passionate planning

volume two, edition one

Why does cash matter?

The humble wallet is the latest item under threat by disruptive technology as smart phones, electronic and online payment systems are making banknotes and coins redundant.

American economist Milan Zeleny coined the phrase 'disruptive technology' to describe how any given technology evolves in a life cycle to be replaced by a new core technology. A classic example was Henry Ford's 1908 launch of the first mass-produced car, the Model T.

The Model T spelt the end of the horse drawn carriage. In Australia, coach operator Cobb & Co played an important part in the development of the nation from 1850 until the turn of the 20th century. It went into receivership in 1911 due to the proliferation of rail networks and automobiles.

While it's an interesting note in history, it raises a larger issue. When we finish our education and embark on a career we hopefully have a reasonable idea about our future occupation.

What we are unlikely to think about is how technology or other events may one day interrupt our employment and ability to earn. It's likely many of us are not planning our wealth strategy in full recognition of the dynamic and changing environment in which we live.

...continued overleaf

In This Issue

From the demise of traditional media, to the irrelevance of CDs and paper books, and even the rise of online dating services to replace the pub or club as a social meeting place, we see change everywhere.

Rapid change means you don't know what the future holds for your career. So it has never been more important to take control of your money, and start making it work for you, to achieve and protect your goals and aspirations.

It all starts with cashflow. For most of us, when we think about how to become financially independent we draw a line from savings to an investment property or shares. But some simple planning cannot only make the whole process smoother but also more effective – and in the long term that can make a huge difference to your wealth.

The first step is getting organised. A cash hub should be high on the list of preparations. Typically, a cash hub accrues interest on a daily basis and acts as a central point from which to pay all your bills through BPAY®, direct credit and direct debt, while also managing your deposits and how your cash is dispersed.

Your financial planner is another vital component in your long term financial security.

Studies show, using a financial planner will yield results. A report by international research group Morningstar[2] in late 2012 put the value a financial planner adds to your financial planning at 1.82 per cent a year. To put that in context, if you put $30,000 into a cash account that earned 6 per cent a year compound interest for 10 years, then the cash balance would grow to $53,725.43. If a financial planner added 1.82 per cent to that annual return it would grow by an additional 18.5 per cent to $63,696.35.

Having a relationship with your financial planner means you never have to face decisions alone.

Source: BT, August 2014

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What is a Self Managed Superannuation Fund (SMSF)?

Like other superannuation funds, SMSFs invest members' contributions and in turn provide benefits to members at retirement, or death benefits to beneficiaries.

The main difference between SMSFs and other types of superannuation funds is that as an SMSF member you also act as a Trustee.

The Trustee is the manager of the fund, the legal owner of the assets and has the job of making sure the fund is administered correctly.

This means Trustees who are also members have a lot more control, but also increased responsibilities over their fund, especially in the area of investing the fund's assets.

One of the key advantages of SMSFs is that Trustees can choose how to invest the fund's assets. All Members are Trustees and therefore have full control over where their retirement savings are invested. This has both its benefits and considerations including:

- Increased control over investment decisions
- Greater flexibility
- Wider investment choices
- More estate planning options
- Ability to tailor your investment strategy to suit your specific needs and circumstances
- Ability to invest to maximise tax efficiencies and cost savings
- Ability to pool your resources with your spouse's superannuation benefits to help reduce costs or acquire high-cost investments
- Retirement income streams can be tailored to suit your needs
- Ability to gear your superannuation savings by implementing a limited recourse borrowing arrangement

Speak to your Financial Planner or Accountant today to see if this is a suitable strategy for you.

The psychology of retirement

Living the good life, retiring happy, wealthy and wise.

Retirement is a little like Clark Kent taking off the Superman suit. It's peeling off an identity – from an industry, a company, or a personal work history – and entering an entirely new life stage.

There's freedom and excitement, the time to do all the things we've been waiting for, but there's also some key life changes and adjustments to make, some of which may be totally unexpected.

Although retirement is one of life's most mentally challenging milestones, retirement advice usually focuses on finance rather than feelings. Planning for both can make a tremendous difference.

So, what are the changes we face when we step into the retirement phase?

Time stretches luxuriously in front of us, something many of us have craved our entire working lives. Time to travel, read the books we've always wanted to read, take up a new interest or spend hours doing what we love. Some of these activities require money; many just need a good attitude and a mind that loves a challenge. However they all hinge on what retirement offers: time, and a lot of it.

