SIX PILLARS OF A STRONG WEALTH CREATION PLAN

Noise in the media can be one of the biggest distractions to making personal financial decisions.

Finding a way to sift through the 'white noise' and irrelevant propaganda is a huge challenge when trying to focus on your personal financial management and planning.

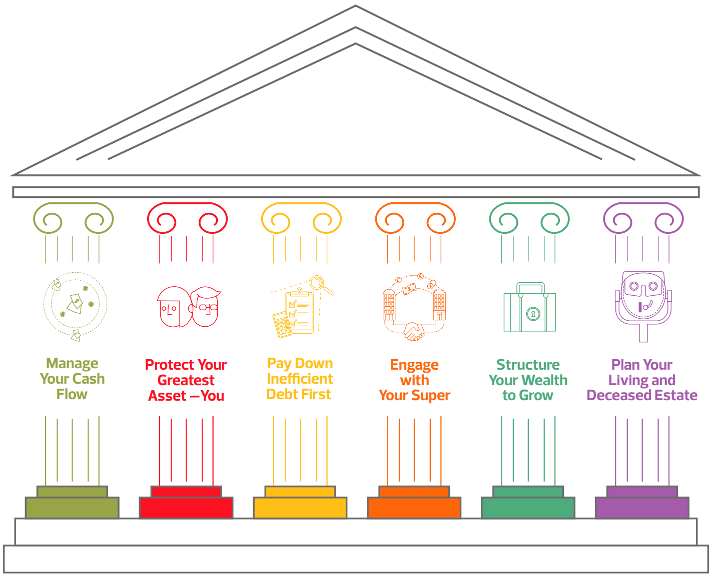
The fundamentals of financial planning tell us that success is based on looking at the longer term trends in the markets and economy, and to place sufficient protection in place to guard yourself against short term (news grabbing) economic changes, and the events in your personal life.

The fundamentals will act as a guide to help shift your focus from the headlines to more important information. Those long term trends provide you with the vital indicators of what you should be planning, or adjusting your plan for in the short, medium and long term.

> Regardless of the **'white noise'** and your specific stage of life, the 'Six Pillars of a Strong Wealth Creation Plan' provides you with a focus for your financial decisions and actions.

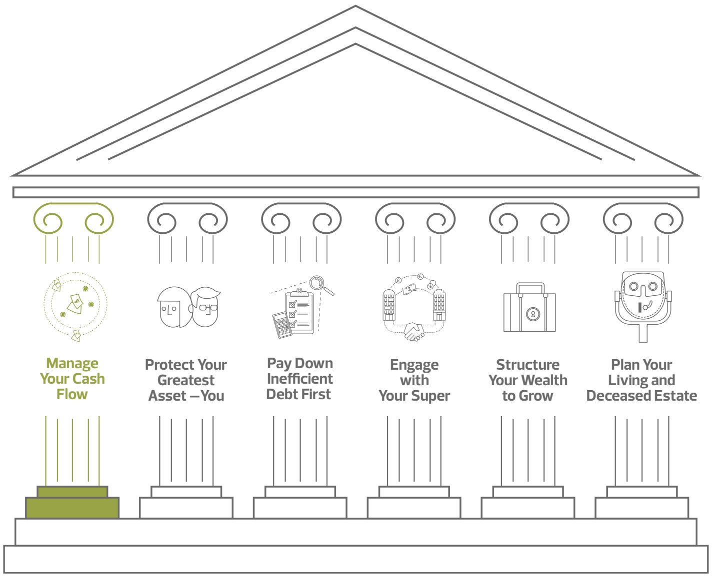
They help you to establish firm achievable financial goals which you can benchmark against every year. Your professional advisers will also find these helpful as a roadmap to help achieve your financial objectives.

The **'Six Pillars'** explained in this document will provide structure to your financial plan to keep you on track when the media is telling you that the economy and financial markets have lost all sense of direction.



