THE 5 KEY COMPONENTS OF

FINANCIAL INDEPENDENCE

CONSORTIUM
PRIVATE WEALTH

CONTENTS

In this book we detail
**5 Key Components of
FINANCIAL INDEPENDENCE
to help you succeed...**

WHY FINANCIAL INDEPENDENCE?

WELCOME

Some people may think that a financial adviser's role is to forecast the direction of the share market from month to month and invest clients' money accordingly.

This is not the reality, of course. Investments are only one small part of what your financial adviser can provide for you. Aside from the strategic components, some of the key areas that we may be able to assist you with are as follows.

KNOWLEDGE IS POWER

Consider for a moment the amount of newsprint, websites and broadcast time dedicated to financial topics these days. Australians seem to have an insatiable appetite for understanding finance.

Whether it's the latest share market activity, economic news or the constantly changing tax and superannuation rules, we can answer your burning questions and save you the hassle of finding it yourself.

MONEY AND TIME

Usually the benefit you receive from a financial adviser can be spelt out in dollar terms. It might be the income tax you have saved by re-structuring your salary, or a new concession from the Australian Tax Office (ATO) or Centrelink that you didn't know you could get.

If you agree that time is money, then think about if you had to do it all yourself; how would you choose the most appropriate super fund, investment options, or insurance cover? How frustrated would you be stuck on the phone trying to get regular information from government departments or big institutions?

With all this confronting you, it's no wonder that many important financial decisions stay in the "too-hard basket". Remember, we deal with these things every day. We are in an ideal position to explain everything you need to know, and to simplify your options.

CLIENT'S BEST INTERESTS

Most newspapers and finance websites include a regular "advice" or "Q&A" column. By law, these columns must warn readers that the advice does not take into account your personal situation or needs and you should consider its appropriateness before acting.

In setting your financial strategy, we don't use this "general advice warning" because we have taken the time to get to know you and your circumstances. This means that everything recommended to you—the investment portfolio, super contribution strategies, savings plans and insurance advice—is tailored to your personal needs, goals, and tolerance to risk.

As the years go by, your financial strategies will need adjusting due to changes in the broader environment or something closer to home. Whatever the case, we are here to help you make the most of the good times and the bad.

And meeting us for a review doesn't always mean major changes, but at least you'll know that you're on the right track – and not having to do it alone.

ONE MORE THING

This publication consists of general and factual information only. Its contents cannot be substituted for professional financial advice.

Why? Because the information does not take into account your individual objectives, financial situation or needs. It is strongly recommended that you do not act on any information contained before seeking personalised advice from a licensed financial adviser.

We are suitably qualified to discuss everything covered in this publication and encourage you to contact us if you have further questions about this material.

Always remember, before you invest in any financial product you should obtain, read and understand the related Product Disclosure Statement and determine if it is suitable for your personal situation.

LET'S GET STARTED

There is so much more involved in achieving financial independence. In this book we provide an overview of the 5 key components…


KNOWLEDGE
IS POWER

BUILD UP YOUR SAVINGS

1. GETTING STARTED

LESS DEBT, MORE SAVINGS

The word “thrifty” is rarely thought of in a positive sense but that’s not fair. If we continually spend more than we earn, our debts will eventually catch up and other words such as “default”or “bankrupt” might become more familiar.

Being thrifty doesn’t mean doing without – quite the opposite. Here are six simple tips to build up your savings - the first step towards achieving financial independence.

1. CREATE A BUDGET AND STICK TO IT

Before you can get your spending under control you need to know exactly how your income compares to your expenses.

There are many free online budgeting tools available, such as the MoneySmart Budget Planner found at www.moneysmart.gov.au. There is also a multitude of smart phone apps that can help you to record everything you spend. This can be an interesting exercise. At the end of every month, you can easily compare your total purchases and outlays to your budget. You might be amazed to see where your cash is actually going.

2. BE DEBT SMART

Make a list of your debts and organise them in order of annual interest rate.

Those with the highest rates (most likely your credit cards) should be paid off first, especially as the debt is not tax-deductible. It rarely makes sense to invest money to receive 5% per annum while you are paying credit card interest of 20% or more. Your goal should be to pay off your card/s in full every month.

3. TIME FOR A MORTGAGE CHECK-UP?

Like all things, mortgage products change – particularly with lenders adjusting interest rates. If you are more than five years into your mortgage, it could be time for a review.

