:

### STICKING TO THE PLAN

**J**ohn, 55, and Michelle, 41, first saw a financial adviser in 2001. Their goal was to retire in 2010 with \$45,000 per annum. Their net worth was \$534,000 including \$159,000 of super.

Their core strategy was to salary sacrifice 45% of John's salary and \$20,000 of Michelle's per year until retirement and pay for annual holidays along the way.

Since 2001, changes to super legislation, the property boom and market volatility have prompted John and Michelle to make minor strategy adjustments.

They started adjusting their asset allocation (getting slightly more conservative as they approach retirement), super splitting (when you split up to 85% of your concessional super contributions each year to your spouse under 65), taking advantage of the Federal Government super co-contributions and commencing a Transition to Retirement Pension. But they've stuck with their core strategy of salary sacrifice.

Today, they have \$1.5 million of net assets including \$870,000 of superannuation. They can retire two years early on \$65,000 a year.

### STICKING WITH YOUR STRATEGIES

It's best to stick to your strategy unless your personal goals shift significantly. If you make significant changes, you might incur unnecessary fees and taxes. A good strategy grows and flexes with short-term goal changes such as a new job or an emergency.

Regardless of media information or market volatility, don't be tempted to abandon your strategy. Develop a sound long-term strategy with quality assets that allows you to achieve your unique personal objectives.

# Risk — it's all a trade-off

*"Risk is not knowing what you are doing."*

— **Warren Buffett**

Just as doctors suggest exercise improves your chances of good long-term health, financial planners advise that understanding the risks of investment options and your level of risk tolerance before you invest, will increase your chances of long-term wealth accumulation and financial independence.

Risk is an integral, unavoidable part of investing. The greater the risks you take with your money, the greater your potential for both gain and loss. The key



to minimising and benefiting from investment risk is to educate yourself. You can never completely avoid risks but the more you understand, the better you can manage them.

There are a number of variables that create risk for an investor. They include interest rate changes, movements in share and bond markets, currency movements, changes in legislation and regulations, and the possibility that an institution you invest in will perform poorly.

It's important that you choose investment opportunities that match your financial fitness goals. The time frame of a goal determines the type of investment. In general, longer-term investments, such as property and shares, can withstand greater risk. These are more subject to market volatility but although they're likely to suffer at some point, history shows the overall trend will be growth. Still, don't commit too much money long term. You'll need some secure short-term investments that let you access your money quickly and cheaply in an emergency.

Inflation is another time-related factor. Fixed-term deposits and savings accounts are good for short-term investing because they're very secure and generate regular income. But in the medium to long term, you may be better off considering higher-risk growth investments, such as shares and property, that can outrun inflation. Without them you may be progressively worse off as inflation erodes the value of your money.

Diversifying, (putting your eggs in a variety of baskets) is perhaps the best way to minimise risk. It helps you tailor your investments to achieve the return and time frame that you need at an acceptable risk level. It can also soften the blow of legislative change and credit risk, which is when a company you've invested in becomes insolvent. These days, international investing can offer you a whole world of egg baskets; however, your gain is subject to rapid fluctuations in the Australian dollar against other currencies.

The key to minimising and benefiting from investment risk is to educate yourself

And remember the wisdom of Benjamin Franklin when he said: *"An investment in knowledge always pays the best interest."*

It's only by making a commitment to understanding investment risk that you will give your money the best possible workout.

## MORE

Download a copy of the FPA brochure **Trade Off: Understanding the benefits and risks of investing** at [www.fpa.asn.au](http://www.fpa.asn.au) or call 1800 626 393.

# Protection and planning for **unforeseen** events

**E**ven if you've got a solid financial plan, all sorts of things can throw it into disarray. Things such as:

- rising interest rates
- relationships ending
- losing your job
- investment markets falling
- illness, injury or the death of a loved one.

Luckily, there's a lot you can do to protect your lifestyle. First of all, try to invest with a sound philosophy rather than simply speculating in shares. In other words, start by looking at where you are today financially and where you want to be when you retire. Don't take unnecessary risks.

It's also a good idea to have income protection insurance because if you're under 55, your future income is probably your most valuable asset. Believe it or not, a 45 year old earning \$65,000 a year expects to gross \$1.3 million before they're 65.

Your income protection policy will pay you up to 75 per cent of your salary if you get an illness or injury that stops you working. You can choose your waiting period, which is typically 30, 60, or 90

days. With the 30-day wait, your insurance company will assess you after 30 days to see if you're still too ill to work. A policy with a 90-day wait is cheaper.

