

TYNAN MACKENZIE

Helping successful people  
make smart financial decisions



**Making smart financial decisions**

# Making smart financial decisions

To be smart with your money, it's really about making informed choices. There are number of ways you can do this. One way is to go it alone, and read up on the latest research available on the internet and the many investment publications.

The other choice you have is to seek professional advice.

## **Who needs financial advice?**

Everyone can benefit from financial advice. However there are times in life where getting advice can be more important than others.

**Planning for retirement** – advice can really make a difference to the amount of money you'll have in retirement. There are tax effective ways of structuring your investments, superannuation and income streams – and an adviser can help you to do that so that you make the most of what you have.

**Going through a major life change** – when you experience major life changes such as marriage, divorce, children, death of a loved one, job redundancy or a career change there are financial decisions to be made. An adviser can help outline all your options and guide you on how to make the right choices that best benefit your situation.

**Running your own self managed super fund (SMSF)** – managing your own SMSF can be a risky business and keeping up with all the rules can be difficult and time consuming. To reduce this risk, most trustees work with professional advisers to ensure they legally enjoy the flexibility and control that a SMSF offers

# Plan for your destination

## Your starting point

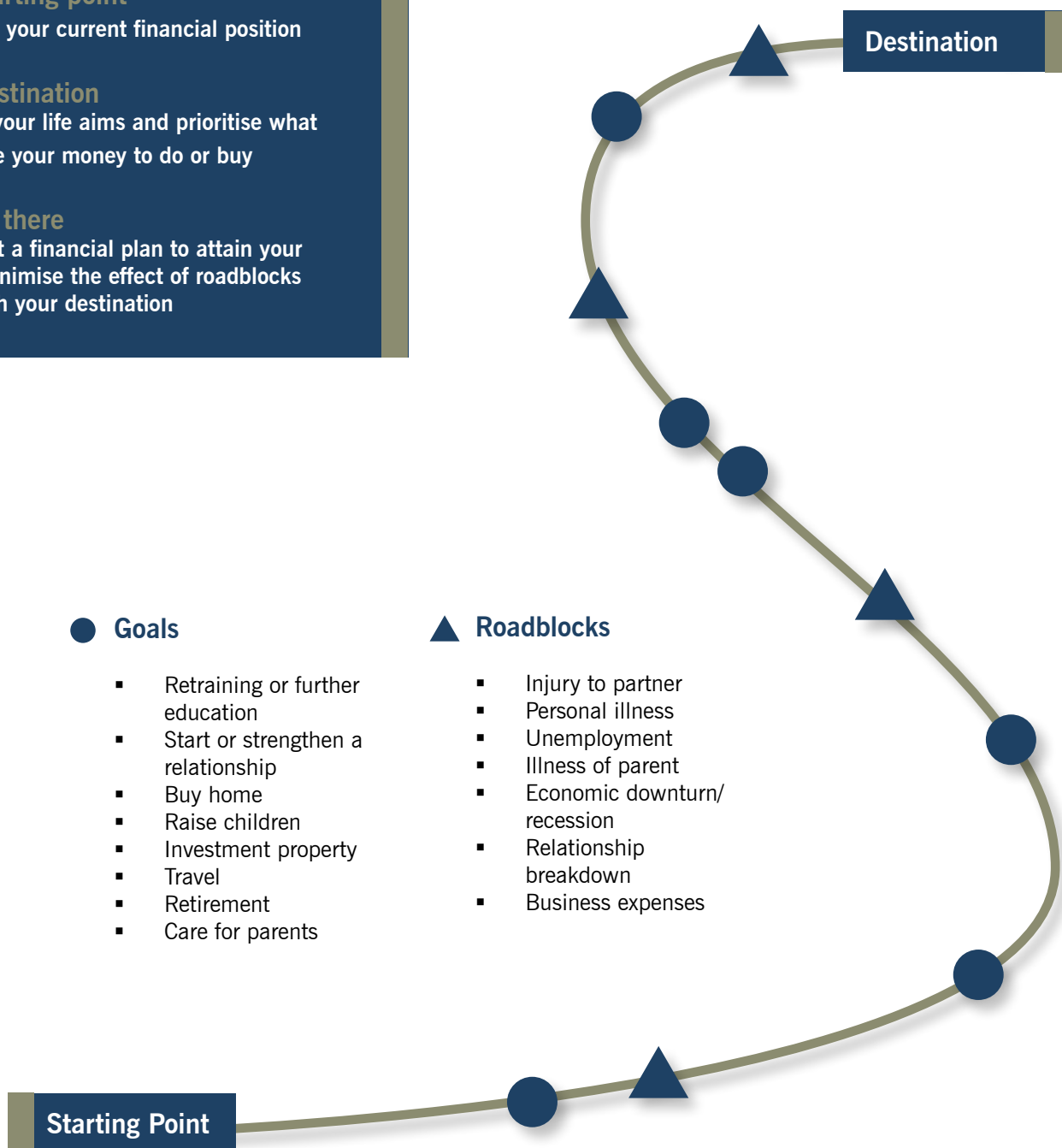
Establish your current financial position

