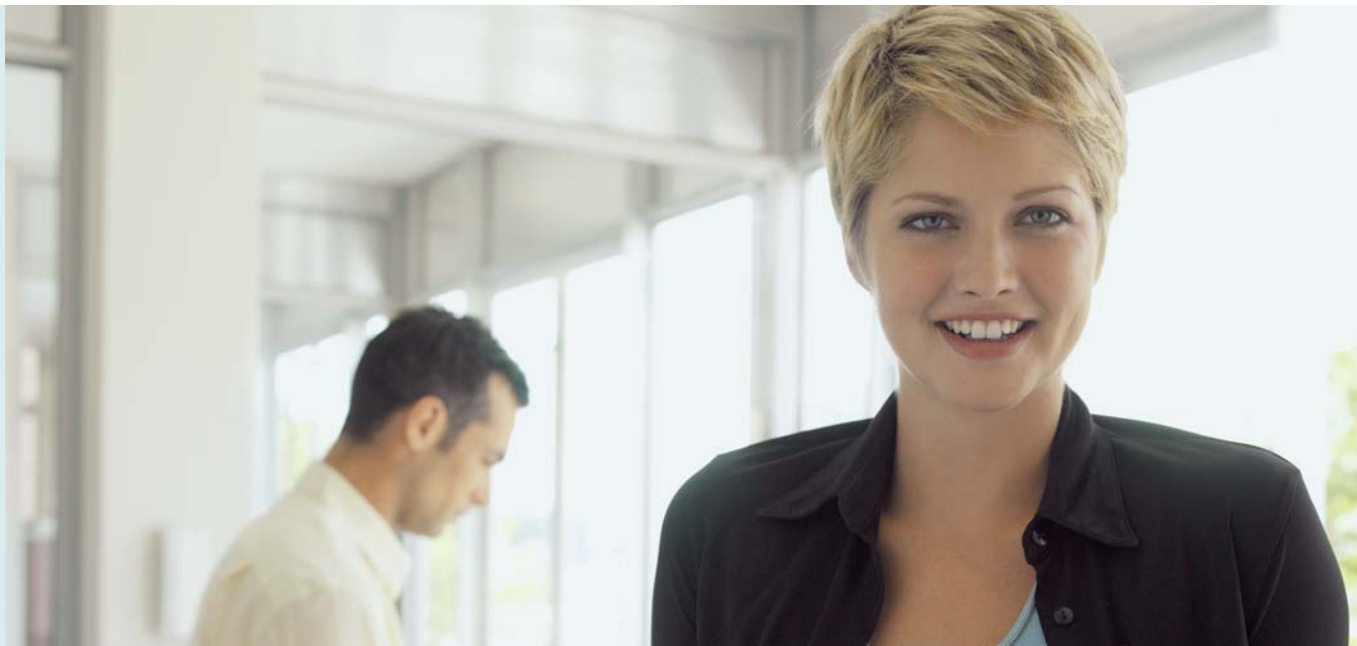


# 30 Ways to Build Your Wealth



# Introduction

Many Australians delay taking control of their finances because they don't have the time, they find it too daunting or they may just not know where to start. The reality is though the sooner you take charge the sooner you can start working towards achieving better results, especially in the long term.

To assist you in this process CPA Australia has developed *30 Ways to Build Your Wealth* - a series of financial tips to get you on the path to good money management. They provide helpful tips on being tax savvy, creating good money habits, spending money to make money, becoming financially literate and maximising your entitlements. The information is intended to help you develop or re-assess your plans for managing your money and achieve your goals.

While the information highlights some factors to consider and how these may impact your finances, it does not replace the need for ongoing financial planning advice that is tailored to your specific needs. To locate a CPA Financial Planning Specialist who can assist you with your financial planning needs, visit

**<http://www.cpaaustralia.com.au/links?findafp>**

*Note: Information is current as at 1 May 2006.*

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# Creating Good Money Habits

## 1. Save first – spend later

*Saving is easier if you commit to putting the money aside at the start of your pay period and spending what is left, rather than trying to limit your spending and saving the amount left over.*

Many people get used to spending their money rather than saving it.

It's easier not to miss something that you didn't think you had in the first place. A savings plan can include a simple bank savings account, or it could be one of many other investment options available, such as managed funds.

An automatic deduction, either directly from your pay, or from your bank account a day or two after you get paid, is one of the easiest ways to set yourself up so that you save first. That way, you know exactly how much you have left to spend each pay period. Many people already do this as they have set up their mortgage payments this way.

