Observer

Bringing you valuable wealth and financial information

Autumn Observer

See inside

Foundations of a wealthy lifestyle

A study conducted by the Australian Stock Exchange reported that nearly 9% of investors over the past two years were aged 18 to 24. These young Australians were found to be knowledge seekers, keen to take on life and begin their journey towards financial security.

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If this describes you, congratulations! You get it, you really do. You're Next Generation Investors who know that building financial independence starts early.

However, according to the same study, Next Generation Investors, aware of their inexperience, are uncomfortable making financial decisions.

If this is also you, here are our tips for laying the foundations for a wealthy future!

Avoid unnecessary debt

If there's one thing guaranteed to keep you awake at night it's debt. Naturally, some debt can't be avoided and is considered 'good' debt, like when you borrow to buy a house.

But 'bad' debt is sometimes unnecessary and often comes with high interest; best avoided where possible. You know we're talking about credit cards, right?

Credit cards can fast-track you into debt-strife, particularly as tap-and-go transactions are just so quick and so easy.

Additionally, while those buy-now-pay-later schemes can be useful for emergencies if, say, your fridge packs up, they're a trap if you don't stay in control.

Sure, online shopping and bill-paying means using cards but you can avoid using credit.

Functioning the same as credit cards, debit cards use your money instead of the bank's. They can be linked to your bank account, or loaded with cash which is handy for keeping track of your spending, as you can only spend as much as you've loaded.

If you do end up with debt, be accountable. Pretending it's not there won't make it go away. Further, unpaid bills can grow through late fees and penalties.

Read the fine print on contracts and understand what you've signed up for. Late payments and loan defaults can result in legal action, even bankruptcy, destroying your credit rating for years!

Pay down debt as soon as you can by:

- **making additional payments where possible.**
- **paying above the minimum monthly amount.**
- **consolidating debts, and negotiating a better deal.**
- **prioritising debts with the highest interest rate.**

Track spending

On the topic of spending, get into the habit of tracking yours. Using a simple spreadsheet, or an app from your bank, log your purchases and reconcile spending with receipts.

You'll see exactly where your money is going and spot any areas of unnecessary spending, like those items you really don't need but are the coolest 'must-haves'.

Don't fall for it; 'must-have' is a marketing term. True must-haves are basics like food, shelter, transport and medical – not the latest trends and gadgets.

We're not saying don't treat yourself occasionally, but to pause and consider whether the item is really worth burdening yourself.

Superannuation

Think you're too young to worry about superannuation? Prefer to put your money toward something for now rather than later?

You may be right, but don't dismiss super altogether. Here are some things you can do that won't impact your current finances:

- **Ensure your employer is contributing the correct amount of super. If you are working, your employer must contribute 10.5% to a super fund on your behalf. These contributions are Superannuation Guarantee Contributions (SGC) and they are compulsory.**
- **Low-income earners may qualify for Government Co-contributions where the government contributes up to $500 to your super fund. When you lodge your tax return, your eligibility is automatically assessed, and if you qualify the government deposits directly into your super account.**
- **Put unforeseen cash into super. Sure, you're locking it away, but it's money you weren't expecting anyway! The longer it's in super, the more it can potentially grow.**

Save Vs Spend

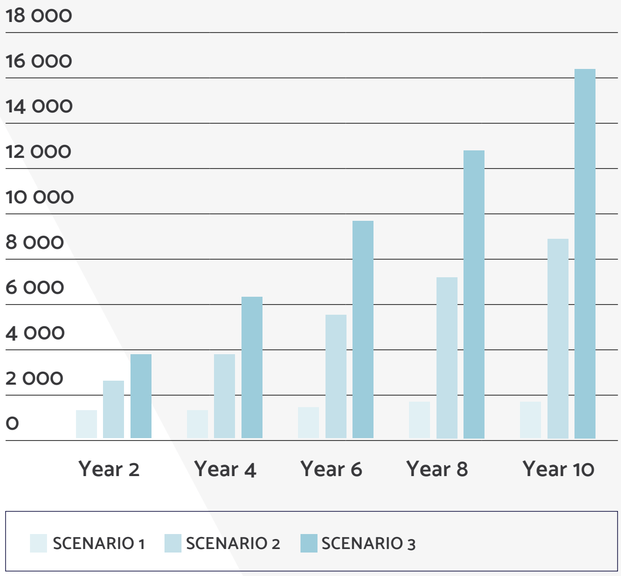
You're entitled to live, and you're entitled to a social life. We're not saying save or spend, we're suggesting you can do a bit of both.