Six Pillars of a Strong Wealth Creation Plan

1. MANAGE YOUR CASH FLOW



There's a reason why we say **'cashflow is king'** – without steady and reliable inflows into your household or business neither will be sustained. Cashflow is a key pillar to your personal finances which is why ensuring that you measure and monitor inflows and outflows of cash is important. Over time this habit can help you better prepare for the future with evidence to help guide your future spending, and direct you toward your savings and investment goals. This is often referred to as a 'Budget'. The old adage **'anything that is measured improves'** is simplistic but true when trying to get ahead and create wealth now and for the future.

The simple act of monitoring your cashflow and working with a household financial budget, can help reveal exactly where your hard earned income is going and provide valuable insight regarding your financial position relative to your financial objectives.

2. PROTECT YOUR GREATEST ASSET – YOU

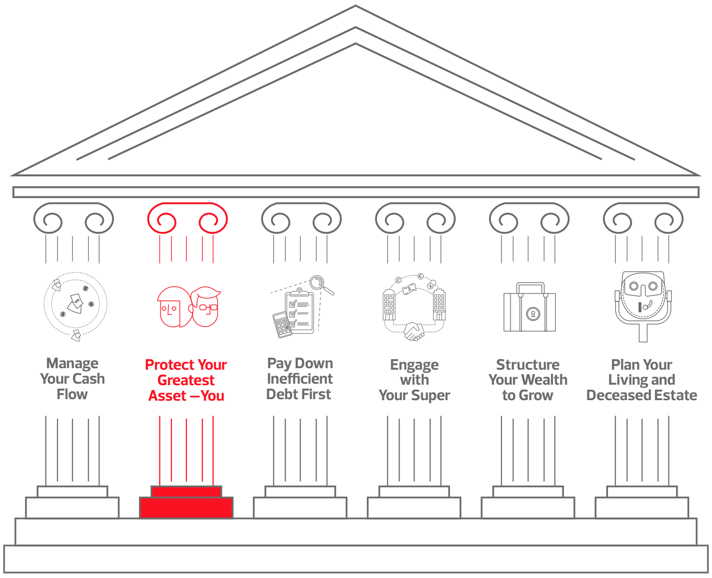
The greatest asset you'll ever have is your ability to generate an income, which is based on your ***'ability and capacity to maintain ongoing good health'***.

So when considering the possibility of serious illness, injury or death impacting your or your family's lifestyle, the risk of losing this asset is not something that should be taken lightly.

Without an ongoing income from gainful employment, your capacity to maintain a lifestyle of your choosing is significantly inhibited. By taking measures to ensure your earned income is protected in the event of injury or illness is paramount to the continuity of lifestyle for you and your family.

Appropriate and well-structured insurances providing income protection tailored specifically to your circumstances is a key pillar to a sound financial plan.

Additionally, there are other situations where the household is impacted by an injury or illness which potentially leaves you seriously ill, disabled or worse deceased. In these situations other financial commitments reliant on your continued earning such as mortgages, retirement plans and even the need to modify a home to account for a disability, will need to be considered. This is where the right trauma, disability and life cover becomes a key pillar of risk management to your financial future.



When obtaining any form of insurance it is important to give consideration to matters such as:

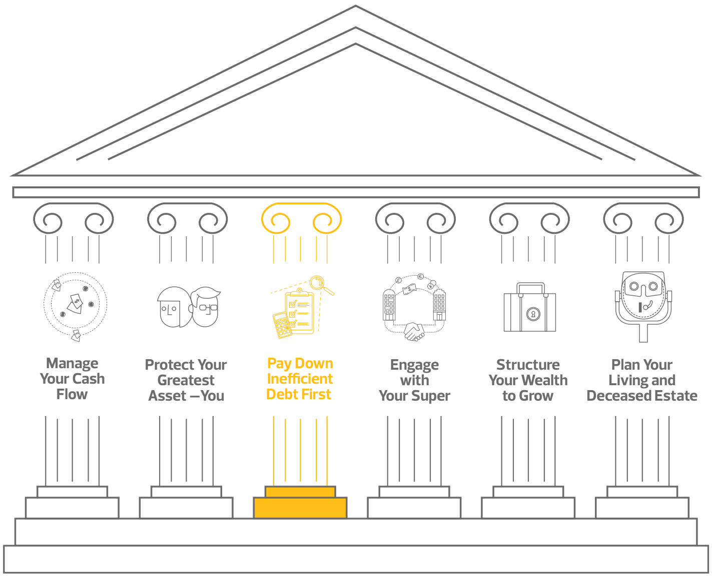
- The structure of the cover (i.e. should it be owned through superannuation or personally and what are the advantages and disadvantages of each of these options?)
- The tax consequences applicable to the premiums paid and the tax on any benefits received as a result of a claim
- Selection of a reputable insurer who has a strong track record of claims payouts and clear and concise definitions of what they cover.