## 2. Ensure enough risk in a portfolio

*Too little investment risk can be just as dangerous as too much investment risk.*

Richard was very afraid to take any investment risks to invest in shares or property, but knew the importance of saving for the future. He put \$500 per month into a Cash Management Trust which was earning a healthy 5 per cent per annum. He reinvested all interest received.

Paula on the other hand was also saving \$500 per month. She understood the importance of including investments that were more volatile and risky in the short term, but offered her better long term returns, so invested in a professionally managed share portfolio. Her portfolio only paid 3 per cent per annum in fully franked dividends (which were reinvested) but it also grew at a compound rate of 4 per cent.

They both invested for 20 years and were both on a marginal tax rate of 30 per cent over the time. So does the 2 per cent additional return make that much difference?

In Richard's case, after losing 1.5 per cent of his 5 per cent return to tax each year, his final balance after 20 years is a healthy \$164,000, \$120,000 of which was his own contribution.

Paula effectively paid no tax on her dividends and her final balance was \$276,000. If she cashed her investment, she would have a potential Capital Gains tax liability of just under \$10,000, but would still have \$100,000 more than Richard.

It works the other way as well. Many retirees think they need to 'protect' their retirement nest eggs by taking little or no risk. If someone had an allocated pension of \$100,000 and was drawing \$9,000 per annum, with a 5 per cent per annum return, their money would last just over 16 years. If slightly more risk was taken, so that the return averaged 7.5 per cent over the long term, the investment would then last almost 24 years.

## 3. Set goals

*If you don't set yourself personal financial goals, then how do you know what you are trying to achieve financially?*

Everyone has goals that they would like to achieve, from buying that "must have" dress or paying off a home to travelling overseas. The reality is that most people do not think about what their goals really are, or the finances needed to achieve those goals. And if you don't know where you are heading, then how do you know how to get there?

Ask yourself – what do I want to achieve? Remember it is important to be specific and make your goals measurable so you can see the results. Ensure that the goals are attainable, realistic, and within sensible time frames. If your goal is to save \$40,000 in two years and you only earn \$20,000 a year, then you're setting yourself up for failure.

Once you have decided on your goals and their timeframes, then you can begin to make informed choices about how to work towards achieving them.

Remember, you can break your goals into chunks so that you can achieve your overall goal in stages. For example, if you want to save for a holiday, you could set a goal of saving \$200 a month or even \$50 a week.

## 4. Budget

*Budgeting is an essential tool to help you manage your personal finances and, most importantly, your cash flow.*

Budgeting requires you to list all your sources of income and all of your outgoing expenses. You can then identify if you are spending more than you earn or if you have a surplus of funds.

It is important that you're realistic. If you find you're spending more than you earn, the budget will help you to review your expenses and see what areas you may be able to reduce expenditure in immediately. Alternatively, if you have a surplus of funds, you can then use this surplus to establish a regular savings plan in your budget to work towards your personal finance goals.

Many electronic budgets allocate annual expenses such as car registration, across an entire year. However, if you're not paying by the month, it's important that you allocate the full expense when it actually occurs to ensure you have enough cash that month to pay for these big bills.

It's best to prepare a budget based on your pay cycles. If you have access to a computer, a spreadsheet is the best way to set up a budget so that it can be updated if and when your circumstances change. If you're not sure what you spend, start by looking at bank balances and old credit card statements; you'll be surprised by what you see.



## 5. Save part of pay increases and one-off payments

*Next time you receive a pay increase or a one-off payment, why not save half of it – you haven't had this money to meet expenses in the past, so hopefully you won't miss it.*

When we know we are going to receive a pay increase or a one-off payment, such as a tax refund or the baby bonus, our first thoughts always turn to how we can buy that new TV or take another holiday. We never seem to think, 'we could use this money to start or add to our savings plan'. As the saying goes, you don't miss what you never had.

It's important that you get to enjoy these windfalls and achievements, but why not spend half and save half. For example, if you know you are going to receive a one-off payment, like the baby bonus, why not use half to set up a savings plan for your new baby. There are savings accounts now that require no minimum, have no ongoing fees and return a good interest rate.

Or, if you know you are in line for a pay rise, why not use this as an opportunity to start a regular savings plan. Saving as little as \$20 a week adds up to more than \$1,000 per year, even with no interest! You could arrange with your employer to have part of your salary transferred directly into a separate savings account for you.