Check with your lender to ensure you’re getting their best rate. You might be astonished at the deals lenders are prepared to do to keep your business. Also, you could be paying for extra features that you don't need.

4. SWITCH AND SAVE

When was the last time you compared costs on your home/health/car insurance, phone plans,gas and electricity? By shopping around and negotiating a better deal you could save significant dollars on your monthly spend.

There are helpful websites to make comparison shopping much easier but be aware that they only list providers who have paid to be promoted on their sites. It might be worth it to take the extra time and do the comparisons yourself.

5. BE ORGANISED

Most people are amazed at how many gifts they buy each year, often at the last minute.

By establishing a gift list and allocating a set budget for each recipient well ahead of time, you can progressively buy gifts on sale during the year. This will certainly help your cash flow and circumvent overspending by avoiding that last-minute rush (not to mention the added stress!).

As you watch your bank balance increase, enjoy the feeling of being in control and knowing you can have whatever you want with just a little discipline.


ENJOY THE FEELING
OF BEING IN CONTROL

ALL THAT'S NEEDED IS TIME AND DISCIPLINE

2. THE MAGIC OF COMPOUNDING

THE SECRET INGREDIENT OF SUCCESSFUL INVESTING

Forget about location, location, location being the key to a good investment outcome. For now, let's think of the most important ingredient as being regular,regular, regular!

A regular savings plan can turn small amounts of money into a sum that can take you closer to your dreams much faster. All that's needed is time and discipline.

For example, let's see what happens to an investment starting with just $100 and adding $100 each week from your regular income. Table 1 shows what the investment value would reach afer five years and up to twenty-five years. In this example, we have assumed that the investment pays a return of 5% per annum (paid quarterly).

	5 years	10 years	15 years	20 years	25 years
5% return	$29,598	$67,454	$116,037	$178,386	$258,402

Table 1: Regular savings plan of $100 per week compounding monthly

The results show that a regular savings habit can potentially turn small sacrifices into large outcomes.

TO BUDGET OR NOT TO BUDGET

Think about what you might have to do in order to save $100 per week to add to your investment. Maybe instead of eating out every week, make it a special monthly event. Taking lunch to work is a big saver – or you could cut back on your coffee purchases if you're a regular at the local café. Review essentials such as your mobile phone plan and utilities to get better deals and direct that extra cash straight to your investment.

It might sound picky, but in return for this self-restraint you can see what can be achieved:

- $29,000 in 5 years might go towards a deposit on your first home or an overseas holiday;
- $67,000 in 10 years might contribute to your children's secondary or tertiary education; or
- The extra $258,000 in 25 years might help you to retire more comfortably or earlier than you thought you could.

Any of these goals would seem to make your small sacrifices extremely worthwhile in the long run. And remember to write down your financial goals as early as you can because it's much easier to make those sacrifices if you know what they are helping you to achieve.

Reducing expenses is not the only way to find a spare $100 each week. Another good time to start a savings plan is when you receive an increase in your disposable income from a new job or a pay rise Before you spend it, send it to savings instead.

THE TRICK IS TO START SOON

Everyone's ability to save is different. If you can't save $100every week, the above figures are still worthy of your attention. For example, if you can save $50 per week simply halve the results in Table 1. Conversely, if your savings capacity is higher, multiply the figures.

The results also demonstrate the effect of time and compounding returns on the value of your investment. The sooner you start, the less you need to save in order to achieve the same outcomes.

THE DIFFERENCE 10 YEARS CAN MAKE!

Christine plans to retire in 20 years from now so she starts saving an extra $100 per week for this goal. Based on our simple calculations she might expect to have an investment of around $178,000 to add to any other superannuation or retirement benefits she has at that time.

Christine's twin Ben also plans to put down the tools in 20 years, but he is confident that he can save more money than his sister. So Ben ignores any type of retirement planning for the next 10 years. He then saves twice as much as Christine – $200 per week – for the last 10 years of his working life.

Assuming a 5% return on the investment, the difference is staggering. By starting 10 years earlier, Christine will have saved just over $178,000 compared to Ben's outcome of $134,743. Even though his regular savings amount totals exactly the same as his sister ($104,000 over the period of the investment), Christine has benefited from the compounding investment returns on her money over a longer period of time, earning an extra $44,000 in interest – or better known as "free money"!

