PT WEALTH SOLUTIONS

WAYS TO WEALTH - IN YOUR 30's & 40's

START EXPLORING WAYS TO BETTER ORGANISE YOUR FINANCES

Find ideas for getting your family's financial situation into better shape with strategies for dealing with debt, sorting out your mortgage, thinking about investing and lots more.

- **Paying off 'bad' debt**
- **Consolidate your debts and super accounts**
- **Invest regularly and re-invest earnings**
- **The difference between saving & investing**
- **Tips to Investing**
- **Get advice on borrowing to invest**
- **Repay the mortgage or start investing**
- **Take out adequate insurance**
- **Salary sacrificing**
- **Super vs Mortgage**
- **Bring forward contributions**
- **Review your Will**

PAYING OFF 'BAD' DEBT

Bad debt can be a drain on your finances, creating an obstacle to building your wealth. You could achieve significant savings on interest payments by paying off credit card balances on time and by avoiding personal debt or fast tracking repayments.

Pay more off your mortgage or invest elsewhere?

A common question at this stage is 'should I fast track my mortgage repayments or invest elsewhere?

Since you pay your home loan from after-tax dollars, money you put in is effectively giving you a return at the same rate as your home loan rate. If you invest elsewhere, your earnings will likely be subject to tax so, depending on your personal rate, up to almost half of your expected return could go in tax. You might be better off putting money into your mortgage. But there are benefits of investing you should consider before you've paid off your mortgage:

Some investments have the potential to deliver better performance, even after tax, than your mortgage rate.

It can be wise to have your money spread across investments rather than all tied up in your home.

Some investments like shares generally perform best over a longer term so if you wait until you pay off your mortgage before investing, you could miss some long term performance benefits.

Think about it

Should you be borrowing to invest and grow your wealth?

How much more money could you have available to invest by paying off credit cards on time, fast tracking loan repayments, and consolidating accounts and loans?

WEALTH SOLUTIONS

CONSOLIDATE YOUR SUPER

Consolidating your super is a simple step that could make a difference to your super savings - and helps make keeping track of your money easier.

If you've ever changed jobs, chances are that you've got more than one super fund. By putting all your super money in one fund you could:

- pay just one set of fees and charges, which could save you money. With one fund, you pay one set of fees instead of several.
- make managing your super easier. One fund means one set of paperwork to keep track of, and more time for you to do the things you want to do.
- be better placed to manage your super's investment strategy and asset allocation.

It's important to do some research before you decide whether or not to consolidate your super funds.

- Contact your funds and find out what your current benefits are, and what will happen if you transfer your money to another fund. Make sure you find out if you'll be charged transfer, withdrawal fees or exit fees.
- Compare the fees charged, investment options and other features available in your main fund to those in your other funds. You should include all fees that may be charged when you transfer to another fund.
- If your current funds provide you with insurance cover, find out what will happen to the cover when you transfer. Check and compare the levels of cover and premiums in your new fund to ensure you are still happy with the overall cover provided. Importantly, before ceasing cover in any fund, check whether you will need to provide evidence of health to commence cover or increase your cover in another fund.

START A REGULAR INVESTMENT PLAN AND RE-INVEST EARNINGS

Even though you might feel like there are relentless demands on your finances, it's important to put aside something each pay day for any specific targets you have such as education, a dream holiday or renovations, or in case something unexpected happens.

By saving or investing rather than borrowing for these things, you can save significant money on fees and interest payments - and accumulate even more for yourself from the earnings on your investments. Consider reinvesting your earnings. Generally, the sooner you start, the better, because of the power of compound returns.

Quick tips

Make or review your budget. A bit of re-working and you should be able to find more to save or invest.

As a person who is still some years away from retiring, by starting now and reinvesting any interest or earnings back into your investment, you can maximise the power of what's called compound interest. Time is in your favour.

What you don't see, you won't miss!