## 6. Consolidate accounts

*Consolidating multiple accounts can reduce the fees and charges you incur and help you reach your goals sooner.*

Many of us have multiple accounts and probably don't even give it a second thought. For example, how many of us have two or more bank accounts? Or more than one credit card? Or even multiple superannuation funds as a result of changing jobs?

Spreading your risk across multiple funds means you may need more than one fund, but if you have multiple accounts with small balances and are finding it difficult to keep track of everything, now might be the time to consolidate and avoid paying multiple fees and charges. And if you're consolidating your superannuation, many funds have investment choices in them so you can still spread your risk but instead of doing it across many funds, you can do it within the one fund.

## 7. Teaching children to save

*Set a good example for your kids now and they will reap the benefits in the future.*

From when our children are very young, we try to teach them as much as we can and lead by example. We do this because we know that what our children learn in their early years will shape them for the rest of their lives. We encourage them to use manners, be polite, respect their elders and so on. But how many of us actually talk about or even teach our children about managing money? Too many parents seem reluctant to discuss money with their children.

By teaching our kids about the value of money and some basic principles, we can help set them on the right track for life.

Start with some basic examples. Instead of buying that special toy or video game for them why not help them learn to save for it? Show them by putting a certain amount away each week from their pocket money, that they can save up for the toy and buy it themselves. This will demonstrate to them the value of saving and a sense of how much things really cost.

Furthermore when they go into the store to buy the toy themselves, they will have a sense of pride in what they have achieved on their own. And they will probably look after it better and play with it more!

# Spending Money to Make Money

## 8. Insurance – do you need it, how much, where from?

*Risk is something that we all face; the question is whether you are prepared to take on that risk yourself or would rather take out insurance and pass that worry on to someone else.*

We face financial and non-financial risks everyday, but many do not even give it a second thought. Sure, the chances of your house burning down may be slim – but what if it happened, how would it impact you?

The first thing you need to think about is what risks you may face. This will include thinking about the obvious, such as your home, contents and car. But what about you and your family? For example if you had an accident and you are the sole income earner for your family, could your family cope without your income? With each risk, you need to consider the financial impact if that occurs, together with the likelihood of the event occurring.

Secondly, you need to consider how you want to deal with that risk. Your two main options are to bear the risk yourself, or transfer it to someone else, such as an insurance company. If an event is likely to happen (e.g. a car accident) or will have a significant impact even if the chances of it happening are remote (e.g. house burning down), then you probably need to consider insurance.

There are two types of insurance; general and personal. General insurance covers your assets and includes home, contents, car, boat and more. Personal insurance covers you as an individual and includes life insurance, total and permanent disability (TPD) insurance, income protection insurance, trauma insurance and health insurance.

The last thing to consider is how much cover you need. The aim of insurance is to ensure that you are in the same financial position after an event as you were before. When considering general insurance this should cover the cost to replace the asset, not necessarily its current value. For example if your home is currently worth \$400,000 in the market place, with the land valued at \$200,000 but to rebuild will cost \$250,000, you should insure your home for \$250,000 – as this is what it will cost to replace your home. When considering personal insurance you should take into account factors such as your mortgage, ongoing expenses and future expenses such as the children's education.

There are many insurers now in the marketplace, so shop around. Also web sites like [www.insurancewatch.com.au](http://www.insurancewatch.com.au) can provide more information. By combining policies, you may also be able to receive a discount on the premiums, for example home and contents or life insurance and TPD. Check your options with your insurance company.

Remember to review your insurances on a regular basis as costs and values increase due to factors such as inflation. If you want professional advice about your insurance needs and strategies to protect you against these risks, then a qualified financial adviser will be able to help.

## 9. Gearing

*Where a property or investment portfolio has borrowings, it is considered to be geared. The borrowings will magnify any capital losses as well as capital gains. This means that you may risk not getting high returns, and you could lose the amount you borrowed, but still have to repay the borrowings. Gearing is complex and should only be considered after seeking professional advice.*

Gearing essentially means borrowing to invest – not necessarily in property. You can borrow to invest in shares, managed funds or other investment options as well.

Positive gearing is where the return on the investment covers the cost of borrowing the funds to invest, such as loan repayments. Negative gearing is where the costs of borrowing the funds to invest are more than the return you are receiving on the investment. That is, it is costing you more to borrow for the investment than you are making in return.

While losses can be claimed on tax, it is important to realise negative gearing means you are spending more money on the investment than you are receiving, so you're making a loss on your investment. The only way to recoup this loss is through capital growth on the investment if the underlying value of the investment increases over time. However, the value of this growth is only received when you finally sell the asset.