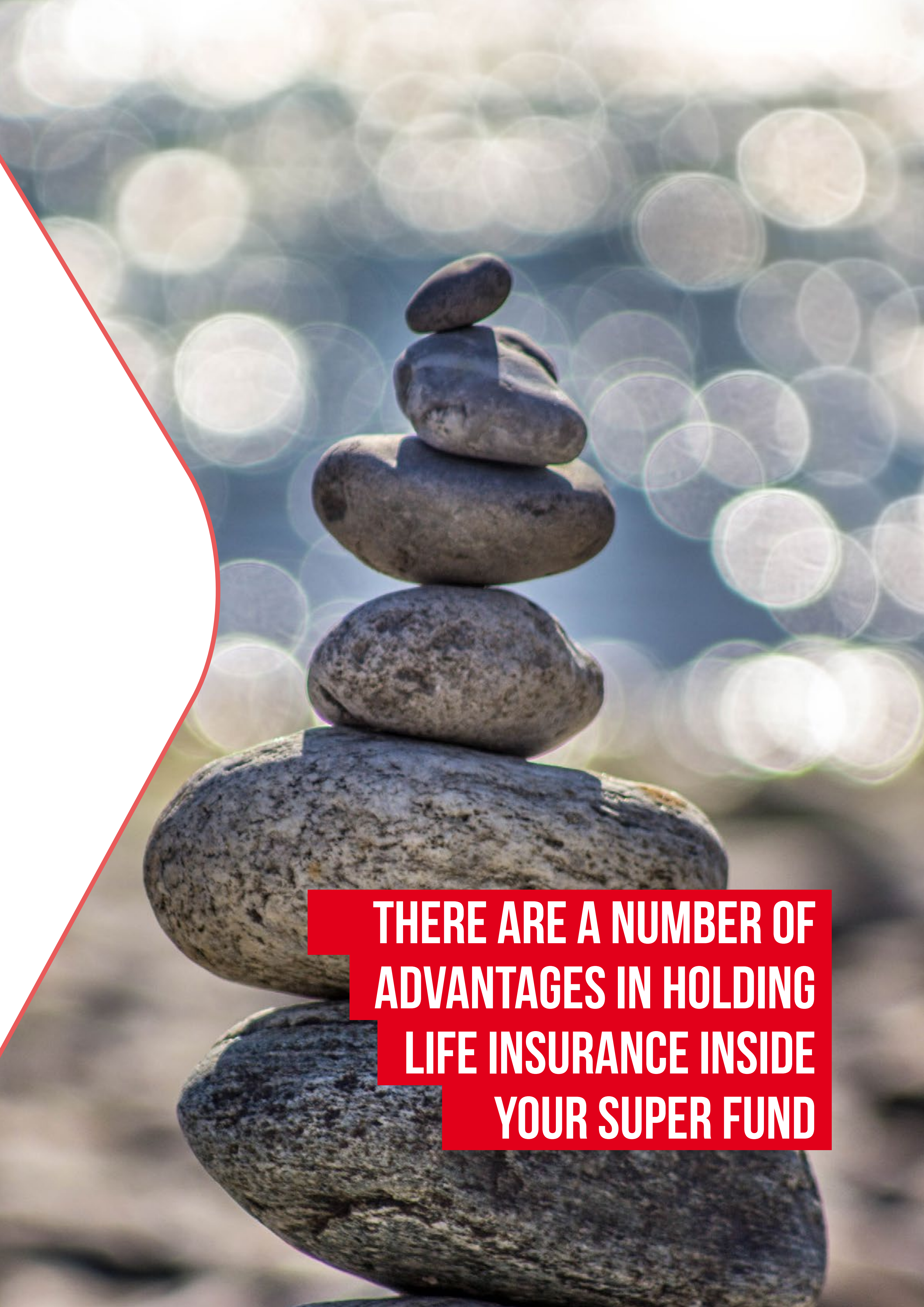
Another way to look at it is that Ben would need to save around $265 per week for the last 10 years of his working life (a total of $137,800) to end up with the same outcome as Christine.

AND FINALLY...

The examples we have used here are aimed at highlighting the benefits of time and discipline when it comes to investing in a regular savings plan.