You've heard the saying out of sight, out of mind. To avoid the temptation of spending more than you'd planned, set up a regular direct debt into your savings or investment plan.

Tahlia & Pete's story*

When Tahlia turned 25, she started investing $250 a month in a managed fund and reinvested investment earnings. She kept it up every week until she turned 45, when her investment was worth $126,904.

Pete also put $250 a month into an investment with the same annual return as Tahlia, but he didn't get around to starting until five years later, when he turned 30. He kept up his weekly investments and by his 45th birthday the overall investment was worth $78,934. Although Tahlia only contributed $15,000 more than Pete, by age 45 she had $47,970 more than Pete.

By starting earlier, the power of compound interest put Tahlia $32,970 ahead of Pete.

* Assumes level contribution amount throughout the term, invested in Australian shares with 6.5% annual return. Distributions are reinvested. Initial investment of $1,500, 0.4% fees on investments, 3% inflation.

Quicktips

Using direct debit will help you stick to your investment plan.

How to invest

You can usually invest a one-off lump sum, regular amounts, or both. Regular investing in a managed fund or shares can help you build your investment in affordable chunks and give the added advantage of smoothing out the cost of buying into the investment. Investing a set amount at regular intervals is called 'dollar cost averaging'.

You could invest into an asset directly - for example, buy property or shares yourself - or through a managed fund.

What is a managed fund?

It's a fund run by a professional investment manager where money from individual investors is pooled together. This larger pool gives individuals access to investments they may not be able to access alone. It can also help individuals diversify their investments and lower their risk because money can be spread across different:

- types of assets, such as shares and property; and
- investments within an asset type, such as different shares;
- investment managers.

The level of diversification will depend on what type of managed fund you invest in. With managed funds, you can invest as little as $1,500 upfront and from $100 each month.

Action

- If you're earning a regular income, start a regular savings or investment plan.

SAVING VS INVESTING

Saving is generally about setting aside money for use in the shorter term, such as less than a year. Because the money is usually put in a cash management account or term deposit there is usually little risk involved, but there is also limited growth potential.

Investing is generally about putting away money for the medium to longer term and usually involves a measured degree of risk with the aim of growing your wealth. It usually involves putting in place a plan (investment strategy) to achieve your financial goals.

Tips for successful investing

Remember, it's not what you have that counts - it's what you do with it.

You can build wealth using a number of sources, including:

- your current income (where's your money going?)
- a pay rise, bonus, tax return or tax cut
- the equity in your home or other investments
- minimising tax
- making your investments work harder for you through
- compounding
- investment growth
- the right investment mix
- maximising super contribution limits
- maximising government benefits
- an inheritance, redundancy or capital gain

Quicktip

How are you tracking?

Building wealth comes down to a simple formula - spend less than you earn and invest the difference. If you don't have a budget or don't track your expenses, now is a great time to start. Never underestimate the importance of a budget in helping you take control of your finances and build your wealth.

TIPS TO INVESTING

These form the foundations for successful investing. They are relevant for all ages, stages and markets.