This is how it works:

	Scenario 1	Scenario 2	Scenario 3
Initial Deposit	$1,000	$1,000	$1,000
Interest Rate	4.5% PA	4.5% PA	4.5% PA
Regular Deposit	N/A	$50 p/mth	$100 p/mth

The chart next shows the result of the above scenarios after ten years.

Regular Savings Plan



Each scenario is based on a $1,000 initial deposit with 5% PA interest calculated monthly. In Scenario 1 no further deposits are made. Scenario 2: shows $50 monthly deposits, and Scenario 3: $100 monthly deposits.

Adjust the figures to suit your personal budget and commit to saving a small amount each pay while still enjoying a life. Have the amount automatically deducted from your account and soon you won't even miss it!

Regular savings accounts are available from banks and other financial institutions, and offer a variety of arrangements. For example:

- **Your initial deposit can be as little as $50.**
- **Some pay bonus interest if no withdrawals are made in a month.**
- **Some offer higher interest for 18 – 24 year olds.**

Do your research, particularly websites providing independent product comparisons.

Seek advice

A professional financial planner can tailor a plan specifically for you. They will consider your debt, income, goals and much more, and work with you to structure a strategy for now, and into the future – you may even be surprised at how inexpensive good advice can be. So, there you are! The future is laid before you and it's loaded with potential; all you need to do now is get on with it.

Sources:
www.asx.com.au ASX Australian Investor Study 2023 (Online Publication)
www.finder.com.au Best savings accounts (Last updated November 2023)
www.moneysmart.gov.au Compound interest calculator

No retirement plan

Retirement planning is one of those things that often gets pushed to the back burner. When you're young, it's easy to convince yourself that retirement is light years away, and you've got plenty of time to figure it all out. But life has a habit of going by real fast, and all of a sudden, you're 55 (or thereabouts) and realise that retirement is just around the corner.

If this sounds like you, and you're now thinking, "I'm in my 50s and I have no retirement plan. What do I do now?", first of all, take a deep breath. It's not too late to start planning for your retirement.

Here, we'll outline some steps you can take to secure your financial future.

1. Assess your current financial situation

The first step in addressing your retirement concerns is to take a good, hard look at your current financial situation. You need to know where you currently stand before you can make a plan for where you're going.

Gather all your financial statements, bank accounts, investment accounts, and any debts you may have. Create a detailed budget to understand your monthly expenses and income. This will help you determine how much money you need to live comfortably in retirement. It might be a bit overwhelming at first, but don't worry; we're in this together.

2. Set clear retirement goals

Now that you have a grasp on your financial situation, it's time to think about what you want your retirement to look like. Do you want to travel the world, start a new hobby, or simply enjoy some well-earned relaxation?

Having clear goals will not only motivate you to save, but also give you a sense of purpose. It's like having a roadmap for your retirement journey. Just remember that if you're starting at 55, you might need to be a bit more realistic about your goals and adjust your expectations to match your savings.

3. Start saving ASAP!

You may not have started saving for retirement in your 20s or 30s, but that doesn't mean it's too late to begin. Contributing extra money into your super offers tax advantages that can help your savings grow faster. Consider making catch-up contributions if you're 50 or older and your super balance is below where it should be for someone of your age and income level. In fact, making extra contributions (within the cap limits, of course!) is a good idea whatever your age is. Topping up your super fund with additional personal contributions can make a significant difference to your retirement nest egg over the next 10 to 15 years.

4. Work on debt reduction

If you're carrying a lot of debt, it can seriously hinder your ability to save for retirement. High-interest debt, like credit card balances, can eat away at your finances. Start by paying down your high-interest debts as quickly as possible. The sooner you get rid of those financial burdens, the more money you'll have available to invest in your retirement accounts.

5. Consider part-time work

Retirement doesn't have to mean you stop working altogether. If you're 55 and haven't saved much for retirement, you might need to consider part-time work during your retirement years. It's a great way to supplement your income while still having some free time to enjoy the things you love. Part-time work may not decrease your monthly Age Pension payments when you reach Age Pension at 67. Plus, working can help keep you active and engaged in your community, which is excellent for your mental and physical health.

