Financial Directions

Summer 2007/08

Inside

Welcome

Welcome to this Summer 2007 / 2008 edition of the Financial Directions newsletter.

When it comes to planning for their future, many Australians are missing many opportunities to maximize their saving, investment, retirement and protection potential.

If you're serious about reaching your long-term lifestyle and financial goals, and you want to make sure that you achieve your objectives, you should talk to us.

We can help you make the most out of your investments and savings. Topics such as taxation, debt management, superannuation, lifestyle and business protection and estate planning can be quite complex, but we can recommend personalized strategies to suit your individual circumstances and financial goals

Financial independence for women

Australian women today are quickly learning to assert their financial independence.

Driven by the changes in our society and the removal of traditional stereotypical gender roles, women are now forging their own futures in many areas.

The quest for financial independence and security is therefore a natural progression for women in today's climate.

Why should a woman buy insurance?

For the very same reasons as men! Insurance is a cost effective and powerful way for women to create an independent and substantial means of financial protection for themselves and their loved ones, to afford medical treatment and to pay off debts and responsibilities in the event of illness, injury or even death.

Women in a dual income family

The prevalence of double income families has greatly increased in recent years and women are quickly gaining equal status as breadwinners. These families depend on both incomes to make ends meet. This creates a pressing need for women to adequately insure their income earning potential so as to maintain security for themselves, the family home, education and living standards, as well as medical expenses.

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Single parent families

Single parent families are fast becoming as prevalent in society as alternate family structures. And yet single women heading up households typically do not possess adequate personal insurance, despite the fact that they have major financial responsibilities.

A single parent, often the sole breadwinner, is responsible for the support and care of herself and her children. Her need for life, critical illness and income protection insurance is possibly even more crucial than in dual-parent households.

Full-time home managers

While the social landscape is becoming more diverse, there are still a large proportion of women who choose to become full-time home managers. In such cases the financial implications are in many ways as equally shared as they are in dual income families.

The amount of skill, time and effort involved in managing a home and a family must ultimately be replaced if the home manager is no longer there to perform the role. This might involve a greater financial cost than you think. Studies have put the value at tens of thousands of dollars a year, creating significant financial exposure if this risk is not insured.

Single women

Whether you are 'single-never-married' or 'divorced no-kids-at-home', there are still major financial responsibilities that rely on your income. You may have a mortgage, personal loans and/or credit cards which would need to be reconciled should anything happen to you. In addition there is the possibility of ongoing medical and living expenses if through injury or illness you were unable to generate an income.

Senior women

Many seniors believe that life insurance is not required once they have retired. After all, mortgages, education fees and other significant expenses will hopefully be a thing of the past. There may however, still be family members who require financial support in the event of your death. Life insurance can be a vital part of an estate plan because, unlike many other assets, life insurance proceeds are not subject to probate (see 'Handy hints'), and are immediately available to your beneficiaries, generally free of income tax.

Did you know?

The ability of women to provide for themselves and maintain financial independence is growing in many spheres. This creates a simultaneous need for women to plan their future financial security.

Here are some interesting statistics that demonstrate recent trends:

- 40% of the workforce is female[1]
- 54% of university graduates are women[1]
- women buy 80% of consumer products[1]
- women own 40% of small businesses and are starting small businesses at a rate of over three times that of men (9% versus 2.6%)[2]
- single women aged 25 to 35 are the fastest growing wealth demographic[2]
- the gap between male and female salaries is closing faster in Australia than in any other country[2], and
- there has been a 50% increase in single women home owners in the last decade.[2]

Speak to your Sentry or Epic financial adviser today to find out how you can protect your financial future.

1 'Gender Games: Doing Business With The Opposite Sex' by Candy Tymson

2 Australian Bureau of Statistics

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Teaching children the importance of money and saving

We teach our children how to spell, how to count and how to draw, but many of us don't teach our children about money and saving.

A sensible and practical savings attitude can start when we're very young. In fact, some experts recommend starting children's education on money as soon as they learn to count.