Another thing to consider is how long your benefit will last. Some policies will pay you for two years maximum; others until you're 65 if necessary.

Some superannuation funds include income protection insurance but the benefit payment period is usually only two years.

Your financial planner can help you choose a policy that suits you and gives you the best chance of a successful claim. A good policy costs around \$2,000 a year and is tax deductible.

## Sandy and Lyn:

### TRAUMA HAPPENS

**S**andy, 55, and Lyn, 53, have a son in year 9 at a private school. Sandy earns \$120,000 a year; Lyn \$15,000. They have a \$150,000 mortgage.

They'd planned to extinguish the mortgage over the next three years while paying the last of the private school fees. Then they intended to salary sacrifice as much as possible of Sandy's earnings to super and direct other surplus income to an investment portfolio in Lyn's name.

But last year Sandy suffered a stroke. He's unlikely to work ever again.

If he'd had an income protection policy that paid him until he turned 65, he would still have received \$90,000 per annum. This would have covered the family's living costs and taken care of the school fees and mortgage. There might even have been some savings.

Sandy could also have taken out a trauma policy, which is a lump sum benefit that could be invested to make up his income shortfall (\$30,000 a year). There would have been enough money to cover he and Lyn's expected living needs in retirement.

Nick Shugg CFP, BSc, Dip Sup Mgmt, Dip FP, Corporate Authorised Representative (no. 297204) of Money Managers Partner Solutions Pty Ltd (AFSL no. 289573), Ph. 03 8620 9945, Web [www.mmmpfa.com.au](http://www.mmmpfa.com.au)

# Preparing for your meeting



**W**hen you have chosen a planner, it is important from the beginning to be a productive partner in the discussions about your earnings, expenses and planned retirement income. There is simply no better way to start than to prepare a brief snapshot of your current financial situation, and present this to your planner up front. It is possible he or she will have many follow-on questions, but this overview will enable productive discussions to start immediately. The following table should take no more than 40 minutes to complete – do yourself a favour and fill it in now!

<b>Income and Expenditure</b>			
	<b>You</b>	<b>Your Partner</b>	
Salary/Wages	\$	\$	
Other Taxable Income	\$	\$	
Tax Free Income	\$	\$	
Centrelink/DVA Income	\$	\$	
Pensions	\$	\$	
Employer Termination Payment	\$	\$	
* Other	\$	\$	
Reportable Fringe Benefits	\$	\$	
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>	
<b>Annual Expenditure</b>			
Personal/Family Expenses	\$	\$	
Housing	\$	\$	
Transport	\$	\$	
Insurance			
General	\$	\$	
Tax Deductible Expenditure	\$	\$	
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>	
<b>Assets and Liabilities</b>			
<b>Value of Assets (non-income earning)</b>	<b>You</b>	<b>Your Partner</b>	<b>Joint Ownership</b>
Family Home	\$	\$	\$
Contents	\$	\$	\$
Motor Vehicle/s	\$	\$	\$
Other	\$	\$	\$
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Value of Investments</b>	<b>You</b>	<b>Your Partner</b>	<b>Joint Ownership</b>
Investment Property	\$	\$	\$
Superannuation Funds	\$	\$	\$
Annuities or Pensions	\$	\$	\$
Term Deposit(s)	\$	\$	\$
Shares	\$	\$	\$
Managed Investments	\$	\$	\$
Cash	\$	\$	\$
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Value of Liabilities</b>	<b>You</b>	<b>Your Partner</b>	<b>Joint Ownership</b>
Home Loan Balance	\$	\$	\$
Investment Loan Balance	\$	\$	\$
Personal Loan Balance	\$	\$	\$
Combined Credit Card Balance(s)	\$	\$	\$
Other	\$	\$	\$
<b>TOTAL</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

# Can you afford to retire?

The decisions you make when you plan for retirement will affect you for the rest of your life. You need to do most of your planning before you're 65 because superannuation opportunities are limited after 65 if you're not working.

A financial planning professional can guide you through the maze of tax, Centrelink and superannuation rules. Firstly, you need to know exactly how much money you need for living each week. Try to fill in a budget planner for a couple of months to capture all those fixed costs, then review it with your planner.

Once you know your weekly costs, you and your planner can work out how to fund them. The cash flow could come from Centrelink, income streams, rent, wages, or interest and dividends.