To keep things simple, we have not taken into account other factors that will impact on the outcomes you can achieve, such as taxation, fees and differing investment returns. These factors are nonetheless important and will need to be considered when you are deciding on the type of investment you choose for your regular savings plan.

Higher-interest savings accounts, managed share funds and superannuation are just a few ways to implement a regular savings plan like the one we have examined here (although you won't find any at call bank accounts that pay anywhere near 5% at present!). The type of investment that is best for you will depend on your own specific circumstances, including your goals, time frames and attitude to risk (volatility). We can show you more options that are designed to meet your personal needs and goals.



THERE ARE A NUMBER OF ADVANTAGES IN HOLDING LIFE INSURANCE INSIDE YOUR SUPER FUND

SUPERANNUATION OFFERS TAX ADVANTAGES

3. MANAGING RISK

HITTING AN INSURANCE HOME RUN

Most people either cringe or yawn when the word insurance is mentioned but regardless of whether you find it scary or boring, managing risk is a necessity in the world in which we now live. Let's cover all of the bases to help make your home run as easy as possible.

FIRST BASE – INCOME PROTECTION

Considering that around 106,000 Australians made a workers' compensation claim in 2016/17, what would your future look like if suddenly you were unable to work?

For most of us, the ability to earn an income is our most valuable asset. Depending on your age, your future income may well be worth far more than a house and its contents, a couple of cars, a boat or caravan all combined. Yet few people properly insure their income, and if illness or injury prevents them from working, financial hardship often results. With around half of us likely to spend more than three months off work due to ill health during our working lives, Income Protection insurance should be the first item on the personal insurance list.

Income Protection or Salary Continuance insurance can pay you a regular amount, usually up to 75% of your normal income if you are unable to work due to illness or injury. Benefits are taxable, and commence after a waiting period. Payments continue to be made until you return to work or until the benefit period expires. The waiting period and the benefit period are selected at the time of application.

SECOND BASE – LIFE & PERMANENT DISABILITY

Life Insurance pays a lump sum benefit if the policyholder dies. But what happens if they don't die and can never return to work in their chosen occupation? Total and Permanent Disability (TPD) insurance can help ease the financial burden caused by loss of income by providing a lump sum payment. Most people underestimate the level of life insurance they need. The insured sum should be enough to clear net debt, cover future expenses such as school fees, and provide an adequate replacement for the income that the deceased would have earned through to their normal retirement age. For a breadwinner with young children, an appropriate amount may be well in excess of $1 million. This cover is also important for primary care givers to ensure the children are properly cared for.

THIRD BASE – TRAUMA COVER

Financial security for you is a goal worth working for. But a sudden, life-threatening illness or major accident could undermine your hard work, draining your financial resources and badly affecting the quality of your life.

Trauma Insurance fills a gap between Income Protection, Life and TPD Insurance.

South African heart surgeon, Dr Marius Barnard, pioneered the idea of this “living insurance” after witnessing his patients’ recoveries being hampered by their concerns over the financial burden caused by major illness.

Trauma Insurance pays a lump sum benefit on the occurrence of a specified condition such as cancer, heart attack or stroke, which can strike at any age. It often provides a benefit when neither Income Protection nor TPD Insurance claims can be made.

Unlike Income Protection, where the benefit is paid if you are unable to work regardless of the nature of the illness, trauma payments are based upon the specific illness, not the degree of disability.

It is designed to cover out-of-pocket medical expenses and other costs associated with major illness, and to allow recovery to take place without financial worry.

In Dr Barnard’s words: “this means that you can obtain a benefit, not because you will die, but because you will live”.

HOME BASE – GENERAL INSURANCE

Most people insure their house and contents, motor vehicles and other possessions. The key here is to make sure that all possessions are covered for full replacement value. Insurance companies provide guides on their websites to determine an appropriate level of cover. Don’t forget valuables like jewellery,antiques or artwork, which often have to be separately noted in the cover.

A SUPER WAY TO INSURE

Most superannuation funds (and all industry funds) offer Life and Permanent Disability Insurance. There are a number of advantages in holding life insurance inside your super fund.

Super funds can often negotiate wholesale insurance rates, so premiums for their life insurance are often lower than can otherwise be obtained as an individual. In addition, premiums are paid from our superannuation balance. Whilst this reduces your ultimate retirement benefit, the relative effect is usually small, and by relieving the strain on the household budget, you may be able to increase your overall savings. The main advantage of insurance held in super is that the premiums are tax-deductible to the fund, which ultimately reduces your cost of insurance.

