



# PLANNING FOR YOUR FINANCIAL FUTURE

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## ABOUT BDO

- BDO offer leading accountancy, tax and advisory services.
- We provided personalized advice based on a deep understanding our clients. Underpinned by a wealth of technical knowledge and experience.
- Working together with a team of financial experts will help you take control to make the most of your financial situation.

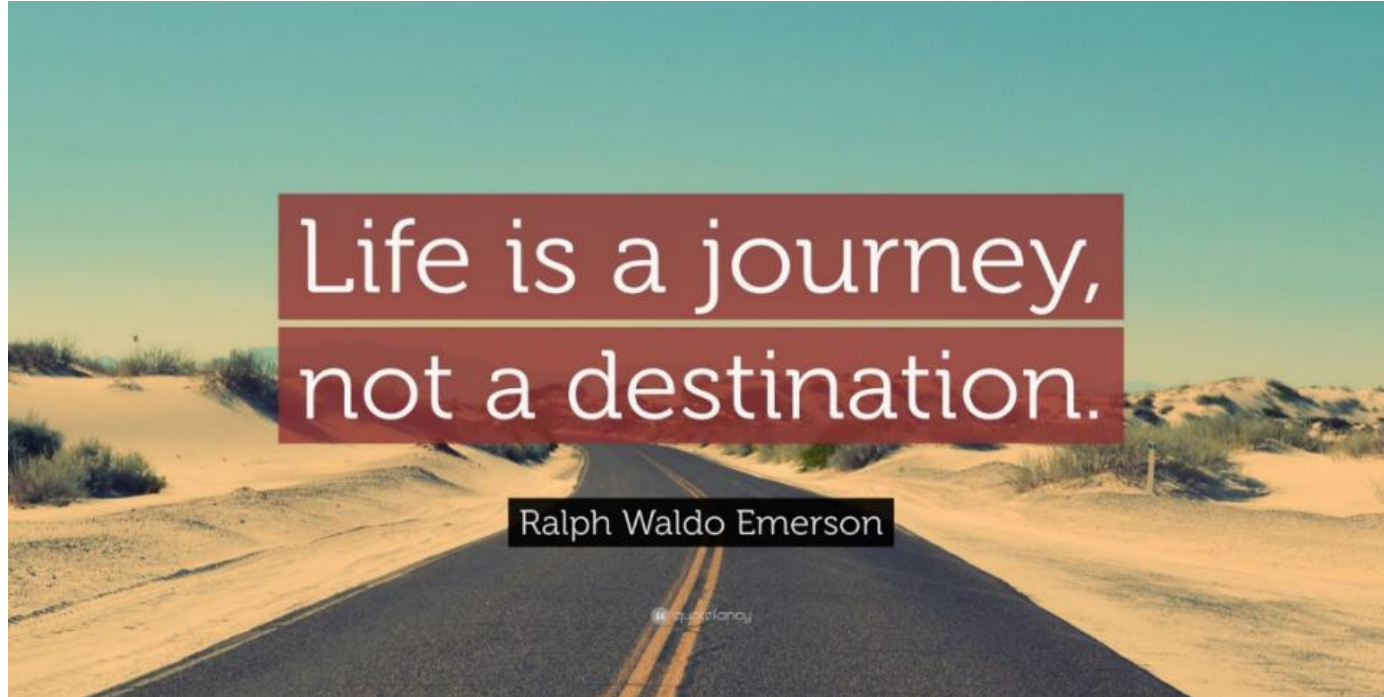
# 1) STRATEGY COMES FIRST - WHAT IS YOUR PLAN?

What are you trying to achieve?

- Save to purchase your own home
- Increase earning potential and progress career goals
- Pay off your home loan
- Plan for starting a family and possible time out of the workforce
- Cover the cost of your children's education (private school fees?)
- Save for retirement

What about enjoying life along the way?

# LIFE IS A JOURNEY - NOT A DESTINATION





# UNDERSTAND YOUR SITUATION - INCOME & EXPENSES

It is important to first understand what is coming in and what is going out.

We can then identify any surplus and how to capture it effectively.

