Prepare FOR LIFE
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Getting your personal finances under control

Australians are typically very good at spending money, but there comes a time when many of us need to exercise financial restraint.

This may be due to starting a family, getting a mortgage, educating children, losing a job, or a reduction in income. For some, the need to gain control of personal finances comes with the realisation that their debt has spiraled out of control, and cannot be paid off effectively.

According to American author George S. Clason in his famous book *The Richest Man in Babylon* there are seven ways to take control of your financial future:

1. PAY YOURSELF FIRST

Ideally, you should aim to save 10 per cent of everything you earn. This money is not being saved to buy a new car, have a holiday, or even buy a house.

It is being put away for long-term savings and will be used to provide an income when you are no longer able to work. For some, making additional contributions to superannuation may be an ideal way of saving that extra 10 per cent. If you can't afford to save that much, then save a smaller part of your income and gradually increase it over time. Ideally you should aim to live off 90 per cent, or less, of your income.

2. MANAGE EXPENSES

We all have regular expenses that need to be met in order to live including food, housing, clothing, and transport. But, many of us spend unnecessarily. This is called 'discretionary spending', and it often consumes most, if not all, of our surplus income.

Start by setting a budget of your known fixed costs, and then allow for some discretionary spending. Look back over past bills and identify your regular expenses. Bills often arrive at irregular intervals.

For example, a phone bill might arrive once each month (or once each quarter) but you might be paid weekly or fortnightly. Expenses should be calculated over a full year, and then divided by the number of pay days, in order to work out how much needs to be set aside out of each pay to cover bills as they arise.

3. GROW YOUR WEALTH

Now that you have started saving part of every dollar you earn, you should look to having it grow in value. The investment earnings achieved should be added to your growing pool of savings.

4. PROTECT YOUR CAPITAL

In order to protect your savings from loss, care must be exercised to ensure the security of the principal. Before investing understand the associated risks and, if the risk is unacceptable, look for a more suitable alternative.

Take advice from a qualified financial adviser. There are many good investment savings plans that allow small amounts to be saved on a regular basis while providing access to a wide range of investment options including fixed income, shares, property and overseas investments.

5. INVEST IN YOUR HOME

Eventual home ownership is the desire of many Australians, and owning your own home provides security for you and your family. Home ownership also delivers favourable tax concessions. This means that any gain achieved on the sale of your home is, generally, exempt from tax.

It therefore makes sense to maintain and improve your home, within reason and without over capitalising, to ensure you maximise the price you achieve when you come to sell.

6. PROTECT YOURSELF

We all understand how important it is to insure our possessions, but how many of have adequate insurance on our life and our ability to earn? You should seek the advice of a qualified professional adviser to ensure that you are adequately insured against events that might rob you of your life, or your ability to earn. Yes, you can insure your future income.

7. INVEST IN YOURSELF

One way of building wealth is to increase your capacity to earn. To achieve this you need to be willing, irrespective of age, to increase your knowledge and skills through continuing education and training. Many people expect their employer to provide additional training. However you should take personal responsibility for increasing your knowledge and experience by investing time and money in suitable training that enhances your opportunity to increase your earnings over time.

Taking control of your financial future takes time and discipline. It will involve making some hard decisions, but if you make a plan and stick to it, over time it will become a habit and will deliver financial security and prosperity.

Source: Peter Kelly

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Is superannuation a flawed retirement strategy?

The frenzy and speculation that occurs sometimes in the media on the topics of superannuation, retirement, and age pensions is nothing unusual. Over the years there has been a constant parade of legislation, which has been introduced and passed, all in the spirit of refining the 'Three Pillar Retirement System'.

If you are extremely desperate and have a couple of hours, you can go to the Parliament of Australia's website and search through the library for a list of legislative changes and parliamentary committee reports that relate to superannuation and age pension in Australia. You will notice that between 1900 and 1973 (the year I started working!) there were some legislative changes, but nothing in comparison to the changes since 1983.

To give you an idea, of the 57 pages outlining the legislative documents and committee reports since 1900, 51 pages (90 per cent) refer to the changes that have occurred since 1983.

So, what does this all mean for you and I? Well, change is constant and that should come as no surprise. It does not mean, as I have heard some people say, that superannuation is a flawed method of saving for your retirement.