6. Invest wisely

Once you've started saving, it's essential to invest your money wisely. At 55, you may have a lower risk tolerance than someone in their 30s. You may want to consider investments that are a bit more conservative, such as bonds or dividend-paying shares, to protect your savings. Diversify your portfolio to spread risk and aim for a balance that aligns with your retirement goals. It's a good idea to consult with a financial adviser to make sure your investments are at the appropriate level for your age and financial objectives.

7. Claiming the Age Pension

At age 67 you may be eligible to claim the Age Pension. An amount of your fortnightly employment income is not assessable for Age Pension means testing. This means you may be able to continue part-time work before the employment income will reduce your Age Pension entitlement.

8. Downsize and cut expenses

If you haven't saved as much as you'd like and your retirement goals are challenging to meet, it might be time to downsize your living situation and cut unnecessary expenses. Consider selling a larger home and moving into a smaller, more affordable one. Look for ways to trim your budget without sacrificing your quality of life.

9. Seek professional advice

Finally, don't hesitate to seek professional financial advice. A certified financial planner can help you create a tailored retirement plan that considers your specific financial situation and goals. They can provide guidance on investment strategies, tax planning, and how to make the most out of your retirement savings.

Summary

If you're 55 and have no retirement plan, it's not the end of the world. While you might feel that time is not on your side, taking action now can still make a significant difference to your financial future. Assess your finances, set clear goals, save diligently, reduce debt, and explore opportunities for additional income. With a well-thought-out plan and a little discipline and determination, you can enjoy a comfortable retirement despite starting a bit late in the game.

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Remember, it's never too late to take charge of your financial future to make the very most out of your golden years.

Financial Planning for Parenthood

Becoming a parent is an exciting time of adjustment and upheaval; how could such a little person create so many changes – and sleepless nights?

But lack of sleep shouldn't be caused by financial worries and reduced household income. When Judy a florist, and Gary an IT manager, decided to start a family, like everyone, they worried about the impact on their finances.

They tried to save as much money as they could while they still had Judy's income, but there was so much to buy and prepare.

Further, they were concerned over the negative long-term impact to Judy's superannuation while on maternity leave, particularly as the couple planned more children.

According to a report by Treasury.gov.au, Australian women retire with almost 30% less superannuation than men, due to:

- **losing income through maternity and child-caring responsibilities,**
- **fewer promotion and higher paying job opportunities, seemingly due to maternity and child-caring responsibilities.**

Judy and Gary decided to seek professional advice to help them maximise their savings potential while they still had two incomes, and to help them manage their expenses once Judy began maternity leave.

On Gary's mother's recommendation, they met a financial planner who expressed how beneficial it was that they came to see him while Judy was still working.

The adviser reviewed their situation, income and expenses, plans to expand their family, and their long-term goals. He helped them create a budget that focussed on debt and unnecessary spending, then structured a savings plan to provide cash for emergencies.

Additionally, they recommended the couple consider:

- **updating their health and life insurances.**
- **their entitlement to government support, e.g., Family Tax Benefit, Childcare subsidies etc.**

- **the government's Co-contribution scheme, where the government makes a one-off contribution to Judy's complying fund, if she meets certain criteria.**
- **consolidate any small super funds so they each maintain only one fund. This can reduce fees and help manage their retirement savings.**
- **undertaking regular portfolio reviews, with assistance from their adviser, to ensure their strategy continues to meet their needs.**

After months of preparation, Judy started her planned 12 month maternity leave so she and baby Ally could spend Ally's first year together.

After a couple of months, Judy spoke to Michelle, her boss, about part-time work Judy could do from home.

Michelle thought it was a terrific idea and suggested Judy manage the store's ordering system, handling sales, customer enquiries and delivery services. In today's online environment, it wasn't difficult to set up.

This helped Michelle with staff rostering, while paving the way for Judy's eventual return to full-time work.

Through tailored advice, Judy and Gary were better prepared for the changes in their lifestyle, while taking steps to protect future wealth. Through discussions with her boss, Judy could care for the newest family member, while contributing to household income, and her super!