Before considering gearing as a possible strategy, it is important that you realise the risks involved. Gearing not only magnifies any gains, it also magnifies the losses. So unless you are comfortable with these risks, you should not pursue this option. You should seek professional advice before considering this as an investment strategy, from someone who can not only explain the risks, but also provide input into interest rate management, debt structuring and insurance cover that may be needed.

## 10. Keeping fit and healthy

*By spending a little in the shorter term on keeping fit and healthy, you could save thousands in medical expenses in the longer term.*

Keeping fit costs money; be it a new pair of runners, gym membership or a personal trainer. But the money and effort you invest in keeping yourself fit and healthy could save you thousands in the long term. Even with private health cover, serious illnesses and poor health can become extremely expensive with ongoing doctors bills and medicines.

Establishing good habits early will hopefully see you reap the rewards down the track, both physically and financially. And if you're a member of a health fund, you may be able to claim back some of the expenses you incur along the way in keeping fit and healthy.

## 11. Use credit cards to your advantage

*Plastic money can be incredibly convenient as a way of purchasing while benefiting from frequent flyer schemes and interest-free periods. However, if you don't pay the card off in full every month, it is an incredibly expensive way of taking out a loan.*

The key to using credit cards to your advantage is being able to repay the balance in full every month. That means you get maximum use of your funds, for example, in reducing mortgage repayments if the card is linked to a home loan. However, if you go past any interest-free days, the interest may be charged from the end of the statement period, or even the date of purchase rather than from the end of the interest-free zone. If you're two days late, you may be paying up to a month's interest! You may want to use a direct debit from your bank account so it is paid off automatically with no risk of forgetting.

Check what the interest free days are and the ongoing interest rate. What is the annual fee? Do you pay extra for rewards? Will you use those rewards? Are they worth more than the fee? Is there a late payment fee? You can compare card features at [www.infochoice.com.au](http://www.infochoice.com.au). Make sure you have a credit card that is right for you so that the plastic is a slave to you rather than you being a slave to the provider.

If you find you are not disciplined in paying off the balance in time, an alternative is a 'debit card' which draws the balance from your savings. And before making big purchases, find out whether you can get a better discount for cash; this may be more beneficial than any rewards attached to your credit card.

## 12. Get good advice

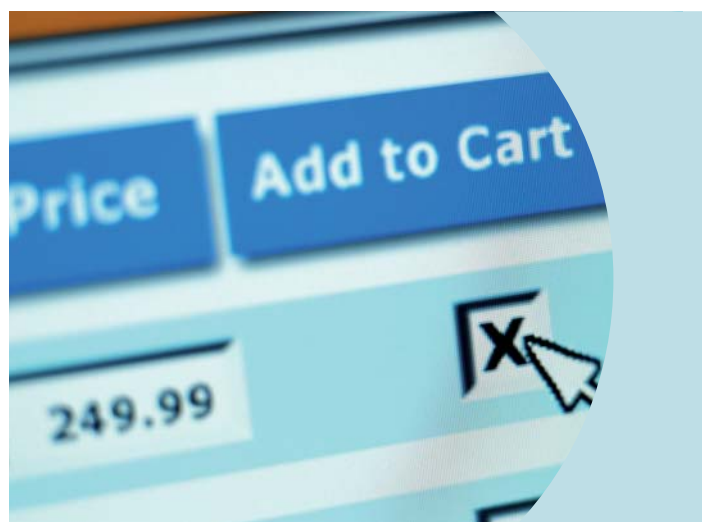
*It's worth paying to get good financial advice to make sure you're on the right track and up to date with all the latest rules and regulations.*

A good adviser will explore where you are now financially, where you want to get to and your options to get there. They will help you plan for the ups and downs in life as well as helping you to organise your funds to pay your debts, grow your wealth and achieve your goals.

Check that you have a qualified financial adviser who is tailoring advice to your needs – not someone interested only in selling an investment product. Don't just listen to the latest great deal from someone who tells you they have 'made a killing'. If it sounds too good to be true, it probably is!

An adviser may find ways to reorganise your finances immediately to help your finances but a big part of planning is less about enormous changes and products, and more about taking small steps that lead to the goal.

Like any service, there is a cost for good advice; whether it is paid for in fees or in commissions. Make sure you know what it will cost you before you commit and be wary of the quality of the advice if it is linked to the sale of a product. You should pay for good advice, regardless of whether you decide to act on that advice and make an investment or not.