Key questions you should be asking yourself when it comes to the impact of injury, illness, disability or death may have on the household are:

- Are my beneficiaries provided for in the event of my illness or death?
- Is my income protected if I am injured and unable to work?
- Would I be able to meet any additional costs as a result of having suffered a trauma event?
- Do I have existing cover through my superannuation fund and does it reflect my current needs?

3. PAY DOWN INEFFICIENT DEBT FIRST

Inefficient debt is best described as debt for which you ***'can't claim a tax deduction for the costs and interest on the loan'***. These loans, referred to as non-deductible debt, generally include facilities such as credit cards, personal loans, store cards and home mortgages.



Once you've established and implemented a cashflow and budget system, any surplus cash flow (net income) identified should be directed to pay down the highest cost non-deductible debt. As non-deductible debt provides no tax benefits for any interest paid, it is literally just an ongoing cost to you. The faster you pay down the capital of the loan, the less interest you will pay and the quicker you can free yourself of the burden.

If you have multiple non-deductible loans, then it's worth speaking to each of your lenders to have them confirm for you the current interest rate on each of the loans you have, and then to target the highest cost loan first.

When non-deductible debts are paid, you can then assess where your surplus income should be directed to achieve your financial objectives.

In some cases you may have deductible debt, such as an investment loan over a property, which could be paid down in order to reduce your debt. Alternatively, you could also look to redirect the surplus income towards wealth creation vehicles like investment and superannuation portfolios.

The next step in directing surplus income will be very specific to your circumstances and you will be encouraged to become more involved with your financial objectives, and the strategies and tools you use to achieve them.

4. ENGAGE WITH YOUR SUPER

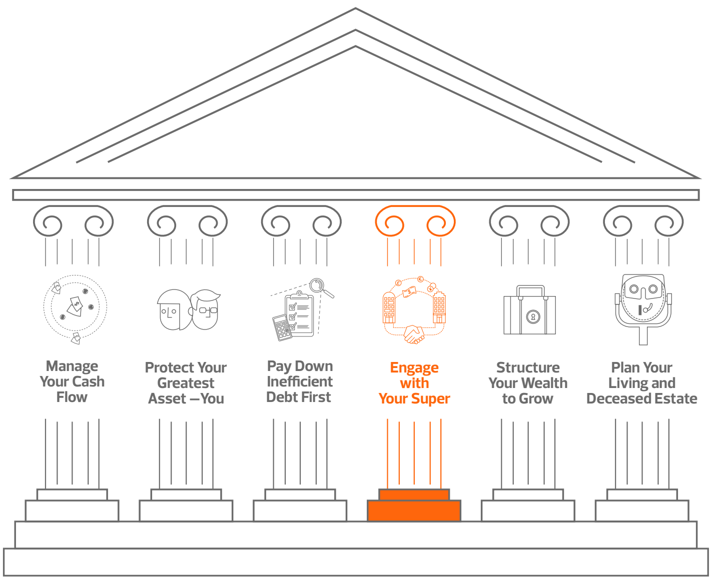
As an employee in Australia earning over $450 per month, you are entitled to payments from your employer of a Superannuation Guarantee (SG) payment equal to 9.5% of your wages, which is paid directly into a superannuation fund.

The key benefit to superannuation is that it's a low tax environment to invest and grow your money for retirement. The key strategy to maximise the benefit of superannuation is to *save more on a regular basis, start as young as possible and monitor it regularly in relation to your retirement goals.*

By engaging with your superannuation early, setting a realistic longer term investment target and monitoring against short term targets, you will be able see how you are tracking towards your ultimate goal of retirement.