Changes in the superannuation rules regarding tax and Centrelink mean that the best way to fund your retirement is through superannuation. (Note that Centrelink planning sometimes needs to be done five years before the required Centrelink age because of the gifting rules.) Your planner can structure your cash flow for you so you have a regular amount each month to cover fixed costs. The amount will need to be increased each year to allow for inflation.

Centrelink has a complex way of assessing different sources of income so choose a planner with expertise in this area. The difference in your aged pension can be significant depending on whether your investment is fully deemed, for example in a bank account,

or only partially income tested, for example in an income stream product. These days there are more retirees eligible for a part aged pension because of the increased assets test limits. A homeowner couple can now have assets totalling \$849,500 excluding their home, before the pension cuts out.

## Tony and Maria:

### ENSURING CENTRELINK BENEFITS

Tony, 64, and Maria, 60, sold an investment property for \$450,000. Their other investments, including shares, bank accounts and some managed funds, added up to another \$450,000. Tony had super worth \$50,000. Their assets totalled \$950,000, excluding their home, making them ineligible for a Centrelink payment.

The solution was to make less of their money assessable by Centrelink. They placed \$450,000 into a super fund for Maria (not assessable until she is 64) and \$450,000 into an income stream for Tony. They gave \$10,000 to their daughter each year for three years and put \$10,000 each into a funeral bond. Their total assessable assets were reduced to \$770,000, making Tony eligible for a part pension.

Sandra Bowley, Certified Financial Planner, Authorised Representative of AMP Financial Planning Pty Ltd  
Ph. (02) 9548 6053



Once Maria reaches pension age, she and Tony will need to review their funds depending on the value of their assets and the current assets test threshold. Annual reviews will be very important to ensure the investments remain Centrelink friendly.

# 8 best questions to ask a planner

## 1. Are you a member of the Financial Planning Association?

FPA members must adhere to a Code of Ethics, Rules of Professional Conduct, and professional standards.

## 2. Are you a Certified Financial Planner?

This is the highest accreditation available to a financial planner globally.

## 3. May I see your Financial Services Guide (FSG)?

By law, the planner must give their FSG to clients before providing any financial advice. It explains the services offered, the fees, and how they deal with customer complaints.

## 4. Do you have a specialty?

Some planners specialise in certain areas so make sure they are right for your needs. Also ask if they will implement your plan or refer it to someone else.

## 5. How do you charge for your services?

Your planner should give you an estimate of the cost of the work they're doing for you. They must by law tell you about all the sources of potential income for them arising from your plan.

## 6. Will I receive written advice?

By law, the planner must provide a written 'Statement of Advice' on any advice you choose to proceed with. It should include:

- the advice you've been given (your financial plan)
- the information about you that your plan is based on
- how they'll be paid (including commissions)
- any interests, associations or relationships that could influence their advice.

## 7. How often will you review my advice and what will it cost me?

Ask how much the planner charges for reviews and when they'll happen.

## 8. Who authorises you to give advice?

Many advisory businesses are owned by major financial institutions and this can affect the services and products you're offered. Even if they operate under a different name, the FSG will tell you if they're owned or associated with other companies.

If we can fit another question:

## 9. What will happen if I don't want to accept your advice?

Ask at the beginning: At what stage do I become obliged to make a payment and what happens should I want to terminate your services.

## How are planners paid?

Your financial planner must explain exactly how they'll be paid for the services they offer you. Most planners offer payment options so you can choose the method you find most convenient. This may be a fee or commission or a combination of both.

A commission is money paid to your planner by a financial product provider based on products the planner recommends to you. Commissions received by the planner allow planners to minimise clients' upfront fees.

Planners who are members of the FPA must separate what they charge you for advice from what you pay for financial products. This helps you assess the value of the advice and the benefits.

The cost of advice depends on how complex your financial situation is and how much work your planner does for you. You may also pay an implementation cost, based on a percentage of assets invested, and an ongoing service fee.



Isn't it time *you* became financially fit? Get your money into shape now by contacting a planner.

To find a financial planner in your area, phone the FPA on **1800 626 393** or visit [www.fpa.asn.au](http://www.fpa.asn.au)

For more advice about financial planning, go to the FPA-facilitated website [www.goodadvice.com.au](http://www.goodadvice.com.au)

ASIC's consumer website [www.fido.com.au](http://www.fido.com.au) contains their *Getting Advice* brochure, a practical guide to seeking personal financial advice.