## 13. Renting versus buying

*While it's possible to calculate whether renting or buying will be best for you based on current conditions, most people dream of owning their own home, making it a decision driven by emotional rather than financial reasons.*

Buying your own home is one of the biggest financial decisions that many people will make in their lifetime. Don't try to make the decision based purely on what will provide the best financial outcome. There are many important motivations for buying a home, such as achieving a dream or a sense of personal security that should be taken into account when deciding whether to rent or buy.

The annual cost of owning a home is normally much more than the cost of rent; there are mortgage repayments, rates and ongoing repairs. However, you hopefully have the benefit of a tax-free capital gain on your asset, provided there have been positive gains in the market between the times you buy and sell.

Another important factor to take into account is the cost of buying and selling, which can run into the tens of thousands with stamp duty, real estate agents fees, removalists etc.

# Being Tax Savvy

## 14. Salary sacrifice

*Salary sacrificing provides an opportunity for employees to pay for expenses from pre-tax dollars. For most employees, the opportunities are quite limited. However for some (such as nurses) there can be wider scope to salary sacrifice.*

The main benefit of salary sacrificing is that rather than an employee paying their expenses from their take home or post-tax salary and wages, they may be able to have some of these expenses paid from their pre-tax salary by their employer. This effectively reduces the employee's assessable income and therefore the amount of income tax payable.

However, there are very few expenses that normal employees can salary sacrifice with real benefits as most incur fringe benefits tax (FBT). This tax is paid by the employer, but is then passed on to the employee, effectively negating the tax benefit that would otherwise have been gained. The most common item that does not incur FBT, and is therefore beneficial to package is a superannuation contribution, but cars and laptop computers can also be packaged with some benefits.

Additional exemptions to fringe benefits are available to certain employees. There are many more salary sacrifice opportunities if you work for state hospitals and other attached medical facilities, charities, public and benevolent institutions or are an employee of a rebatable employer.

When considering salary packaging you need to ensure that you actually need the benefit you are packaging so that you are left with enough money to fund your lifestyle and that there is an overall benefit to you. There are also other considerations, such as the implications if you are receiving social security entitlements, or any lump sum payments you might have to make (e.g. on a novated lease), if you terminate your employment.

You should seek professional advice if considering this strategy. You will also need to check with your employer as to what you can do and the extent that you can package as each employer has its own policies.

## 15. Getting rid of non tax-deductible debt / clearing debt

*Debt is a necessary part of life – and not all debt is necessarily bad, particularly if the debt is used to buy an asset that appreciates in value.*

Most people carry some level of debt during their working life, be it home loans, car loans or credit card debt. Repaying the debt can take up a large portion of people's disposable income, so managing debt becomes a critical component of managing your personal finances. However debt can also be used in your favour.

Firstly, very few people would be able to afford to purchase a home without taking out some form of loan. Home mortgage debt accounts for the largest proportion of household debt in Australia, but most people are comfortable with this as they believe the value of the home will increase over time.

On the other hand, more Australians have taken advantage of readily available credit to take one or more credit cards. This is far more dangerous debt as the interest payable is often two or more times higher than for home mortgage debt and the purchases are usually consumable items – not assets which have the potential to increase in value.

However, just as people use debt to finance the purchase of the home, people can also borrow to invest in a range of assets such as investment property or shares. The advantage of borrowing to invest is that if the return on the asset exceeds the cost of borrowing then you can grow wealth more quickly. The interest payable on investment loans is also normally tax-deductible.

So first get rid of the consumer debt. This includes credit cards, store cards and car loans. Next, focus on clearing your non tax-deductible home loan debt and then if necessary, clear the debt on your investment portfolio.

## 16. Buy insurance via superannuation

*Provided you are able to meet any estate planning needs, there can be real savings to buying insurance through your superannuation as the premiums are paid from your contributions, which have normally been taxed at a lower rate than if they had been paid from salary and wages.*

Insurance, be it life insurance, total and permanent disability (TPD) or even income protection can often be purchased through your superannuation fund. And under the new choice rules for super, your employer's chosen super fund has to offer a minimum level of cover. There are estate planning needs that should be taken into account first, as you have less control over where your funds go if your insurance is part of a superannuation policy so there are implications for your Reasonable Benefit Limit (RBL) and possible tax liabilities for the recipients. You should determine all these aspects before pursuing this cost-effective insurance strategy. A financial adviser can help you evaluate whether buying insurance via superannuation will meet your needs.