I believe the government's objective, along with any speculated legislated change, is to ensure we view superannuation as it was originally intended. Which is as a vehicle of choice for retirement planning, and not necessarily the vehicle of choice for tax planning.

The balancing act for the government in any legislative reform will be ensuring that superannuation remains an attractive option for people planning and saving for their retirement. They need to make sure it does not become so onerous and complicated that people lose confidence in the process, consequently meaning they no longer see any value in planning and saving for their retirement.

The legislative changes that have occurred over the years have not been confined to superannuation. During

this time the age pension has also been subject to constant refinement. From the removal of the means test for those retirees over the age of 75 in 1973, to the abolition of the assets test completely in 1976, the re-introduction of the assets test in 1984, through to the future changes to the assets test from 1 January 2017.

The constant merry-go-round of changes makes it hard for the public, and their professional advisers, to implement a rock solid plan that will guarantee the income wanted for retirement.

You'll note I said hard…but not impossible.

Let me emphasise; it is extremely important to have a plan and review that plan on a regular basis, taking into account the legislative changes and the movements in investment markets. Implementing a plan when you are 50, and then not reviewing it until you retire at 67 or 70, will, I am sure, result in some very disappointing outcomes.

If you don't believe you have the time to review your plan, or you are unsure of what the legislative changes will mean for you, make sure you talk to an expert. Someone suitably qualified to provide sound advice and assistance. Don't rely on your well-meaning neighbour, the 'experts' on your favourite current affairs program, or someone you have spoken to casually at a party or barbeque.

Regardless of the speculation over possible future legislative changes, one fact remains. A well-researched and professionally prepared plan is a must to ensure your retirement is all you wished for.

Source: Mark Teale

A comfortable retirement for Tom and Tilly

While a comfortable retirement might mean different things to different people, the popular benchmark is the one produced by the Association of Superannuation Funds of Australia (ASFA).

The most recent ASFA figures (1) suggest that a couple will require an annual income of just short of $60,000 to enjoy a comfortable retirement lifestyle. ASFA goes on to suggest that a couple will need approximately $640,000 for investable dollars to support this lifestyle throughout their retirement. And this takes into account that they will still be able to receive a part age pension from the government.

Tom and Tilly have around $640,000 in superannuation, ***How long will this last if they both draw an income of $60,000 each year, increasing each year to keep pace with living costs?***

After making some basic assumptions

- both Tom and Tilly are 65 years old
- investment growth is 6 per cent per annum
- inflation is 2.5 per cent per annum

and assuming they have no investments apart from their super, and their home, which they own outright, the outcome was quite revealing.

If Tom and Tilly were to start their retirement plan today, they would be entitled to a combined age pension of around $20,000 per annum. This means they would need to draw $40,000 from their superannuation in the first year in order to achieve their comfortable lifestyle income of $60,000.

At this rate of drawdown, their superannuation should last until they are into their mid-90s, provided we don't experience another global financial crisis or some other investment catastrophe. Super will have served its purpose.

It is also important to note that these projections take into account the changes to the age pension assets test to apply from 1 January 2017.

Naturally, as the superannuation account balance diminishes, the rate of age pension payable will progressively increase.

Even despite some broad assumptions having been made, this simple analysis suggests that for many retirees, prudent financial management will be essential if a retirement, free from financial stress, is to be achieved, particularly as many couples won't have accumulated $640,000 in superannuation savings by the time they retire.

But what about single retirees?

A recent media article suggested that a single retiree only needs around $300,000 in super in order to be able to support a comfortable retirement lifestyle. The current ASFA figures suggest a comfortable lifestyle will cost a single person around $43,000. The figures I obtained suggest that $300,000 would see the single retiree run out of money at around age 83, and will be exclusively reliant on the age pension from that time forward.

Clearly, planning the financial aspects of retirement is not a 'set and forget' strategy. Therefore, the support of a competent financial planner experienced in all aspects of retirement planning is vitally important.

Source: Peter Kelly

[1] ASFA Retirement Standard – September 2015

T-app into your retirement planning

In this digital age, effective financial management in the lead-up to retirement can be right at your fingertips. Not sure where to start? The team at Prepare for Life has unearthed the best financial apps so you don't have to.