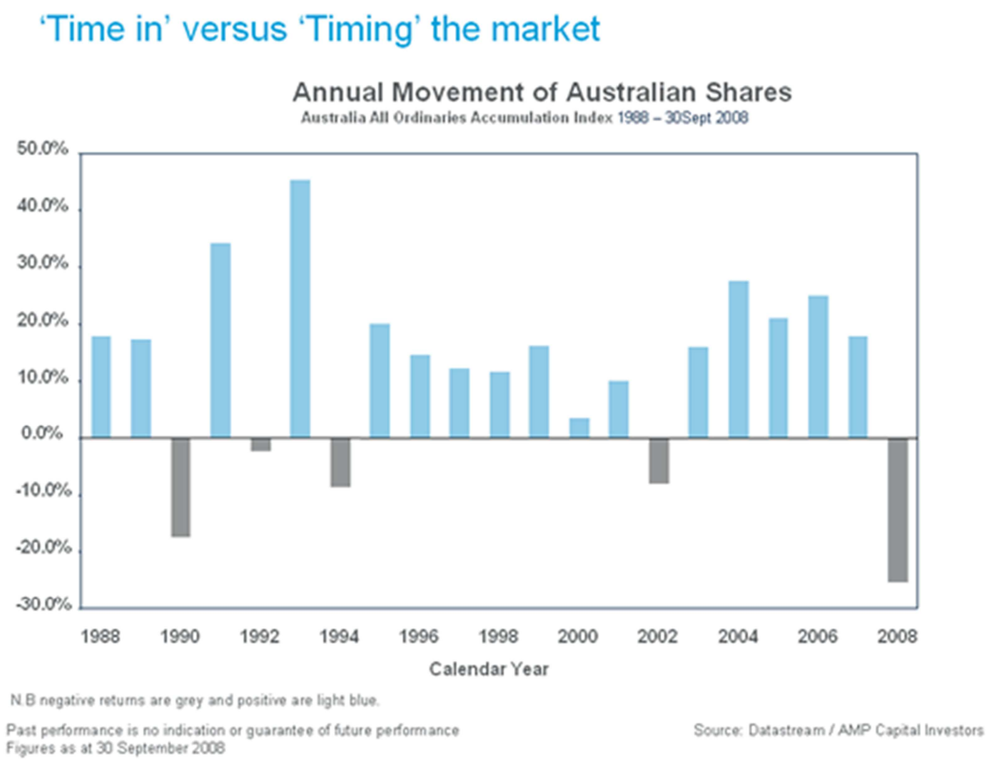
1. The right balance

All investing involves some risk. The potential for higher returns also generally means an increased chance of higher negative returns. You need to strike a comfortable balance between the level of risk you are prepared to accept and your desired level of return. Your investment timeframe and diversification will both be important in working out the right balance for you. History shows while returns of investments, like shares, may fall in the short term, over the long term the returns are higher than less risky investments like cash and fixed interest. If you have a long-term strategy, it's important to keep this in mind and not be distracted by market down turns that, while disconcerting, are a normal part of the economic cycle.

Quicktip

Are you investing for a short time or a long time?

History shows while returns of investments, like shares, may fall in the short term, over the long term the returns are higher than less risky investments like cash and fixed interest. Cash and fixed interest tend to deliver more stable returns so may be more suitable for shorter term investing. The following chart shows the relationship between risk, return and your investment timeframe.



2. A good mix

Spreading your money across a variety of investments can help lower investment risks as the values of different types of assets can rise and fall at different times. Diversification generally reduces the impact of any single investment or asset type negatively affecting the value of your overall portfolio. The right diversification can help you ensure you have exposure to growth assets to help achieve long term objectives, as well as including more defensive assets that provide more stability and help ensure you can sleep at night.

3. After tax returns

Tax applies to different investments in different ways. Some investments, like super, are taxed at lower 'concessional' rates and enjoy other tax advantages. Tax considerations include capital gains tax, income tax, as well as offsets and deductions. You should consider the impact of tax when making or switching investments. While before-tax returns might make one investment look better than another, it's usually the after-tax results that can make the difference to your actual wealth

4. 'Super-size' your investment

Investing over a longer period and reinvesting returns can help you 'super-size', or boost, your investment through compound returns. Your money starts working harder for you by earning returns on your initial investment as well as on earlier returns you have reinvested.

5. Contribute regularly

Rather than waiting to have a lump sum to invest, you might reap real benefits by investing smaller, regular amounts over a longer timeframe - also known as dollar cost averaging. Because markets move up and down, you will sometimes buy at higher prices and sometimes at lower prices. So the price you'll pay over time will be averaged out. You can also benefit from compound returns as each contribution has the opportunity to start generating earnings immediately. Salary sacrificing allows you to dollar cost average in your super. The following table shows how this works.