## Income

- Do you know what you earn?
- Does this figure include or exclude superannuation?
- How do you allocate money once you receive it?

## Expenses

- Do you know what your expenses are fortnightly, monthly, annually?
- Do you have a way of checking in on your expenses?

# UNDERSTAND YOUR SITUATION - INCOME TAX

## TAX RATES 2018-2019

The following Individual Tax rates are for 2018-19 and apply from 1 July 2018.

### Tax rates

| <i>Taxable income</i> | <i>Tax on this income</i>                     |
|-----------------------|---|
| 0 - \$18,200          | Nil   |
| \$18,201 - \$37,000   | 19c for each \$1 over \$18,200                |
| \$37,001 - \$90,000   | \$3,572 plus 32.5c for each \$1 over \$37,000 |
| \$90,001 - \$180,000  | \$20,797 plus 37c for each \$1 over \$90,000  |
| \$180,001 and over    | \$54,097 plus 45c for each \$1 over \$180,000 |

### Notes:

- *\*The above rates do not include the standard “Medicare levy” of 2.0%*
- *#The above rates do not include Medicare Levy Surcharge or the effect of any Low Income Tax Offset (“LITO”) or Senior Australian Tax Offset (“SATO”).*



# WHAT ARE THE VARIABLES

- Income
- Expenses
- Time Frame
- Risk/Return

# LIFE STAGES

## Different strategies for each stage of life

### PERSONAL WEALTH: FINANCIAL PLANNING GUIDE FOR EVERY STAGE OF YOUR LIFE

| EARLY CAREER   | MIDDLE-AGED   | PRE-RETIREMENT   | RETIREMENT   |
|--|---|--|--|
| <ul style="list-style-type: none"> <li>▶ Starting out</li> <li>▶ No children</li> <li>▶ Excess cash flow</li> </ul> <ul style="list-style-type: none"> <li>• How do I implement a budget and manage my cash flow?</li> <li>• What do I do with any surplus cash flow?</li> <li>• How can I save for a home deposit?</li> <li>• How can I invest and what are my investment options?</li> </ul> | <ul style="list-style-type: none"> <li>▶ Settled in career</li> <li>▶ Young family</li> <li>▶ Increased expenditure</li> </ul> <ul style="list-style-type: none"> <li>• How do I pay off my mortgage and fund my children's education?</li> <li>• If I don't have any debt, how should I be utilising any extra cash flow?</li> <li>• How can I make sure my family is protected if something happens to me?</li> </ul> | <ul style="list-style-type: none"> <li>▶ Leaving the workforce</li> <li>▶ Adult children</li> <li>▶ Steady expenditure</li> </ul> <ul style="list-style-type: none"> <li>• When can I afford to retire?</li> <li>• How much do I need to live in each year?</li> <li>• How can I meet my living needs once I'm no longer working?</li> </ul> | <ul style="list-style-type: none"> <li>▶ No longer working</li> <li>▶ Adult children and grandchildren</li> <li>▶ Steady expenditure</li> </ul> <ul style="list-style-type: none"> <li>• How do I maintain a steady income stream?</li> <li>• If entitled, how do I maximise any Centrelink benefits?</li> <li>• How can I make sure my assets go to the right people in a tax-effective way?</li> </ul> |
| HOW CAN A BDO FINANCIAL ADVISER HELP?  |   |  |  |
| <ul style="list-style-type: none"> <li>• Budgeting</li> <li>• Investing</li> <li>• Insurance needs.</li> </ul>   | <ul style="list-style-type: none"> <li>• Debt repayment strategies</li> <li>• Investing</li> <li>• Superannuation strategies</li> <li>• Insurance needs</li> <li>• Estate planning.</li> </ul>  | <ul style="list-style-type: none"> <li>• Superannuation strategies</li> <li>• Account-based pensions</li> <li>• Cash flow planning</li> <li>• Estate planning.</li> </ul>  | <ul style="list-style-type: none"> <li>• Superannuation strategies</li> <li>• Account-based pensions</li> <li>• Government benefits</li> <li>• Estate planning.</li> </ul>   |





# CASE STUDY - EXAMPLE

## FIRST HOME BUYER

- **Saving a deposit** - cash flow management
- **First Home Super Saver Scheme** - we have been able to show clients tax savings of over \$12,000+ utilizing this scheme.
- **Stamp Duty Concessions** - we have been able to show clients a transfer duty saving of over \$8,750.
- **Queensland First Home Owners' Grant** - this could add an additional amount of \$15,000 towards your first home.