Name: MoneySmart Financial Calculator

How much? Free

Compatible with: iPhone, iPad, iPod touch and Android devices.

Tell me more: The MoneySmart Financial Calculator app is the brain child of the Australian Government agency – the Australian Securities and Investment Commission (ASIC).
It provides users with instant calculations for mortgages, interest-free loan deals, and superannuation products.
This is a handy tool if you want quick answers to your money questions, or are simply trying to calculate the best deal on the go.

Name: Super Calc

How much? Free

Compatible with: iPhone, iPad, and iPod touch.

Tell me more: This app provides you with an indication of what your superannuation will look like when you retire, and provide you with general planning tips in line with Australian legislation. It is a tool brought to users by Super Toolbox and Rice Warner Actuaries.

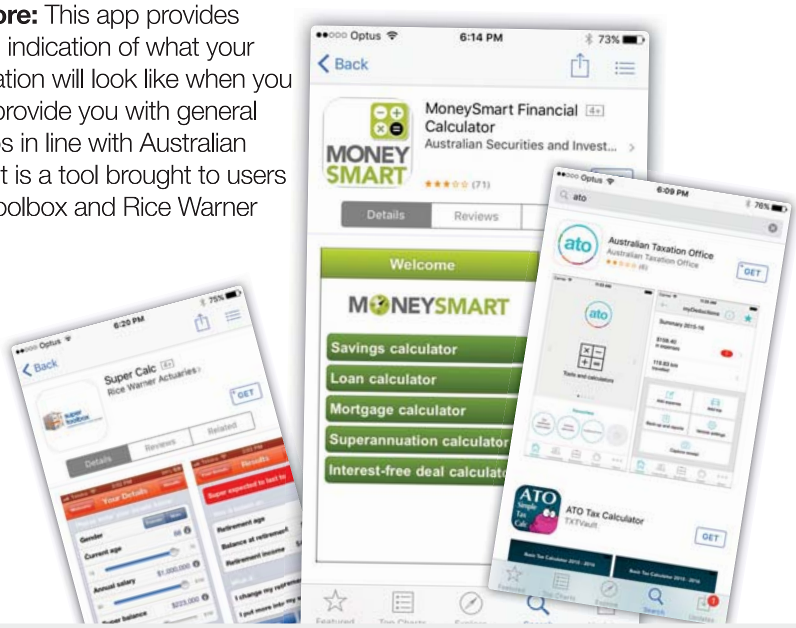
Name: The official Australian Tax Office (ATO) app

How much? Free

Compatible with: iPhone, iPad, iPod touch and Android devices.

Tell me more: The ATO app is the official app product from the Australian Tax Office and is highly regarded for being constantly up-to-date. This app allows users to keep up to date with the latest news regarding superannuation and tax requirements in Australia – making it easier to conduct tax and super affairs on the go.

Apps are a fast and easy way to access relevant tools, tax and super information all in one place. But remember these tools are only a guide and you should consult your financial adviser before making any decisions.



Make decisions while you can!

We take for granted the ability to make important decisions in our daily lives which often affect our family and friends.

Being diagnosed with an illness or injury that takes away your 'legal capacity' to make important decisions increases stress for you, your friends and family.

For example; Dementia is the single greatest cause of disability in older Australians. The risk of dementia increases with age. Statistics show approximately 1 in 70 people aged 65-69 have dementia. Nearly 1 in 4 people aged 85-89 have dementia.

A person's 'legal capacity' (also called 'legal competence') is the ability of that person to make decisions that the legal system will uphold. In the absence of evidence to the contrary, the law presumes adults are 'of sound mind' and capable of making decisions affecting their life's decisions such as:

- money management;
- medical treatment;
- acting as a director or trustee
- buying and selling things; and
- entering into a contract with someone.

However, when a person loses 'legal capacity', they may not be able to make decisions about such things, and therefore can lose control over their medical and financial decisions.

Who will be authorised to access your super and investments, operate your bank accounts and make important business decisions for you?

Planning ahead will help ensure that the right decisions are made by the right person if you have lost the 'legal capacity' to do so.

Contact us to discuss further.

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