Investment principles: smoothing investment bumps

Month	Investment	Unit Price	Units Purchased
January	$1,000	1.00	1,000.00
February	$1,000	0.80	1,250.00
March	**$1,000**	**0.70**	**1,428.57**
April	**$1,000**	**1.30**	**769.23**
May	$1,000	1.20	833.33
June	$1,000	1.00	1,000.00
TOTAL	**$6,000**	**0.955 (avg)**	**6,281.13**

PT WEALTH SOLUTIONS

GET ADVICE ON BORROWING TO INVEST

Borrowing to invest (also called gearing), may help accelerate your wealth creation. Gearing can allow you to access investments now that you wouldn't otherwise have the money to access. It can also give you the potential to spread money across different investment types, which can help to counter risk.

With a larger investment you have the potential to magnify your returns, but gearing can also magnify your losses.

Because what you earn from your investments is assessable income, you may be able to claim interest on your investment loans as a tax deduction. Some people use equity in their home such as through a line of credit.

You can consider borrowing against this equity to start or increase an existing investment with the objective of achieving increased returns on your investment. Others take out a special investment loan - often called margin lending. While this type of gearing can result in increased returns in a rising market, it may also lead to a greater loss in a falling market. You need to strike a comfortable balance between the level of risk you are prepared to accept and your desired level of return.

You might borrow to access a lump sum to invest. Alternatively, you could borrow a lump sum as well as regular amounts to add to your investment - known as instalment gearing.

Since the interest costs associated with borrowings for investment purposes are usually tax deductible, gearing can be a tax-effective strategy.

In the case of margin loans, lenders allow a maximum gearing level known as the debt to assets ratio (or loan value ratio - LVR). If markets fall and the value of your investment drops, a margin lender may make a 'margin call', requiring you to put up more money at short notice. You might have to offer more security or even sell some of your investment holding at the current prices as a result to bring your gearing back down to the appropriate level.

INCREASE YOUR MORTGAGE PAYMENTS OR INVEST ELSEWHERE?

Since you pay your home loan from after-tax dollars, money you put in is effectively giving you a return at the same rate as your home loan rate. If you invest elsewhere, your earnings will likely be subject to tax so, depending on your personal rate, up to almost half of your expected return could go in tax. You might be better off putting money into your mortgage.

But there are benefits of investing you should consider before you've paid off your mortgage:

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Tina's story

After making extra mortgage payments and the increased market value of her property, Tina has built up some equity in her home. After meeting with her financial planner, she decided to draw on some of this equity to invest in a managed fund.

As well as helping her reduce her tax - since interest on the investment loan was tax-deductible - her managed fund investment generated extra income which Tina paid into her home loan.

So even though Tina drew on her equity in the property to invest, she was still able to keep paying off her mortgage and build a managed fund investment at the same time.

Our advisers can explain to you in detail how the mortgage reduction strategy can help you pay off your home loan sooner using your existing cashflow.

DO YOU HAVE ADEQUATE INSURANCE

In your 30s and 40s you might feel a little invincible and be so caught up with life that you don't want to think about death, sickness or injury. But how would you and your loved ones cope financially if something were to happen?

Planning for the unexpected now could save a lot of future financial pain and pressure. It may be especially important if you have dependants or debts.

What's what? Policies vary so it's important to check the fine print but generally:

Income protection (or temporary salary continuance) insurance provides up to 75% of your regular income if you have an illness or injury that prevents you from working.

Total and permanent disablement cover provides a lump sum which can be used to help cover living expenses and rehabilitation costs if you are totally and permanently disabled.

Trauma cover provides you with a lump sum payment if you suffer one of a number of specified conditions. Trauma cover is not available through your super.

Death cover provides a lump sum to you if you become terminally ill or a lump sum to your family if you die.