## Your destination

Identify your life aims and prioritise what you'd like your money to do or buy

## Getting there

Construct a financial plan to attain your goals, minimise the effect of roadblocks and reach your destination



# Buy your home or an investment property

For many people, the family home is the biggest single investment they make. What's more, the contents of your home represent a significant financial investment and it's unlikely you would be able to replace these without sacrificing another financial goal.

Having so much money invested in one physical location is a significant risk – especially when you consider that houses are vulnerable to a number of common occurrences, such as fire, flooding, storm damage and burglary.

If your home or investment property was irreparably damaged or contents were stolen or damaged, the cost of replacement could affect the achievement of your long-term financial goals.

Have you considered how you would pay your mortgage repayments if you are unable to work? Many mortgage holders don't realise how an illness or injury might affect their income and ability to repay a loan. Protection measures such as income protection insurance may be available to you.

## Statistics

- Each year there are over 10,000 house fires in Australia<sup>†</sup>.
- Statistics show that in Australia someone is burgled almost every minute. According to the New South Wales Bureau of Crime Statistics only 5 per cent of break-and-enter crimes are solved by the police, meaning the chance of recovering stolen possessions is close to zero<sup>‡</sup>.
- Severe storms, floods, cyclones and bushfire can strike at any time with little warning, and can cause extensive damage to homes and their contents.

## Be SMART about insurance

Despite increasing community awareness of these risks and the value of insurance, the Insurance Council of Australia has found that about a quarter of all households in Australia are still without home or contents insurance.

Of additional concern is the fact that more than two-thirds of tenants do not protect their property.

The following table highlights the underinsurance problem in Australia\*:

Total number of households	7,700,000
Total number not insured	1,800,000 (23%)
Tenant contents not insured	1,545,000 (67%)
Owner-occupier contents not insured	625,000 (12%)

**10,000**  
housefires occur in  
Australia annually

\* Insurance Council of Australia: The Non-Insured: Who, Why and Trends <http://www.insurancecouncil.com.au/Portals/24/Issues/The%20Non%20Insured%20-%20Report.pdf>

<sup>†</sup> [www.nrma.com.au](http://www.nrma.com.au)

<sup>‡</sup> Ibid.

# Raise a family

**60%**  
of parents have  
not started saving  
for their children's  
education

There were 285,200 births in 2007, the highest number ever recorded\*. Yet despite Australia's increasing fertility rate, many people don't fully appreciate the financial cost of raising children.

Australian parents can expect to pay as much as \$5,938 a year to educate a child born in 2009 in a government school, working out at \$39,740 over their entire high school education†.

These costs rise substantially in the private sector, with educating a child in a private secondary school costing up to \$22,436 a year or \$156,961 over their full high school education, including tuition fees and other costs‡.

And, taking into account pre-school care, primary education, other expenses and the rising cost of living, parents could outlay as much as \$466,377 to educate their child privately until the age of 18, with university fees to come§.

Many parents are not prepared for the financial reality of educating their children. About 50 per cent of parents are not sure of the total costs of education and when it comes to private or tertiary education, 60 per cent haven't started saving in advance¶.

The average cost of raising two children in Australia is between \$400,000 and \$500,000. And higher income earners with disposable cash can spend \$600,000 on raising one child alone from birth until age 18\*\*.

Education is one of the biggest expenses when it comes to raising children, with the cost of essentials such as clothing, computers and school trips substantial even in public schools.

## Be SMART about the cost of raising children

You can not be expected to put a price on your children but you need to understand the costs associated with raising a family.

The more you earn, the more you may spend on your children. A quarter of your income is likely to be spent on raising children therefore the more you plan ahead the better your lifestyle will be.

If we all waited until we could afford to have children, most of us would never have had them at all. You just make it work.

It is recommended that you consider getting used to living on a single wage before you plan on having children, especially if you decide on taking a break from the workforce to raise your child. This will prepare you for parenthood, with the extra cash saved; you may even consider investing this money for your children's education.