Although you cannot access superannuation until you meet a condition of release, superannuation offers a number of additional benefits to you now whilst in preparation for retirement. These include:

- **Insurance** – you can utilise your superannuation fund to access life, disability and in some cases forms of income protection insurance. This means you can potentially pay for some of your insurance premiums using pre-tax income from your SG or salary sacrifice contributions, which can improve cashflow.
- **Business property** – if you are a business owner and want to purchase your business property, you can structure the purchase through a Self Managed Superannuation Fund, which can provide business cashflow, tax and retirement savings benefits. You will need to engage an SMSF specialist.



- **Estate Planning** – Superannuation does not form part of your estate therefore you can use binding death nominations, to specifically distribute your superannuation to beneficiaries, bypassing your Will

It's important to note that within superannuation you can generally invest in a range of different assets including Australian shares, international shares, Property and Property Trusts, Corporate and Bank Bonds, Cash and Term deposits. Quite often superannuation funds will offer these assets in investment products known as managed funds, which simply manages one or more of these assets types in a single investment vehicle giving you greater access to more investment types plus the experience of specialist investment managers.

Some key questions you should be asking yourself regarding your superannuation include:

- How much income per year do I want or need to retire on?
- Am I contributing enough to achieve my retirement goals?
- Do I have any lost superannuation that is being held by the Australian Tax Office?
- Is my superannuation invested in a manner that suits my risk and financial objectives?
- Are the fees my superannuation fund charges competitive for the services they provide?
- Do I have multiple superannuation funds and is there benefit in bringing them together?

5. STRUCTURE YOUR WEALTH TO GROW

Investing outside of superannuation can sometimes be slightly more complex due to the increased flexibility and options that are available to you.

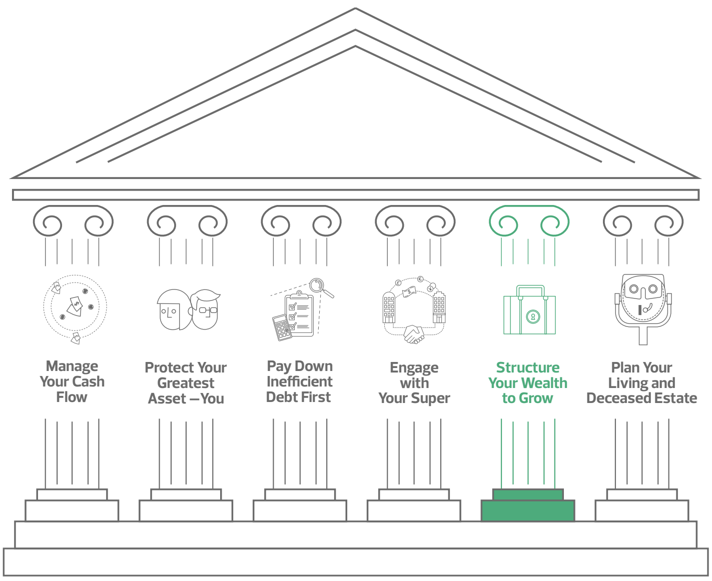
A key part of this financial pillar is having an understanding of what you are saving or investing for. The reason for this is it will help to direct the type, level of access and tax structures you may require.

For example if investing for a child's education to commence in 12 years' time, you may find a savings plan in the lower income earners name could be sufficient. However if both parents are working in the 39% tax bracket then other tools like Investment Bonds, which are internally taxed at maximum of 30%, may be more optimal. However, they come with some access restrictions.

More often than not, you will have multiple investment goals some short term (less than < three years), some medium term (between three to five years) and some long term (> greater than seven years). How you structure your investments are likely to vary to account for the time frame of investment, the flexibility you need and the risk you wish to take with your money.

