

# The early years



*We see creating and looking after your wealth as a lifelong commitment. That's why we offer regular financial advice and guidance throughout the different stages in your life. Together, we can build the financial wealth that lets you enjoy the truly important things in your life.*

## **Financial priorities: Save**

### **Life motto: It's all about me**

Early employment years can be taken up with a variety of financial goals. For some it's holidays and cars, whereas the more dedicated individual may start saving for a house straight away. A solid financial plan and a budget that sticks will ensure you're heading in the right direction. And remember, the sooner you start the better.

### **Case study: Helen Starling**

**Age:** 24 years old

**Occupation:** Accountant

**Salary:** \$35,000 a year

**Debts:** Car loan \$15,000 (five-year term with monthly repayments of just over \$330) Credit card \$1,000

**Financial goals:** Pay off debts ASAP and start saving for a home

*'I want to get on top of my finances and make sure I'm in a position to buy a house in a few years' time.'*

## **Recommendations/strategies from wealth adviser**

**Debts:** Helen could pay off her debts, particularly her car loan, as soon as possible. One way to do this is to increase her repayments.

At the moment, over her five-year term, she'll end up paying nearly \$5,000 in interest – however she can decrease this cost. One simple strategy is to make her repayments on a fortnightly basis, rather than a monthly basis. Every fortnight, Helen could pay \$165, which means she'll be making a higher annual repayment.

Another option is to increase her repayments, say from \$165 per fortnight to \$230 per fortnight. In this scenario her loan term would go down to three years, and she'd end up paying just under \$3,000 interest (saving her \$2,000). If she increases those repayments to \$325 per fortnight the loan will be paid off in two years and she'll pay less than \$2,000 in interest (assumptions: interest rate = 11.95%).

## **What is wealth advice?**

Wealth advice is support and guidance on the best way to manage all your finances. Whether it's adjusting your debts to minimise repayments, saving for a home or a holiday, investing money, planning for your retirement, maximising pension entitlements or ensuring your family are protected if something happens to you, the right advice from the right people will help you achieve your goals faster and more effectively.

**Wealth accumulation:** Even though Helen has debts, she can still start saving. A regular savings plan is a good option, and preferably something that's set up via a direct debit from her pay. Let's say Helen invests \$120 a month into a managed fund that invests in Australian shares. A regular investment strategy uses dollar-cost averaging to help ride out any ups and downs in the Australian share market. Table 1 illustrates dollar-cost averaging at work.

In this example, using a regular savings plan, Helen would have paid, on average, \$6.25 per unit over a five year period (average price paid = total outlay ÷ total units purchased = 600 ÷ 96 = \$6.25).

Helen should also re-invest the income from her investments. By re-investing this income, Helen can make use of compound interest. The graph below shows how much Helen would save – the top part of each bar represents the interest only.

Let's assume Helen's average return from her Australian shares over the 10-year period is 8% per year. By the time she is 34 (Year 10), Helen could have saved \$22,100 (nearly \$8,000 more than if she spends her interest!).

**Table 1**

	Regular investment	Unit Price	Units purchased
Year 1	\$120	\$5.00	24
Year 2	\$120	\$5.68	21
Year 3	\$120	\$6.60	18
Year 4	\$120	\$7.10	16
Year 5	\$120	\$6.90	17
<b>Total</b>	<b>\$600</b>		<b>96</b>

**Negative Gearing:** For a more aggressive saving strategy, Helen could also consider negative gearing. By borrowing money to invest (for example in shares or managed funds) Helen is accessing greater potential returns while also providing herself with a tax deduction. However, it's important to look for capital growth.

Helen also needs to be aware that this is a long-term strategy (five or more years) and that she'll benefit more from this strategy as she climbs tax brackets. It may also be something she puts on hold until she's paid off her car loan.