\* Australian Bureau of Statistics: 3301.0 – Births, Australia 2007

† Australian Scholarships Group <http://www.asg.com.au/media/#5>, ‡ Ibid, § Ibid.

¶ Commonwealth Bank 'Saving for the Education of Children' Survey.

\*\* University of Queensland (reported in 'Planning ahead can make the financial cost of raising children child's play', The Age, 1/12/07)

†† ABS 4102.0 Australian Social Trends 2007

‡‡ Investment and Financial Services Association, Intergenerational Report, April 2008

# Own a business

Are you ready to venture into business? Operating a business is not just about working for yourself, it's also about having the necessary management skills, industry expertise, technical skills, finance and of course a long-term vision to grow and succeed.

It's important to consider whether you really understand what's involved and whether you're suited to self employment. Ask yourself the following questions:

- reasons for getting into business
- your goals and skills
- advantages and disadvantages of establishing your own business
- income your business will need to generate
- how will I survive if something unexpected happens?

Many small businesses rely on the principal to generate income. A serious injury or illness to this person can temporarily prevent the business from generating an income. However, your business expenses will need to be paid if the business is to survive.

Without adequate financial reserves or an income, the payment of ongoing expenses can be difficult, especially if the person is already dealing with costs associated with illness or injury. If family or friends are relying on the person's income, further stress will be added.

## Be SMART about business expenses

Many life insurance companies provide business expenses insurance, which can pay for the expenses that your business would continue to incur should you be ill or injured and unable to work.

Business expenses insurance can provide cover for:

- electricity, gas and water rates, general insurance premiums, cleaning, laundry, heating and telephone accounts, leasing of equipment or motor vehicles and dues to professional bodies
- rent or the regular interest instalment payment of any business loan or mortgage
- salaries of employees who do not contribute directly to your business's earnings and costs directly related to those salaries (for example, superannuation), and
- other fixed expenses (for example, property rates) that are considered normal operational expenses of your business.

## Change of ownership

Where multiple parties are involved in a business, the issue of change of ownership can arise as the result of death, permanent disablement, major trauma, injury or sickness to one of the parties.

One of the best ways to prepare for this risk is to have a clear business succession plan in place. At the minimum, an effective business succession plan should incorporate:

- a legal agreement, and
- sufficient funding to continue the business and buy out any shareholders or the beneficiaries of the shares.

Very few business owners have a written business plan that addresses a partner's death, disablement or long term illness. In order to manage this risk, it is important to consider what would occur if something happened to you or one of your business partners.

- Could the remaining partners work with the nominated beneficiaries?
- Would the remaining partners have the funds to buy out the business?
- Could the remaining partners take on a new partner and would they want to?
- Without a proper succession plan and adequate financial reserves, dealing with these issues can be stressful for the business, the remaining business partners and potentially their families.

### **Key personnel**

Financial support is often needed with the loss of key personnel, to help cope with:

- business disruption
- servicing loans
- maintaining profitability
- losing clients or market share, and
- finding time to recruit new personnel.

### **Debt**

In order to facilitate expansion and growth, many businesses enter into credit arrangements, which can be in the form of loans, leases, credit lines or trading credit. These arrangements entail financial and legal obligations.

Who would be responsible for these obligations if a key member of the business dies or becomes disabled? Furthermore, will those who take on the responsibility, once a key member of the business has departed, be able to meet the obligations?

If the performance of the business is adversely affected by the death or disablement of a key partner or owner, debts can put the remaining partners, and any guarantors, in a difficult financial position. This can be exacerbated if they do not have the financial resources to meet these obligations.

### **Insurance**

One simple way to protect members of your business, including guarantors, from the risk of a business principal dying or becoming disabled, is through insurance. The type of plan you implement will depend on your business, its debts and other factors.

To ensure you have the right plan in place, it is important to seek the advice of a suitable business specialist.

**One simple way to protect members of your business is through insurance**

# Enjoying retirement years

Retirement can be one of the most enjoyable phases of life. It can be a time when you reward yourself for many years of hard work.

Firstly you need to gain an understanding of the type of life you would like to live in retirement. Being in a position to enjoy your retirement should be one of your most important financial goals, regardless of the stage you have reached in life. The most common reason that people say they are unable to enjoy retirement is a lack of money.

Middle-income earners need between 60 and 75 per cent of their pre-retirement income to maintain their standard of living throughout retirement<sup>†</sup>. A couple needs an annual income of \$27,454 to fund a modest lifestyle in retirement, while a single person needs \$19,617<sup>‡</sup>.