When you join a superannuation fund you may be offered a minimum level of insurance. This is rarely enough to provide adequate cover and it’s up to you to request an appropriate level. Depending on your age, medical history and the level of cover you require, you may also need to undergo a medical examination.

When leaving a superannuation fund you should find out what happens to your insurance cover. You may be offered a “continuation option”, which is an ongoing policy provided by the insurance company. If you don’t take this up within the period that the offer covers, you may find yourself without insurance. If this happens, and if there has been a change in your health, it may be difficult and cost much more to obtain replacement cover in the

MANAGING RISK IS A NECESSITY


PROTECT YOUR
FAMILY'S FUTURE

future.

FIND A COACH

Insurance is a complex area. Policies vary in their detail and insurance companies differ in their approach to processing both applications and claims.

Each type of insurance has a role to play and it is a job for an experienced professional to work out the right amount of each type for you. You should also seek expert advice whenever you consider allowing a policy to lapse to ensure you are fully aware of the potential consequences.

We can analyse your insurance needs and recommend cover that's right for you and your budget. After all, you don't want to strike out before reaching first base.

4. PLANNING FOR THE FUTURE

IT'S ALL ABOUT HAVING A CHOICE

The key to life is living, not just working to retire, but there may come a time in your life when you want to change what you've been doing and either stop working completely or take a long holiday and work out what's next.

To be able to have this choice though, it's imperative that you plan ahead, even if you think retirement is for everyone else.

As a rule of thumb, it is suggested people should aim for a retirement income of between 50% and 70%of pre-retirement salary/wages. Based on this premise, it is estimated you will need to save around 5% of your income for 40 years. The problem here is that your employer is only compelled to provide superannuation contributions for you at the current rate of 9.5% of your income per annum.

How might this be done? You can start contributing to super earlier in your working life, raise the combined rate of your super contributions to 15% by making personal contributions (keeping under the annual limits, of course), and take heed of the following tips throughout your working life.

YOUNG, SINGLE AND INDEPENDENT

- You might be thinking that retirement is only for the oldies, but if you start small and early you lay the foundations for future choices.
- Maximise your government co-contributions—they can potentially add thousands to your super.
- If appropriate, take out disability insurance through your super fund. It is often the cheapest and most tax-effective way of providing insurance cover.
- Choose an investment strategy that suits your long-term risk profile.

A FAMILY AND A MORTGAGE

- Your focus is probably on repaying the home loan, but don't forget about your super entirely.
- A mortgage and young children mean insurance is a top priority. Taking out life and disability insurance can be a sound decision at this stage..
- Check eligibility for a tax offset on spouse superannuation contributions and government co-contributions.
- Review your investment strategy and risk profile.

THE "IN BETWEEN" YEARS

- A higher income and a smaller mortgage open up the opportunity to boost your super but take care not to exceed contribution and balance limits.
- Find out if salary sacrifice or tax-deductible personal contributions could further lift

PLAN AHEAD, EVEN IF YOU THINK RETIREMENT IS FOR EVERYONE ELSE

PLANNING ENSURES A COMFORTABLE RETIREMENT

your super balance.
- Review your insurance cover and investment risk profile.

RETIREMENT IS LOOMING (MAYBE)

- Over 55s enjoy some handy incentives to contribute to superannuation but keep an eye on your total balance.
- Consider combining salary sacrifice with a transition to retirement pension if beneficial.
- Review your insurance cover, investment strategy and risk profile.
- Start comprehensive retirement planning or a new career focus.

DOWN TOOLS OR START AFRESH

- For retirees over 60, withdrawals and pension payments are tax free.
- Review your investment risk. Keep enough growth in your portfolio to ensure your money lasts as long as you do.
- Review your insurance cover.
- Stay active and enjoy life - or launch into your next career. There are no rules!

5. PROTECTING YOUR ESTATE

HAVE YOU GOT IT ALL COVERED?

It is generally believed that death is final. However, a grieving family knows only too well that the death of a loved one can trigger events that may drag on for years afterwards, especially when it comes to sorting out the estate of the deceased person. Outlined below are some suggestions that may help reduce the burden on those you leave behind.