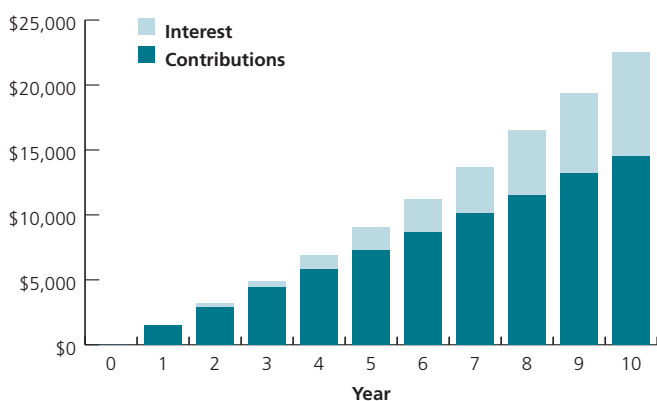
Perhaps instead of investing \$120 a month of her own money, she invests \$100 of her own money and a further \$100 of borrowed funds. We will assume that money can be borrowed at 8% per annum calculated monthly and that income from Helen's investments will be reinvested and the total investment return will be 9% per annum.

After five years Helen would have a portfolio valued at approximately \$15,080. She will have invested \$6,000 of her own money, and have a debt of \$6,000. She will also have outlaid \$1,220 as a tax-deductible interest expense.

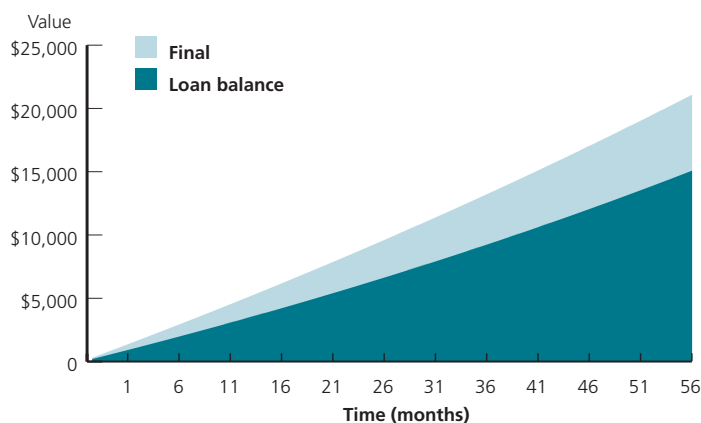
**Risk insurance:** Helen could also consider income protection and trauma insurance. She has very definite financial goals and ill health would interfere with these goals. She also currently has \$16,000 of debts that would need to be covered if something happened to her. By taking out risk insurance, she will be able to protect herself better financially.

For most young, working Australians, income protection insurance is an important form of insurance cover. It is generally designed to replace up to 75% of a person's salary if they are unable to work as a result of an accident or illness.

**Effect of compound interest**



**Negative gearing example**



As a non-smoker (24-year-old, female accountant) Helen's premium would range from around \$400-\$600 (fully tax deductible) for the first year, depending on the provider. Her premiums would increase slightly each year (as she grew older). This cover has a 30-day waiting period and would pay her \$26,250 a year until her 65th birthday (assuming the accident or illness prevented her from working until that age).

Helen could also look at insurance that is designed to provide a lump sum payment if she suffers a covered medical event (such as heart attack, cancer – including breast cancer – and others). The lump sum payment is designed to meet medical costs (which in many cases are not covered by medical benefits insurance) and costs associated with changing her lifestyle in response to the illness. In many cases, people who suffer these illnesses are capable of returning to work in a relatively short period of time, making them ineligible for other forms of insurance payouts.

In Helen's case, a lump sum of \$200,000 would pay off her debts, pay for out-of-pocket medical expenses, with the remainder invested to produce a small income for Helen. Her premium for trauma insurance would range from around \$235-\$400, depending on the provider.

**Superannuation:** Super is an effective way to save money, because of its many tax advantages. However, at the moment Helen wants easy access to her savings so she can buy a house. Given that generally super can't be accessed until you retire, making additional contributions to her super fund may not be the best option for Helen in the next few years. For the moment, she could simply stick with the standard contributions her employer makes every pay.

*At Genesys, we want you to get the most out of life so you can take advantage of any opportunity and be prepared for any challenge – that's what wealth advice is all about.*

**Note:** Advice contained in this flyer is general in nature, and does not consider your particular situation or needs. Please do not act on this advice until its appropriateness has been determined by a qualified adviser.

### Looking for advice?

No matter what stage of life you're in, a wealth adviser can analyse your unique situation and help you make the most out of your finances. For more information on saving, compound interest, dollar-cost averaging, etc., or to make an initial no-cost, no-obligation consultation, please contact:

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