Quick tip

A beneficiary is generally the person who will receive your insurance benefit if a claim is made, and is particularly relevant for death cover. It is important to update your nominated beneficiaries regularly - at least every 3 years.

Buying insurance through your super

Super fund members may have some sort of death and disability insurance cover - even income protection - through their super. There's also often potential to increase this cover. Taking some types of cover through super:

may be more tax-effective, especially for those on higher marginal tax rates; and

moves the cost of the premium away from your take-home cash flow.

There is also a wide range of personal insurances available outside of super. A financial planner can help work out what type of insurance you should have, for what amount, and the best way for you to pay for it.

WEALTH SOLUTIONS

WHAT IS SALARY SACRIFICING

Salary sacrificing is where you nominate a certain amount of your future pre-tax salary to go straight into your super. You can grow your super and reduce your tax at the same time.

Your reduced salary (that is, your salary minus the amount you salary sacrifice to super) becomes your assessable income for personal income tax purposes. However, since 1 July 2009 salary sacrifice may be used to work out entitlements for certain tax offsets and government benefits.

For example, say you earn $70,000 and contribute $3,500 of your salary to super using salary sacrifice. At tax time, your assessable income will only be $66,500 ($70,000 less $3,500).

What you need to know

People on a higher marginal tax rate are more likely to benefit from salary sacrificing.

The amount you salary sacrifice is not subject to pay as you go (PAYG) withholding tax and will not appear on your payment summary.

Your salary sacrifice contribution will be taxed at 15% when it's received by your super fund. From 1 July 2009, the portion of before-tax contributions (known as concessional contributions), which include employer contributions (including salary sacrifice), above $25,000 per year (indexed), (or $50,000 per year if you're aged over 50), will be also taxed at an additional 31.5%, that is, in addition to the 15% contributions tax referred to earlier.

Getting started

Check whether your employer allows salary sacrifice arrangements. If they do, you'll need to consider:

How much you want to contribute from your salary. Usually you can nominate the amount as either a percentage or fixed dollar amount.

Whether you want to sacrifice any of your future bonus, if you receive one, to super.

Whether or not you would like to salary sacrifice any future leave entitlements. Generally speaking, you can only salary sacrifice leave payments that you have not yet accrued or become entitled to.

SUPER VS MORTGAGE

It's the perennial question - are you better off paying down your mortgage or investing more into super?

It used to be widely accepted that the best investment strategy was to pay off all non-deductible debt as fast as possible. For most of us, that meant mortgage.

But, with Government rules making super tax-effective, the answer is no longer as straightforward. It depends on many things, like your age, interest rates and super returns and income level but if you're over 50 (and on a 30% marginal tax rate or higher) a super vs. mortgage strategy may be beneficial.

What does a super versus mortgage strategy involve?

Step 1: you review your finances to determine if you have, or could make available, any additional money for investment. Depending on your circumstances, you may be able to free up cash by re-scheduling your commitments or by altering the structure and terms of your mortgage. For example, you could reduce your current mortgage payments by extending the term of your home loan or by converting to interest only.

Step 2: you invest the spare or 'freed-up' cash into super up to the concessional contribution limit, using salary sacrifice, so your contributions are taxed at 15% rather than your marginal rate.

Step 3: at retirement (after age 60), you pay off your mortgage by drawing the funds from your super - tax free. The tax advantages you gain by putting money into super plus the growth in super over time leave you better off. And, you still benefit from any capital growth in your home.

What are the factors to consider?

Whether you can benefit from a super versus mortgage strategy will depend entirely on your personal circumstances and, because the issues are complex and interdependent, it makes sense to seek professional financial advice.

However, the generic arguments for and against investing in super, and key factors to consider, are as follows:

The argument for paying down your mortgage

Putting any spare cash into your mortgage:

- Reduces the interest you pay
- Effectively, gives an after-tax investment return equivalent to your mortgage rate; and
- Flexibility: most home loans now have a re-draw facility giving you access to your money if needed.
- Gives you tax free capital gain - when you sell your home.