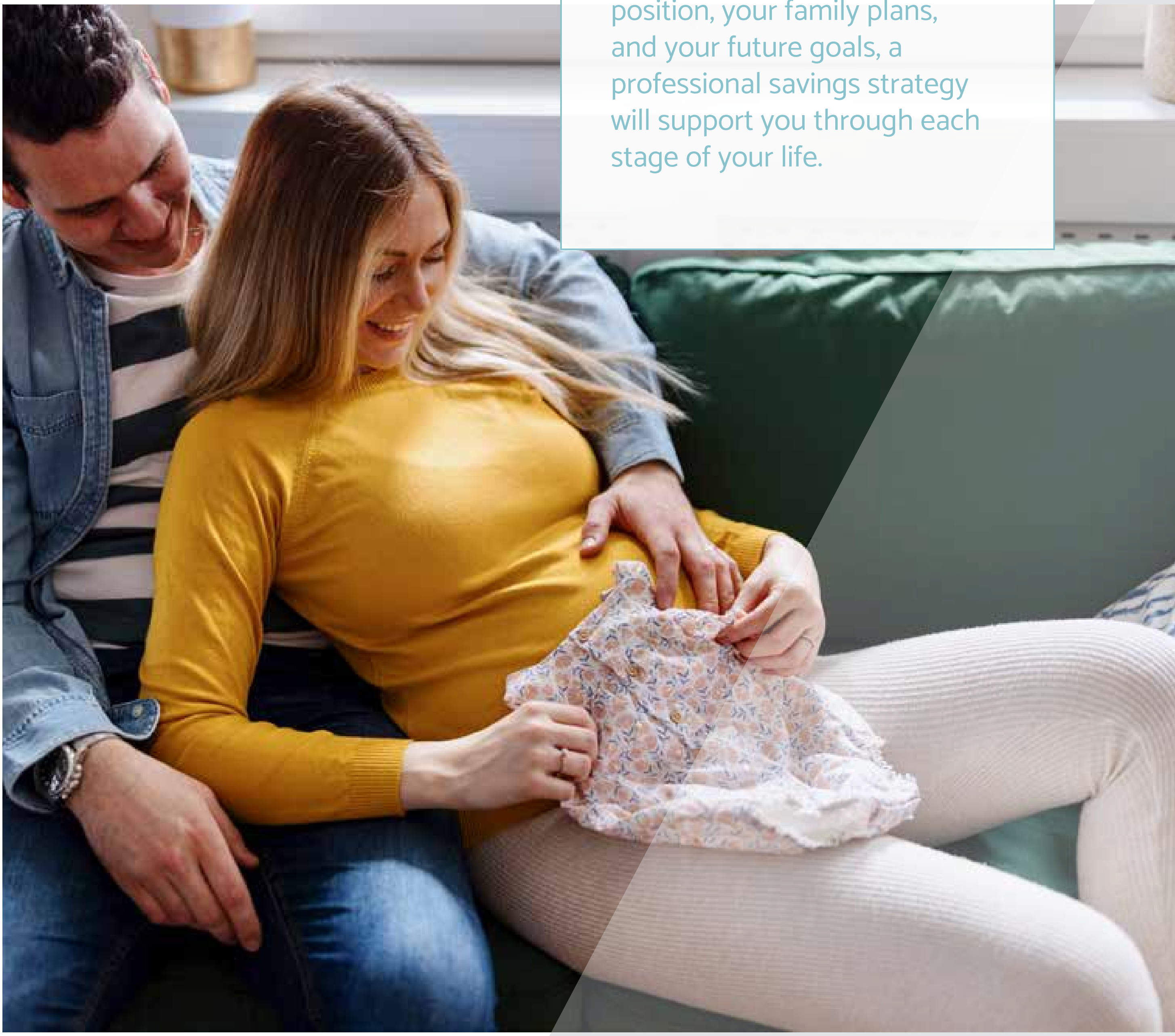
In recent years, the spotlight has been turned on gender pay and superannuation gaps, resulting in greater awareness of women's financial issues.

Accordingly, financial advisers work closely with women, and young families. These are often people who mistakenly believe that financial advice is only for the wealthy, or that it's not possible to build wealth when you're younger, on a lower wage and with other priorities.

Fact is, the earlier a savings strategy is implemented the better. And that strategy will need to be reviewed and altered from time-to-time as lifestyle and priorities shift.

Seeking Advice

So, regardless of your financial position, your family plans, and your future goals, a professional savings strategy will support you through each stage of your life.



www.womeninsuper.com.au The facts about women and super (No visible date on website)
www.treasury.gov.au Australia's National Savings Updated: 2020 and Beyond (Dated: 2020)
www.seek.com job rates for florists (27 August 2021)