But retirement can carry a downside. As Dr. Robert Delamontagne writes in The Retiring Mind: How to Make the Psychological Transition to Retirement, "For the first time in my life, I had no answers. I had fallen into a black hole where there were no guideposts for me to follow. What had happened to me? I built a successful company and lived a very active and dynamic life...yet I had no clue what to do next. For the first time in twenty-five years, I did not have a company to manage, nothing that urgently needed to be done, and, most troubling, no one who needed me to make a decision or contribute to a discussion. I did not play golf, nor belong to any clubs, and had little interest in doing either.

I wish that I had though, because brother, was I stuffed." [1] The challenges of retirement can be numerous – from dealing with a change in identity and filling the hours previously spent working, to being labelled 'retired' or feeling unneeded. With no job, industry, company or colleagues to confirm who we are and where we fit, it's easy to forget our own sense of purpose.

Whether retirement is a goal or an unexpected curve ball, planning for retirement mentally as well as financially is key. Some people take a hybrid approach and continue working – either part time, in a consultancy role, or in a new industry with reduced pressure (and salary).

Many choose to get involved as a volunteer, evidenced by the 34% of the adult population of Australia who volunteer at least one hour every week with community organisations.[2] Others take on a new project, sign up for courses, or help family raise young children.

Charting a new course for retirement means we need to think about our values – and act on them. What we do with retirement will give us satisfaction if it lines up with what we truly value. It's wonderful to take care of the grandkids, for example, but extremely important to decide upfront how much time you're happy to give. And buying that beach house is only a good idea if you love relaxing, which some people actually don't.

Feeling good about retirement is an important goal, but it may not come as naturally as we think. It's important not to underestimate the psychological impact and that's where planning can help.

Sorting out real values from perceived values will help us transition into retirement – and live the good life we've been waiting for.

Feeling good about retirement is an important goal, but it may not come as naturally as we think.

1 Delamontagne, Dr Robert P. The Retiring Mind: How to Make the Psychological Transition to Retirement, Synergy Books, 2010, pp.1 – 2. 2 Volunteering Australia FAQs. www.volunteeringaustralia.org Source: Russell, May 2013

Protect your family's future by thinking ahead

Nothing is as important as your family. So it's worth asking how they would cope if you were suddenly unable to care for them. Getting the right insurance cover could be more affordable than you think.

If you have a young family who relies on you, it's important to ask how they'd cope if you were struck down by a sudden accident or illness. Without you and the financial security you provide, your loved ones could struggle to cover everyday expenses like rent or mortgage payments, school fees, power and water bills, even groceries.

A sudden loss of income could mean selling the family home and radically changing the lifestyle you've worked so hard to build. And risk protection isn't just for families. With no second income to fall back on, singles can find it just as hard when an illness or injury stops them working, even for a short time. That's why everyone needs to think carefully about insurance.

Unfortunately, the risks are real. Research from the University of Canberra's National Centre for Social and Economic Modelling (NATSEM) has found that one in five Australian families will be affected by the death of a working age parent, or a serious accident or illness that leaves a parent unable to work.[1]

NATSEM calculates that a typical family in that situation could end up losing more than half its income. Yet they also report that only 4% of Australian families with dependent children have enough insurance cover.

You may think you are already covered through your superannuation — and it's true that insurance through super can be very cost-effective, allowing you to effectively pay your premiums from your pre-tax contributions. But insurance through super is often one-size-fits all, making it important to check that the automatic level of cover provided by your super fund is enough for you and your family. And, while most super funds offer life insurance (payable on death or permanent disability), they may not include other types of cover, such as income protection or critical illness, which could prove essential to protecting your family and your lifestyle.

If your budget is tight, the most basic risk protection that you must consider is Life and Total and Permanent Disability Insurance. Life and TPD cover gives your family a tax free payout if you die, become permanently disabled or are diagnosed with a terminal illness. That can help them pay off debts and stay on top of everyday expenses while they get their lives back on track, or help you manage the extra costs of living with a disability.

With enough cover, it can even create a nest egg for your family's future. And if you take out cover while you're young and healthy, Life and TPD cover can be surprisingly affordable.

Source: [1] The NATSEM/Lifewise Underinsurance Report, National Centre for Social and Economic Modelling, Feb 2010

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