# PROTECTING YOUR ASSETS & FAMILY

## INSURANCE CASE STUDY EXAMPLE

- Adam and Amy came to see BDO in 2014 in order to have an appropriate level of cover put in place whilst they were young and healthy.
- Fast forward to 2018 and Adam entered hospital as he had trouble breathing.
- He was subsequently diagnosed with a hereditary disease of the heart muscle that prevents the heart from pumping blood around the body properly.
- Adam had a defibrillator surgically attached and had to cease his current occupation as an on-site Engineer (due to risk of heart failure), and look for work in an office-based position.
- Due to the quality of the cover Adam had, he was eligible for a \$1.4million payout from his TPD cover and will also continue to be eligible for up to \$13,000/month every month until he is 65 years old (35 years from now), depending on his earnings from his new chosen occupation.

# PROTECTING YOUR ASSETS & FAMILY

## INSURANCE CASE STUDY EXAMPLE

- There are many different types of TPD and income protection policies on the market, but many people think they are covered through their super funds.
- If Adam only had TPD cover in his super fund, despite being unable to continue in his chosen career due to his condition and suffering a significant earnings loss, he would not be able to claim on such insurance policies given he has an ability to work in other jobs he is qualified for.
- Income Protection policies in superannuation can also be harder to claim on, with default cover commonly only having a benefit period of two years, as opposed to what Adam has - payments to age 65.

# QUIZ - WHAT WOULD YOU CHOOSE?

\$1m dollars in cash right now?