However, if it is appropriate for you to have insurance through a superannuation fund, there can be significant savings in premiums as a result. Insurance premiums are also tax deductible to super funds and some super policies offer group life policies which may result in a better rate for the insurance cover. However, even if the premium is exactly the same, the fact that it is paid from superannuation contributions (which have been taxed at 15 per cent), compared with after-tax salary and wages (which may have been taxed at up to 48.5 per cent), can result in significant savings.



### 17. Superannuation splitting

*One of the tax breaks offered to superannuation is that you normally get a portion of your contributions back tax free when you retire. New rules from 2006 double the potential benefits to families. The new rules mean that contributions can be directed to ensure both spouses are able to take advantage of this tax-free threshold for lump sum payments.*

The new rules mean that, at the end of each financial year, you can choose to split the contributions that have been made into your super during the year and transfer that portion into your spouse's super. This includes the superannuation guarantee your employer puts in and any contributions you make with salary sacrifice or with after-tax savings. As a result, you can grow super benefits for both of you so that both of you can maximise the tax concessions when some/all of the benefits are drawn out as lump sums. It also ensures that each partner can have super benefits under their own control.

There are further tax breaks in super up to limits called the Reasonable Benefit Limit (RBL). If super is in two accounts, you will effectively have super that can be measured against both spouses' RBLs instead of just one spouse's and each will be able to decide how they want to take their own benefits.

### 18. Contribute to super

*Contributing to super is one of the most tax-effective ways to save for your future.*

When you contribute to super, the earnings are taxed up to a maximum rate of only 15 per cent and the tax on capital gains is at a maximum of 10 per cent. In comparison, the earnings of investments outside super are taxed at the investor's marginal tax rate, which could be as high as 48.5 per cent (including the Medicare levy).

If you're looking to save from your after-tax income, an investment in super will grow more quickly than the same investment outside super due to the lower tax, plus there's no extra tax paid on the benefit when you retire.

If you're able to contribute to your super from your pre-tax salary, sometimes called salary sacrifice, there may even be greater tax savings as you are no longer paying income tax on that part of your salary. Your super contribution will be taxed at 15 per cent but then the 15 per cent tax on the earnings may still be considerably less than the tax on other investments.

The only drawback is that your super is locked away until retirement but if you've got the money to put away, super is a very efficient way to save.

### 19. Using the correct tax and investment structure

*Ensuring you have the correct tax and investment structures can make a difference to your bottom line, as long as your choice of structure is made for the right reasons.*

Choosing the correct tax and investment structure is always an important decision, however it is more commonly an issue for small-business owners and the self employed, especially when setting up a business, rather than for the average family.

There are many things that must be considered when deciding what is the best tax and investment structure in your situation. While reducing your tax is always a factor, it can never be the sole reason for entering into a transaction due to the anti-avoidance tax provisions which prohibit transactions/schemes being made solely on the basis of tax.

It is important to note that if you establish multiple structures that there may be implications for your affairs. Seeking the advice of a professional financial adviser is recommended to ensure you make a well-informed decision.

# Becoming Financially Literate

## 20. Value of compounding

*Compounding means earning interest on interest, and is a more effective means to grow money than simple interest.*

Compounding simply means that the amount you earn on your money is added back to the principal amount that you invested. The next time that the interest is calculated, interest is paid on the new amount, meaning each time the amount of interest you receive increases.

Even if you're investing the same amount, compounding can put you significantly ahead. For example, if you invested \$1,000 each year for 10 years at 5 per cent, compounded annually, you would have \$13,207 at the end of 10 years. If you waited five years, then invested \$2,000 each year for five years at the same rate (5 per cent compounding annually), you would only have \$11,604.

The following table shows the effect of compounding interest.

Year	Limited compounding Investing \$10,000 at five per cent over five years		Maximum compounding Investing \$10,000 at five per cent over ten years	
	Amt invested	Total	Amt invested	Total
1	-	-	\$1,000	\$1,050
2	-	-	\$1,000	\$2,152
3	-	-	\$1,000	\$3,310
4	-	-	\$1,000	\$4,526
5	-	-	\$1,000	\$5,802
6	\$2,000	\$2,100	\$1,000	\$7,142
7	\$2,000	\$4,305	\$1,000	\$8,549
8	\$2,000	\$6,620	\$1,000	\$10,027
9	\$2,000	\$9,052	\$1,000	\$11,578
10	\$2,000	<b>\$11,604</b>	\$1,000	<b>\$13,207</b>

If the interest is calculated monthly, or better still, daily, the impact will be greater.