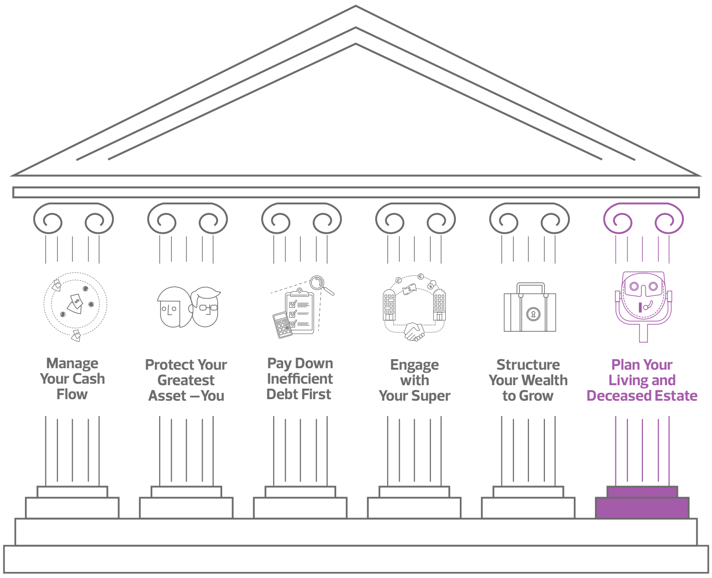
Investment risk is another key part of structuring your wealth to grow. For example as an aggressive investor you may choose to temper the risk you take with the money focused on short term goals to reduce the likelihood of loss. For longer term goals the investments may be more growth focussed. Obviously the less risk taken with your investments is also likely to reduce the opportunity for higher returns.

The key driver to structuring your wealth to grow, is to tailor your investment portfolios and products to the objectives you have for them and review these regularly.



> Understanding the type of investor you are and how much risk you are prepared to take with your money is important.

6. PLAN YOUR LIVING AND DECEASED ESTATE



The last pillar of a well-structured financial plan is your Estate, both living and deceased.

An up to date Will that specifies how you want your Estate distributed, who their beneficiaries should be and any structures you require to administer these benefits, such as a Bare or Testamentary Trust, is vital. You will also need to nominate multiple appropriate Executors to execute the Will when required. The little twist that often brings people undone with a Will is nominating Guardians for children. It can be difficult but certainly very important for every parent to consider.

Although not part of your Deceased Estate, an important aspect of estate planning includes your death benefit nominations on your superannuation and pension funds, and your life insurances. This will ensure that timely distribution of these benefits can occur to your chosen beneficiaries which can be vital when benefits are needed to pay down debt or fund an ongoing retirement lifestyle.

Your Living Estate is also often overlooked. Ensuring that you have a Power of Attorney (enduring) is vital to guarantee that should you lose the ability to make financial decisions for yourself, someone, your appointed attorney, will act on your behalf in your best interests. In addition a Power of Guardianship (Medical Power of Attorney) is also important. If you are unable to make medical decisions for yourself, then it's comforting to know that you have elected someone, a medical Power of Attorney, to make important medical decisions, in your best interests, for you.

It's important to note that these planning tools are just as important for married couples.

The key aspects of the Estate Planning Pillar include:

- Having a current and up to date Will, with appropriate structures in place;
- Make sure Executors nominated know that they are Executors and are aware of the location of the Will;
- Having in place appropriate nominations for Enduring Powers of Attorney;
- Having in place an appropriate Power of Guardianship (Medical Power of Attorney);
- Nominating guardians for under age children in your Will
- Having valid death benefit nominations on any superannuation and pension and;
- Ensuring appropriate level of cover and beneficiary nominations on your Life insurance policies.

SUMMARY

In the process of living our everyday lives, finding the time to address these matters can become extremely difficult to do. However, the consequences of not having these key pillars in place can have a significant impact on your financial lifestyle and quality of life now and in the future.

If you have been considering the review of one or all of the above pillars and need some assistance then we encourage you to contact the specialist team at RSM.

We will walk you through the specific strategies relevant to you, assess your circumstances to see what is appropriate and tailor the solution to meet your needs.

You can have an RSM Financial Specialist contact you by clicking here and leaving your details. You can access information about personal finance by visiting our website at rsm.com.au.