But most of us aspire for more than just making ends meet. Enjoying the odd overseas trip, a new car and regular outings to your favourite restaurant after a lifetime of hard work. But a comfortable retirement means almost doubling the required nest egg, to \$50,561 for a couple and \$37,829 for singles.

Australians are retiring earlier and living longer – a man reaching the age of 60 can expect to live for another 22.6 years, while

a woman has another 26.1 years<sup>†</sup> – and the average superannuation balance of \$85,561 for Australians aged from 55 to 59<sup>\*\*</sup> is not going to support a comfortable retirement.

Not surprisingly, an increasing number of Australians are realising they are ill-prepared for retirement. More than 60 per cent of us are uncertain about our financial preparations for retirement<sup>††</sup>.

## Be SMART about having enough money to support a comfortable lifestyle

Write down the dollar amount you think you will need each year throughout your retirement. Then multiply this by the number of years you expect to be in retirement, remembering that, on average, women who reach the age of 60 are expected to live to 86 and men to 83 years of age<sup>‡‡</sup>.

$$\begin{array}{r} \text{YEARLY INCOME IN RETIREMENT} \\ \times \text{ EXPECTED LIFESPAN} \\ \hline = \text{ FUNDS NEEDED TO RETIRE} \end{array}$$

This will give you an idea of the funds you will probably need to enjoy your latter years.

To ensure you can enjoy your retirement:

- plan to have enough money when you retire
- make your retirement income an important financial goal, and
- be prepared to manage events that may jeopardise your retirement plans.

**The average superannuation balance of \$85,561 for Australians aged 55–59<sup>\*\*</sup> is not going to support a comfortable retirement**

<sup>†</sup> Exposed! The risks Australians are taking with insurance, DEXX&R, July 2004

<sup>‡</sup> D. Knox, director of PricewaterhouseCoopers Actuarial, Retire With Comfort, SMH, Annette Sampson, 26/2/2002

<sup>§</sup> Association of Superannuation Funds of Australia Retirement Standard, December 2008

<sup>†</sup> Investment and Financial Services Association, Intergenerational Report, April 2008.

<sup>\*\*</sup> The Association of Superannuation Funds of Australia, August 2008.

<sup>††</sup> Super never neverland? July 2002, www.cpaaustralia.com.au

<sup>‡‡</sup> Investment and Financial Services Association, Intergenerational Report, April 2008.

# Caring for aging parents

**40%**  
of people aged  
60+ require  
assistance due to  
disability

The desire to look after our parents in their later years is important both to their health and care and to your desire to do the right thing.

Apart from getting home help from local health care providers and creating a roster for the family to share the care of your parents, the options are normally limited to them living in their own home, or with you or in some form of aged care.

Depending on their state of health and wellbeing, parents living by themselves or with you may not be viable as no-one is there during the day to care for them. The thought of your parents moving into aged care facilities is also normally not desired by them. This is one of the hardest decisions children and parents need to make, putting strain on your relationships with your parent and also with your siblings.

Talking to your parent and siblings early about aged care facilities and the services they provide may help the situation. Ensuring you keep close communication with them also may comfort them into knowing that you are not just leaving them there.

Once the decision is made there are many other decisions that need to be made. Does the facility require a bond? Where is this coming from? Is the family home to be sold? There are health care professionals you can consult with to help.

## Be SMART about lifestyle changes and financial costs

Research shows that many carers in Australia are family and friends\* and of those carers:

- More than a fifth (21 per cent) need to reduce their hours of work<sup>†</sup>
- More than one in ten (11 per cent) need to resign completely from positions of employment<sup>‡</sup>.

Many people fail to consider the impact an injury or illness can have on other family members and friends.

Disabilities can also bring financial burdens, including:

- the cost of medical assistance
- restrictions on your ability to work or become educated, which can affect your capacity to earn an income
- changes in your lifestyle, which may result in reduced mobility and changes to your home, which can be costly to manage
- the need for long-term care, which can be expensive.

Without insurance, whose financial future might you be putting at risk?

## Useful sites

[www.health.gov.au](http://www.health.gov.au)

[www.agedcareplanning.com.au](http://www.agedcareplanning.com.au)

[www.agedcareonline.com.au](http://www.agedcareonline.com.au)

\* AIHW <http://www.aihw.gov.au/disability/natpic/index.cfm>

<sup>†</sup> Older Australia at a Glance 2002, (third edition), AIHW p38

<sup>‡</sup> Ibid.

To make an appointment with  
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