According to the Australian Securities and Investments Commission FIDO page, children should know that money is a limited resource, and not something that just materialises from a 'hole in the wall'.

So, whether you give your child an allowance, or pay them for small tasks around the house, it's a good idea to lay the savings foundations so they develop a healthy habit and put a little away each time they get paid.

Work for it, kid

The New South Wales Commission on Children and Young People[1] reported more than half the children aged 12 to 16 in New South Wales had an after school job. It also found working had little or no negative impact on their lifestyle.

Teenagers benefit in a number of ways from having an after school job. Not only do they get paid, but they learn about tax, hourly rates and managing their study around their working hours.

So when the time comes for your kids to get a part-time job, it's a good idea to help them set a financial goal to save for, rather than letting them fritter their wages away.

Whatever the situation, young people with part-time jobs can be taught good savings habits to last a lifetime.

The first real job

From 1 July this year, the Government increased the income thresholds at which various marginal tax rates apply and reduced the top two marginal tax rates to 45% and 40%.

The first real job out of school, TAFE or university is an exciting time for young adults. It might be the first time they're financially independent or it could be a natural progression from their part-time work.

The first real full-time job comes with a salary package of around $30,000 pa for an accounts clerk and up to $70,000 for a qualified accountant[2].

Money lessons learned earlier in life can really come into effect here. Credit is easy to get, but hard to get out of. Car loans and refinancing for holidays can easily bring young people unstuck.

Young adults aged in their early 20s should consider a long-term savings strategy. A small monthly investment could provide a significant boost when the time comes to buy a home.

Case study

John is a first year accountant who lives with his parents in Sydney. He earns $55,000 pa. Apart from paying off his car, John has no debts. He pays a small amount of board to his parents. His father suggests he starts saving a deposit to buy his own home, gives him $5,000 to start him off and John will add $250 per month of his own money.

John is comfortable with the additional risks involved with sharemarket investing and borrowing to invest. After speaking to a financial adviser, he is considering the following options:

1. Opening a savings account.
2. Investing in a managed share fund.
3. Leveraging his managed share investments using a margin loan.

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Here we have assumed he makes an initial investment of $15,000, consisting of the $5,000 from his Dad and $10,000 from a margin loan. He will also use a margin loan to increase his monthly investment to $750.

The following table illustrates the power of managed share funds versus a savings account over a 10-year period. Combined with a margin loan, the investment difference is significant.

But before you borrow to invest, you should understand that if your investments fall in value, you could be worse off than if you don't borrow to invest.

Investment type	Value after 10-years
Savings account*	**$43,503**
Managed share fund*	**$54,996**
Managed share fund and margin loan*	**$65,021**

Be realistic

In much the same way yo-yo diets don't work, it's better to moderate your saving and spending to find a balance.

In John's case, starting out with a small amount of $250 a month was designed to make his long-term saving painless. He would still have enough to pay off his car, buy clothes and pay for entertainment.

While a margin loan comes with its own risks, the interest can be offset against tax. If he chooses stable investments and invests over a long period, he can minimise his risk. As his salary increases or he becomes more serious about buying a home, he can increase the amount he puts away.

Contact an adviser

Probably the best relationship a young person could forge early in their working life is a relationship with a financial adviser. Contact your Sentry or Epic financial adviser today for a consultation.

1 NSW Commission on Children and Young People, 2005 'Children at Work'.

2 Hudson Salary Survey – Finance 2006/07.

* Assumptions: Savings account provides interest of 4.45% pa. The managed share fund generates a return of 8.5% pa (split 3% income and 5.5% growth) and the franking level on income is 75%. Interest on the margin loan is 8% pa. John's marginal tax rate is 31.5% including a Medicare Levy of 1.5%. These rates are assumed to remain constant over the investment period. With the margin loan, where investment income and tax benefits are insufficient to meet interest payments, a portion of the investment is sold to cover the shortfall. Otherwise, the excess investment income and tax savings are reinvested. All figures are after income tax (at 31.5%), capital gains tax (including discounting) and repayment of any loans.

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For further information contact your Financial Adviser

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