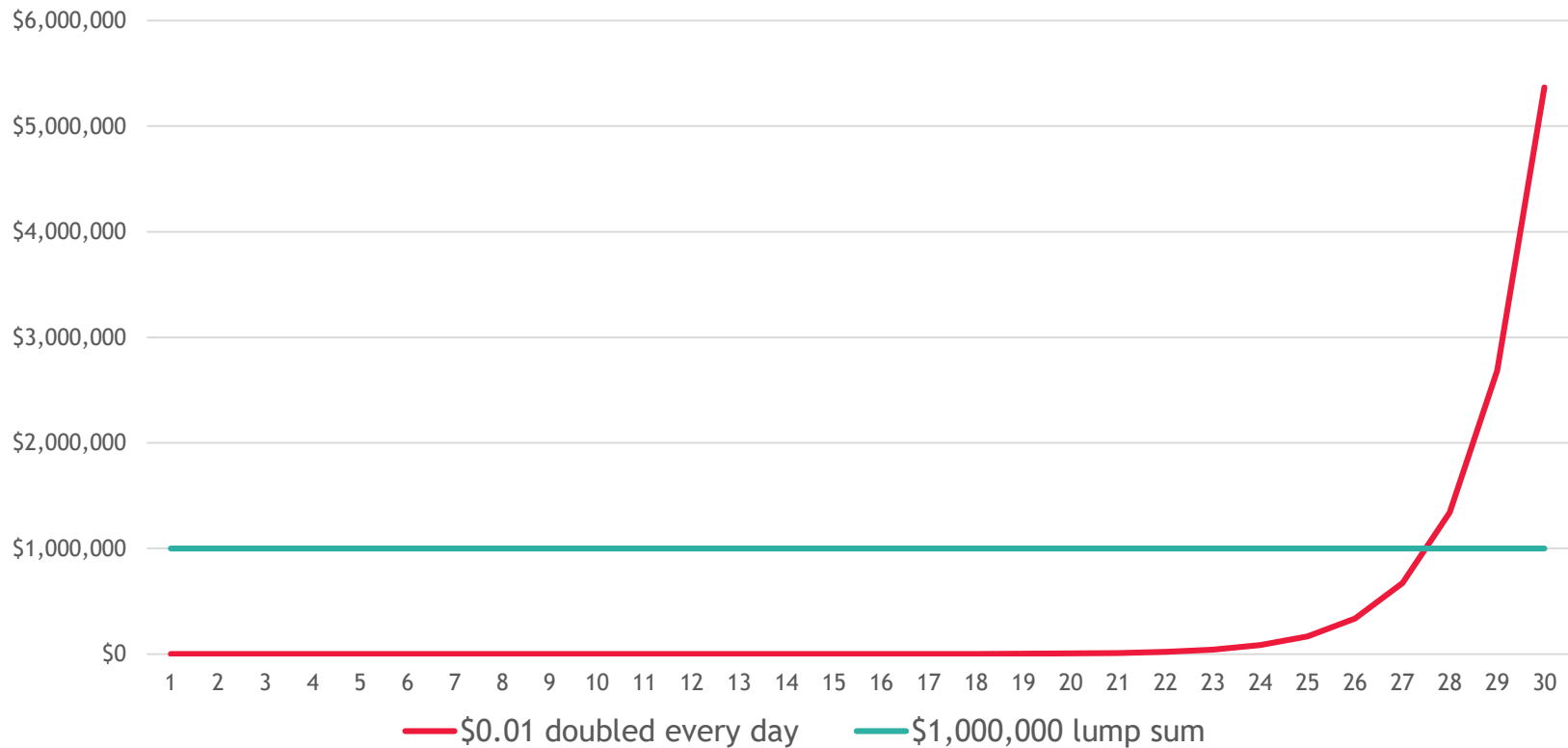
**OR**

\$0.01 cent today, \$0.02 cents tomorrow,  
\$0.04 cents the next day - and so on,  
doubling every day, for 30 days?



# QUIZ - WHAT WOULD YOU CHOOSE?

**\$1,000,000 today vs \$0.01 doubling every day for 30 days**





# THERE IS NO GET RICH QUICK SCHEME!

Spend less than you earn, capture the surplus cash and invest regularly.

## 2) STRUCTURE COMES SECOND - WHAT ENTITY?

When making investment decisions, you are faced with a decision on how best to own the asset?

- Individual name
- Spouses name
- Joint names - tenants in common or joint ownership
- Invest in an entity such as;
  - Company
  - Trust
  - Super Fund

Each ownership structure will come with different considerations (pros/cons).

# STRUCTURES

| Hold assets through: | Personal Names   | Family Trust  | Company  | Superannuation  |
|----------------------|--|---|--|---|
| <b>Advantages</b>    | <p>You can make use of lower marginal tax rates</p> <p>Flexibility of investment options</p> <p>50% CGT discount available for assets held &gt;12 months</p> | <p>Asset protection</p> <p>Succession planning</p> <p>Choice of beneficiary for income/gains distribution</p> | <p>Asset protection</p> <p>Succession planning</p> <p>Franking credits can offset some tax payable on dividends</p> <p>Can be used to house assets for distribution in later years</p> <p>Flat tax rate of 30% on income</p> | <p>No minimum draw down in retirement</p> <p>Concessional tax environment</p>                         |
| <b>Disadvantages</b> | <p>No asset protection</p> <p>Significant tax payable at higher marginal tax rates</p>   | <p>Must distribute all gains and income to beneficiaries</p> <p>Regulatory / legislative risks</p>            | <p>Flat tax rate of 30% on capital gains i.e. no CGT discount</p> <p>Regulatory / legislative risks</p> <p>Top up tax payable on any dividends paid</p>  | <p>Investment option limitations</p> <p>Contribution limits</p> <p>Regulatory / legislative risks</p> |



# WOMEN AND SUPERANNUATION

- Women currently retire with 47% less superannuation than men
- Women live five years longer than men on average
- 43% of women work part-time
- Women working full-time earn 18% less than men
- 44% of women rely on their partners income as the main source of funds for retirement
- Women take on average five years out of the workforce to care for children or family member which can cause their super savings stagnate and begin to fall behind those of men