1. PREPARE WELL

A properly prepared will is one of the crucial elements of your estate planning. Your Will should not only state how your assets are to be divided, it should also nominate an executor who will be responsible for carrying out your wishes. When preparing a Will it is important you make adequate provision for your dependents, and clearly document the reasons for your decisions to help minimise the risk of your Will being contested.

2. WHAT ABOUT A 'LIVING WILL'

Otherwise known as an Advance Health Directive, a Living Will is another important tool. It enables you to give detailed instructions in relation to your health care, including decisions on any treatment you wish to receive or refuse if you are incapable of communicating those instructions.

3. ESTABLISH A POWER OF ATTORNEY

Whilst a Will deals with your estate upon your death, Powers of Attorney are designed to deal with your affairs while you are still alive. A Power of Attorney enables you to appoint an individual to deal with your affairs if you become incapable of making your own decisions. They can be as wide-ranging or as limited as you require or desire.

4. APPOINT A GUARDIAN FOR CHILDREN

If you have young children, appoint a guardian to care for them. In doing so, you can provide that guardian with guidance about your child's upbringing, and make provisions for your children's financial future using the most tax-effective means available.

5. MAKE BINDING DEATH NOMINATIONS

It is also important that binding death benefits nominations are made on superannuation and retirement income stream products as they ensure these funds bypass an estate, and in so doing, be excluded from any potential claims against an estate. And make sure you keep them current.

DO YOU HAVE A WILL?

SEEK ADVICE FROM A LEGAL PROFESSIONAL

6. COVER THOSE ASSETS NOT INCLUDED IN YOUR ESTATE

One of the most common mistakes made in estate planning is leaving no instructions for those assets not covered by your estate, such as assets held in trusts and companies. Separate provision needs to be stipulated to ensure that control of these assets passes on to those you intended.

7. TAKE CARE NOT TO MAKE THESE MISTAKES

Other estate planning mistakes to avoid:

- Writing an informal will and not having it witnessed – or having beneficiaries as witnesses;
- Not reviewing or updating your Will on a regular basis;
- Not telling anyone where your Will and other important documents are located.

This information covers important aspects to consider, however professional advice should be sought to tailor your estate plan to your individual circumstances. Then you can get on with living your life.

SUMMARY

THE END IS JUST THE BEGINNING

As we said at the commencement of this e-book – there is a lot more involved in creating financial independence than just investing.

FINDING THE DREAM

In a world of almost limitless possibilities and with new things constantly clamouring for attention, it can be surprisingly hard to decide on which dreams you want to pursue. The basic goals of securing your income, protecting your family and building financial independence through retirement are all very sensible and worthy, but what's going to put the zing into life? What do you really want?

One way to pin down what matters most to you is to make a note every time something sparks a strong visceral response or a genuine interest. It might be a good cause to support, a skill to learn or a new career to pursue. Or it could be an exotic place to visit or a situation you want to change. In fact, it can just about be anything, but whatever 'it' is, it will spark a consistent and enduring emotional desire. And you aren't restricted to just one dream, of course. You're allowed as many as you like.

SHARE IT

So you've found your dream, something that you are prepared to commit time, money and energy to. What next? Well, to become a reality your dreams need to be turned into goals, and that means building plans around them. It also means running your dreams through a reality check, and maybe modifying them if necessary. A trip to Mars next year? It ain't gonna happen. Next birthday in Paris? That's much more doable.

While a financial planner may not be the first person you think of sharing your dreams with, it really is worth doing early in the relationship. Whether it's a specific goal or your lifetime wish list, we can help with the reality checks, work out the financial requirements and craft a strategy that gets you as close to your goals as possible. And yes, that strategy probably will include boring things like superannuation, insurance and savings.

However we will be equally interested in whatever it is that leads to your personal fulfilment. We may even help you dream bigger, discover more possibilities and opportunities, and help you stay on track.

Be flexible in your outlook. Enjoy the journey, whatever life serves up. After all, it might turn out to be a tastier dish than the one you originally dreamt.

WANT TO KNOW MORE?

To find out how we can help you begin the planning process, and check out all of our free educational resources, visit: https://www.consortiumpw.com.au/elearning/.

If you're keen to learn more about the way we invest, check out our YouTube channel by visiting https://www.youtube.com/@ConsortiumPW.

To check out what our clients think of us, please visit https://www.consortiumpw.com.au/testimonial/.

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