## 21. Understand the advice you are receiving

*A financial adviser has responsibilities to you as the client. But as the client, you should take some steps to increase your financial knowledge so you understand the advice you are being given.*

The financial services industry has undergone some major regulatory changes in the past few years to improve the quality of advice provided to consumers. As the client, you must understand that the advice you will receive can only be as good as the information and instructions you give to your financial adviser. In addition, it is not the financial adviser who needs to make the decision, it is you.

Furthermore it is important that, as the client, you take the time to ensure you understand the advice you are given and are comfortable with that advice. This means it is essential that you read the financial plan that you are provided. You should never be afraid to ask your financial adviser to explain the recommendations in your plan, or to ask specific questions. There is no such thing as a stupid question. A good financial adviser will always be more than happy to take the time to answer your questions, as good financial planning is not only about providing good advice but also about assisting you so you understand the advice provided and can make a sound decision.

Numerous financial institutions have developed tools to assist consumers learn more about financial advice, including the process of financial planning, specific concepts and different types of investments. The CPA Australia web site, [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au), has a specific section for consumers, which includes information on selecting the right adviser and the process of financial planning.

## 22. How to select the right investments

*Selecting the right investment is not as simple as choosing the one that has performed the best in the past. Just because it has performed well in the past, does not mean it will in the future.*

Selecting the right investment is not as simple as checking its past performance. There are a number of factors that you must consider, including what amount of risk and volatility you are willing to be exposed to, the amount of time you want to spend on your investments, the quality of the manager and of course, the quality of the underlying investment.

You need to decide if you are comfortable taking a risk with your investments or if you would prefer an investment where the risk is reduced. Even if the investment you select is not risky, it may be more volatile. That is, its value may fluctuate a lot more in the short term. This is often the case with smaller emerging companies. These sorts of investments are not suitable if you are only investing for a short time.

In today's market, there are endless options when it comes to investing, so seeking the advice of a qualified financial planner is recommended.

Always remember that if an investment sounds too good to be true, then it probably is.

### 23. Dollar cost averaging

*Dollar cost averaging is about investing money over a period of time, rather than in a lump sum, to avoid any market timing risks.*

If we could work out the best time to invest in the share market to maximise our returns, we'd all be rich. But in reality the share market is highly volatile in the short term, meaning share values go up and down in value. It really is very difficult to predict which way the market is going to turn.

To overcome some of the short-term volatility of investing in the stock market, you should consider investing a lump sum over a period of time, say months, rather than all at the one time. This is often referred to as 'dollar cost averaging' as your initial investment price is averaged over a period of time.

By using dollar cost averaging, you are able to benefit from investing at the lows, while limiting investments at the peak. Dollar cost averaging will not always guarantee that you end up with more shares or units in a particular investment, such as when shares only increase over the period. However it does remove some of the guess work of trying to predict if shares are going to rise or fall in the short term.

### 24. The importance of investment diversification

*Diversification means placing money into a variety of different types of investments so that you spread your risks, rather than putting 'all your eggs in one basket'.*

Diversification involves spreading your risk across different investments and different asset classes. Investors talk about four main types of asset:

- cash
- fixed interest (bonds)
- property
- equities (shares)

There are variations on all of these, including specialist types of each and international variations. Each year, the top and bottom performing asset class tends to change, so trying to pick the winner each time means you may pick the loser and are likely to see enormous variations in returns from year to year.

Investing across different asset classes will certainly help smooth your returns from year to year. However, it's essential to spread your money across different individual investments to minimise the credit risk associated with investing in one company which could collapse (e.g. HIH). Managed funds already invest across a range of investments, so are a good way to diversify if you don't have the funds to do so yourself.

### 25. Focus on advice, not products

*Good financial planning is not about getting the right product or the cheapest product.*

Proper financial planning involves being asked a lot of questions such as:

- what you earn
- what you own
- what you spend
- what you owe
- where you are financially today
- where you want to get to

Only with the answers to these questions can the right financial strategies be identified. These strategies are what will differentiate good advice from bad advice. It is quite likely that an adviser will recommend that you invest in, or insure with one or more products – but it may not always be the case.

There is no doubt that if the adviser gets the strategy wrong then the product selection will not fix it. However, if the strategy is right – then your financial plan will probably survive one or two bad product choices and the likelihood of bad choices is minimised.

Make sure that your adviser asks lots of questions – and be prepared to discuss your current position in detail. If they don't ask lots of questions, they probably aren't the right adviser for you.

If the adviser talks a lot about products in the first meeting then they are possibly not focussed on giving you the best advice possible but rather trying to sell something to you. Remember if you are not comfortable with something, don't do it. And sometimes a second opinion helps.