The argument for investing more in super

- Whereas home loan repayments come from after tax dollars, super contributions can be made from pre-tax money through salary sacrifice. This means you pay 15% on your super contributions (rather than your marginal rate) and are therefore able to invest more into your fund.
- Investment earnings within super are also taxed concessionally - at a maximum of 15% on income, and up to 10% on capital gains, rather than your marginal rate: and
- after age 60, any income or withdrawals from super are generally tax free

Age or time to retirement: your age is important as you obviously can't access your super until you turn 65 (or reach your preservation age). This means that you have to be comfortable locking away your money in super rather than having access to it as equity in a home. Generally, therefore, the younger or further away from retirement you are, the less likely it is to be appropriate to focus on investing in super rather than paying off your mortgage.

Super returns: When investment markets perform poorly, low or even negative returns are possible. This is an important consideration if you are planning to use your super savings to pay down your mortgage at retirement.

Interest rates: you also need to think about the amount of interest you are paying on your mortgage. If your interest rate is higher than your super return, this strategy is unlikely to be beneficial.

Income level: your income level will also impact the effectiveness of the strategy - working best if you are on a 30% or higher marginal tax rate.

Non-financial considerations: many people want the comfort and security of owning their own home, especially as they near retirement and are prepared to trade off any potential financial benefit accordingly.

BRING FORWARD CONTRIBUTIONS

You can make a difference to your super by taking advantage of the government's bring forward non-concessional contributions rules.

These rules generally allow you to contribute up to $450,000 into your super every three years without incurring tax, thereby increasing the tax-effectiveness of investing into super any lump sums you receive or assets you have.

Although you're only generally able to put a maximum of $150,000 into your super from your after-tax earnings each year, the rules do allow you, if you are under 65, to bring forward two years worth of this contribution limit into the current year without incurring contributions tax. This means you can pay $450,000 into your super at one time (but nothing more after-tax for the next two years) without incurring tax.

You can then take advantage of the tax-friendly treatment of super investment earnings and generally access your super savings tax-free from the age of 60.

If you're thinking of selling assets - such as managed funds, shares or an investment property - and transferring the proceeds into your super, or if you want to invest an inheritance you receive, the 'bring forward' rule is one to consider.

Bear in mind, though, that this strategy may or may not be right for you. Selling or transferring assets to super can be complicated, particularly in terms of capital gains tax implications, so it's important you seek professional advice.

REVIEW YOUR WILL

Having a valid will can help make sure your estate is managed and distributed how you intended.

Wills

A will sets out how you want your estate to be managed and distributed, after your death. It can also include the appointment of a guardian for your children. Without a will, management of your estate can be costly, time consuming and must be distributed according to legislation, rather than as you decide. Therefore, it is important to have a valid will and to review it regularly to make sure it is still in line with your intentions. A solicitor can help you make decisions about what you want done with your estate and then prepare the will for signature.

Enduring power of attorney

If you were to become incapable of handling your affairs, control of your assets could revert to a person appointed by a court. It would be more useful if you had an enduring power of attorney set up now so that if you cannot manage your affairs, someone you trust and have chosen to act for you, can make the important decisions affecting you and your affairs. A solicitor can help with setting up a power of attorney, setting the terms and how they will apply.

WHAT NEXT

Building and maintaining wealth is an ongoing journey. Stay proactive and keep looking for ways to make the most of what you have.

Some of the strategies outlined may be simple enough for you to act on immediately. Some are more complex and you should consider seeking advice from a financial planner.

In planning your way to wealth you should take a holistic approach, looking at your debts and assets, present and future needs, and considering tax implications and how decisions could impact on entitlement to government benefits.

If you would like further information on this wealth building strategy, please contact **Tony Rimac from PT Wealth Solutions on 9891 1544 or tony@ptws.com.au** who can assist by providing you with the correct tax and investment advice.