Prepare FOR LIFE
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Associated Advisory Practices

IN THIS ISSUE

Manage your debt, **don't let it manage you!**

We all borrow money to buy things when we don't have the money to pay the full purchase price. Most people borrow to buy personal assets like a home but you can also borrow to access investment opportunities to help grow your wealth.

But not all debt is the same and it is important to understand how it works and consider the implications of particular strategies. While it can be a great tool to grow your wealth, if it is not carefully managed it can have the opposite effect.

WHICH LOANS SHOULD YOU REPAY FIRST?

The interest on loans to buy personal assets such as your home, car, lifestyle purchases or living expenses cannot be claimed as a tax deduction, so it makes sense to repay these debts as a priority.

Your credit card usually charges the highest rate of interest so you should aim to pay this debt off as quickly as possible while continuing to make the required repayments on your other loans.

If you currently make monthly repayments, one simple trick is to halve these amounts and pay them fortnightly instead. There are 26 fortnights in a year compared to 12 months so you will make additional repayments across the year and reduce your total interest cost and the loan term.

The fees to establish loans may depend on the type of loan. It is important to understand all the costs charged by the lender or government. This includes the cost of making extra or increased repayments and the cost of any restructuring.

If you have a Higher Education loan (HECS-HELP), this is at relatively low interest rates, so it can make sense to repay the minimum amounts on this while concentrating on repaying other loans.

BORROWING TO INVEST

If you borrow to buy an investment the interest cost and other expenses may be tax deductible. This applies to loans used to buy a rental property, shares or managed funds.

If the returns are lower than the overall costs of the investment then you are able to claim this as a tax deduction against your other income at your marginal income tax rate. This is widely known as negative gearing.

This makes sense if, over time, the capital gain from the investment exceeds your after-tax losses. But you need to be very careful with this strategy, because if the value of the investment falls you will amplify your capital losses while also losing money on your after-tax cash flow.

You should never borrow to invest just for the sake of the tax deduction, or in the hope that markets always rise. You also need to be confident that you can ride out periods when the returns are lower, such as when you have no tenants in a rental property.

DEBT CONSOLIDATION

Debt consolidation involves combining several loans into one loan account. For example, you may increase your home loan to repay your car loan and credit card debt.

You need to be disciplined when consolidating your debt to ensure you do not simply increase your overall debt from other sources.

Credit cards can be wonderfully convenient, but they can also be a real trap for some. If you seem to have ongoing credit card debt that you never seem to pay off fully then this will end up costing you a lot of money. In addition, it may prevent you obtaining or paying off other important loans, such as your home or investment loans.

PROTECT YOURSELF

All lending requires discipline to ensure that you do not over-commit yourself and are able to make repayments, and preferably pay them sooner than required.

You should ensure that you have adequate life insurance (e.g. life, total and permanent disability and income protection) so that you can continue to meet your loan repayments or repay the debt if your income stops or reduces due to death or illness.

Sensible use of debt should be considered as part of your overall financial plan and you should seek professional advice before using debt for wealth creation strategies.

For further information, speak to your financial adviser.

This editorial is of a general nature only and neither represents nor is intended to be specific advice on any particular matter. Centrepoint Alliance strongly suggests that no person should act specifically on the basis of the information contained herein but should obtain appropriate professional advice based on their own circumstances.

10 Retirement COMMANDMENTS

With 40 years' experience working in financial services, I have learnt a thing or two about retirement in my time. These are the 10 commandments that I will use to guide my life into retirement. Are they the same as yours?

1. Prepare – financially and emotionally, what do you want to do in retirement and how much will it cost? Retiring to sit in front of a TV is not life – it is a sentence. If you are not ready for it, retirement will be incredibly hard, boring and I suspect, short.

2. Understand – what your finances will support, how they are structured and what your entitlements to any government benefits are. Don't rely on the 'expert' who happens to be your neighbour – talk to someone who is qualified and that you can be confident will provide the correct information.

3. Plan – look at the need for Powers of Attorney both from a health and financial perspective. Ensure your will is relevant and current, prepay your funeral costs and be aware of the costs and planning required for aged care (hopefully this does not become a reality). Don't leave these decisions in the hands of someone else – especially not your children.

4. Active – remain physically and mentally active. Continue, or start to exercise, buy a bike, book travel which includes a walking tour, give back by becoming a volunteer for a charity, read the classics – all those books you always promised yourself you would read but didn't quite get around to.

5. New – you are never too old to learn a new skill, language, musical instrument, art, or craft. For me this means learning how to make a surfboard, mastering the guitar, and learning French. The last one is so I can sit in a corner café in Paris and understand what the French are saying about me while I drink my flat white coffee at the wrong time of the day!

6. Work – it may be four letters but it is not a dirty word. Be prepared if required to do all types of paid work to supplement your income – packing shelves, cutting lawns, traffic control, etc. I have always wanted to sit on a ride on mower and remain totally unstressed by the decisions required to mow a couple of hectares – should I go clockwise or anti-clockwise?

7. No regrets – don't dwell on the past. Try not to worry about what you should have done or not done or covet what other people have. These are wasteful activities and will just make you bitter. Concentrate on what you have now and always remember there are an enormous number of people who are worse off than you.