### 26. Understanding fees & charges

*Like anything in life, you get what you pay for – so the cheapest fee is not always the best.*

Financial planning is a valuable service, which can significantly impact upon your financial security. Like anything else, you get what you pay for and there will be costs at all stages of the process. Be wary of financial planners who seem to offer their services 'free of charge' – you can be sure that you're paying for them elsewhere through hidden commissions. There should also be a separation between how your fee is set and how you pay for it; this ensures that the fee is not based on any kind of product sale or purchase.

Legislation requires full disclosure of all fees, commissions and incentives by your financial adviser and other participants. The main methods of charging are:

- plan preparation fees
- implementation fees (including fee for service, entry fees, deferred entry fees, transaction fees, brokerage and legal, accounting & other fees)
- maintenance fees (including flat fees, asset based fees and commissions)

Some guidelines on what you can expect to pay for these services can be found on the CPA Australia web site at [www.cpaaustralia.com.au](http://www.cpaaustralia.com.au).

The important thing to remember is that the cheapest is not always the best – they are probably doing a lot less for you.

# Maximising Your Entitlements

## 27. Co-contributions

*Co-contributions are a relatively new initiative where the government matches after-tax superannuation contributions made by low-income earners.*

Generally, if your income is under \$28,000 and you are employed, each dollar you personally contribute to superannuation (i.e. out of after-tax income and separate from your employer's compulsory super guarantee contributions and salary sacrifice contributions) will be matched by \$1.50 from the government, up to a maximum co-contribution of \$1,500. For those on incomes above \$28,000, the co-contribution will be gradually reduced, phasing out completely at an income level of \$58,000 a year.

To obtain this rebate, simply lodge your tax return and the government will automatically rebate the money entitled.

Not a bad way to increase your retirement savings. By putting in \$20 into your super fund, you could be getting \$30 from the government, turning your \$20 into \$50 without you doing anything else.

## 28. Spouse contributions

*A spouse rebate of up to \$540 applies where a taxpayer contributes to a superannuation fund for the benefit of a low income or non-working spouse.*

Every dollar counts and this rebate provides some savings for your spouse while giving you a tax break. Generally, the spouse must be earning less than \$10,800 to get the full rebate and it cuts out totally when the spouse earns more than \$13,800 (earnings for this purpose also include reportable fringe benefits).

To obtain this rebate, simply lodge your tax return and the government will automatically rebate the money entitled. This rebate is given to you personally.



## 29. Health insurance

*If you earn more than \$50,000 (or \$100,000 as a couple), it's worth considering private health insurance as the cost could be the same as, or only marginally more than the additional Medicare levy you would otherwise have to pay.*

The government is keen to ensure those people that have the capacity to partly look after their own medical insurance needs do so. As a result all resident individuals with assessable income are required to pay 1.5 per cent of their gross salary as a Medicare levy. In addition, singles who earn more than \$50,000 and couples earning more than \$100,000 (plus \$1,500 for each dependent child after the first child) are subject to an additional Medicare Surcharge if they do not also have a minimum level of private health insurance cover.

It is therefore important to look at your private health insurance options to avoid the additional surcharge. In addition, privately insured people have the ability to claim a 30 per cent health insurance tax offset which most insurers pass on to consumers in the form of lower premiums rather than individuals arranging to have to claim it at tax time.

Finally, health insurers have also introduced lifetime health cover which rewards people with lower rates for life if they take out private health cover before their 31st birthday. For every successive year that people delay the cost of the health cover will increase by 2 per cent. For example, somebody who delays taking out private health insurance until they are 45 will pay 30 per cent (15 years times 2 per cent) more than somebody 30 years or under.

## 30. Maximising family payments

*The government offers at least half a dozen different payments to families with children, depending on your circumstances. Make sure you fully investigate all of your entitlements.*

Family benefits include:

- Family Tax Benefit A (and supplement) for raising kids
- Family Tax Benefit B (for single income)
- Child care benefits
- Maternity allowance
- Large family supplement
- Multiple birth allowance
- Immunisation allowance.

Check out [www.familyassist.gov.au](http://www.familyassist.gov.au) and <http://www.welfarerights.org.au/factsheets/fsftbeyi.doc> for more information.

Family payments from the Federal Government are designed for the ongoing expensive needs of raising children. However, it's important to do your homework to avoid the risk of having to repay a Family Benefit debt. If you're in doubt about the income you or your partner will earn during the year, it may be better to wait and calculate your Family Tax Benefit as part of your tax return.