8. Embrace – don't live in fear. Welcome change and differences. Enjoy this time of your life, make sure you live every day and never think of yourself as old, just experienced. And certainly don't let other people tell you you're old.

9. Use your assets – remember how hard you worked to accumulate the funds and assets required to enjoy your retirement. Don't give your assets to your children before you have a chance to enjoy them. At the end of the day it will do them no favours, and it will reduce your income and limit what you are able to achieve.

10. Ignore convention – retirement is not a time to sit on your bum and watch the world go by. As I have said before, don't let people tell you are too old to try, or do something new.

I am not saying that everyone should follow my set of rules, but we all should have a set of rules by which we live our lives, and our retirement should not be any different.

Source: Mark Teale, Centrepoint Alliance
Originally appeared on: http://blog.cpal.com.au/realiseyourdream/

Saving your age pension, **one gift at a time**

Our media is full of discussion around changes to the age pension assets test that will come into effect from 1 January 2017. However, some of the strategies being promoted, with the aim of enabling affected Australians to keep their pensions intact, are scary to say the least.

For some, the idea of giving away money or assets to children, even if it is only a "loan", may appear attractive.

STEVE AND KATHY

Let's consider Steve and Kathy.

They are both receiving a part age pension which is supplemented by their superannuation. They have around $900,000 in assets that are assessed for age pension purposes.

However, because their assessable assets exceed $823,000, they will lose their age pension entirely from 1 January 2017. This is concerning for Steve and Kathy as they rely on their part age pension and their concession card.

In order to preserve their age pension Steve and Kathy's neighbour, who has read something in the media and "knows all about this stuff", has suggested they give $200,000 to their children. Now we know that while this will technically be a gift, the deal is that the children will be required to help Steve and Kathy out financially from time to time, if needed.

So, if they proceed with this plan, will it save their age pension?

To their mind, their assessable assets will be below the new cut-off point for a part age pension, so they will retain a small age pension, and will keep their concession card.

THE SYSTEM

Delve into the inner workings of Centrelink and the age pension system, however, and you will come across a couple of key considerations. The first relates to loans, and the second covers gifts.

Loans made by a pensioner, even an informal loan made to a family member, will continue to be counted as an asset for assets testing, and an amount of income will be "deemed" to be received, even if the loan is interest free.

THE THING WITH GIFTS

Gifts however are handled differently.

A current or prospective pension recipient may gift a certain amount each year without it having adverse impact on their pension. The current limit is $10,000 each financial year, subject to a maximum of $30,000 over any continuous five year period. Where the amount gifted, whether it be money or other assets, exceeds the annual limit, the excess will continue to be counted as an asset for the next five years, and will be subject to deeming for income purposes. So, simply giving assets away does not solve the problem.

So, in Steve and Kathy's case, simply lending or gifting their excess assets is not going to provide the outcome their helpful neighbour suggested.

ONE MORE THING

Incidentally, giving away assets before applying for the age pension won't necessarily get around the gifting provisions. You see, when you apply for the age pension, you will be asked to provide details of any gifts made in the previous five years. And gifting includes the disposal of an asset for less than its market value!

The rules around the age pension, loans and gifting can be quite complex.

It is likely that around 330,000 Australians will either lose their age pension altogether, or have their pension reduced come January 2017. We would encourage all readers to seek appropriate advice from a qualified source if they are concerned and certainly before acting.

Source: Peter Kelly, Centrepoint Alliance

Originally appeared on:
http://blog.cpal.com.au/realiseyourdream/

GOOD READ

From Values to Action: The four principles of values-based leadership

By Harry M Kraemer

Respected former CEO, professor and celebrated speaker, Harry M Kraemer, examines what it takes to become a successful values-based leader.

In this popular book, Harry Kraemer argues that today's business environment demands values-based leaders who, in "doing the right thing", deliver outstanding and lasting results.

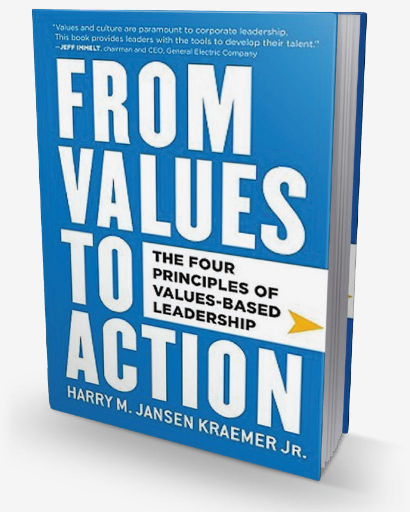
The journey to becoming a values-based leader starts with self-reflection.

He asks, "If you are not self-reflective, how can you know yourself? If you do not know yourself, how can you lead yourself? If you cannot lead yourself, how can you lead others?"

Kraemer identifies self-reflection as the first of four principles that guide leaders to make choices that honour their values and candidly recounts how these principles helped him navigate some of the toughest challenges he faced in his career.

Lively and engaging, the book offers a framework for adopting the principles of values-based leadership – self-reflection, balance, true self-confidence, and genuine humility – to lead organisations effectively.

"If you are not self-reflective, how can you know yourself? If you do not know yourself, how can you lead yourself? If you cannot lead yourself, how can you lead others?"



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