Source: <https://www.womeninsuper.com.au/content/the-facts-about-women-and-super/gjumzs>

# CASE STUDY EXAMPLE

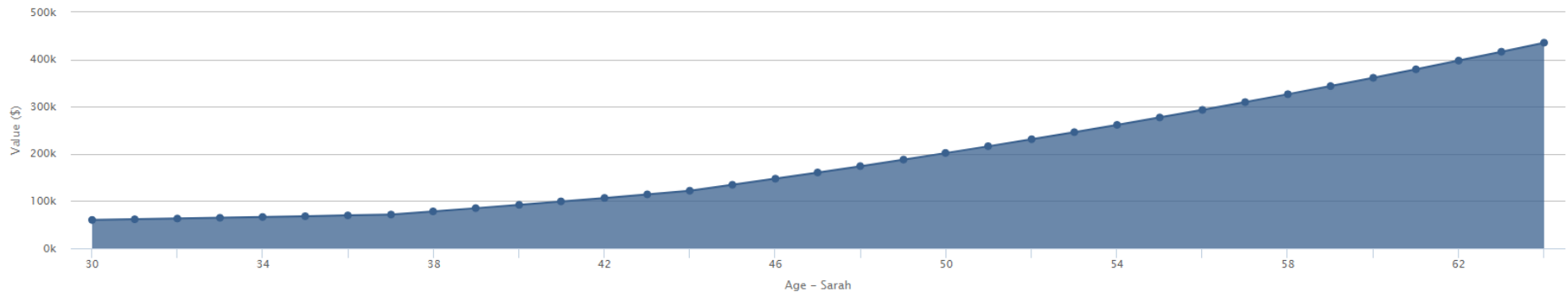
## SARAH & SIMON

- Sarah & Simon are 30 years old and expecting their first child in July 2019 and planning on having a second child in July 2021
- Sarah earns \$100,000 (plus super) and has a current super balance of \$60,000 which we have assumed earns 6% p.a.
- What will be the impact on Sarah's super balance if she stays home from work until both children reach prep age? Or if she only goes back part-time for a period?

# SCENARIO 1

SARAH HAS THE NEXT 7 YEARS OFF WORK THEN RETURNS PART-TIME FOR 7 YEARS THEN GOES FULL-TIME

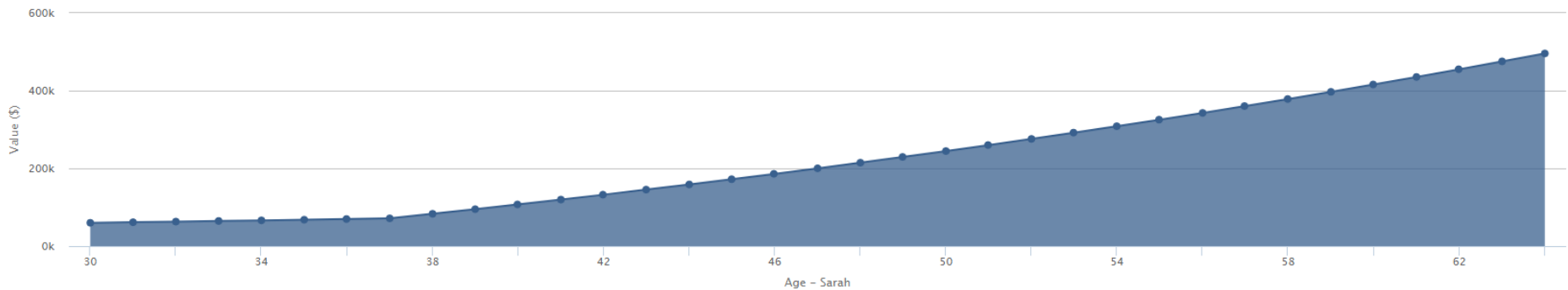
Sarah's balance at age 64 is estimated to be \$435,000



## SCENARIO 2

### SARAH HAS THE NEXT 7 YEARS OFF WORK THEN RETURNS FULL-TIME

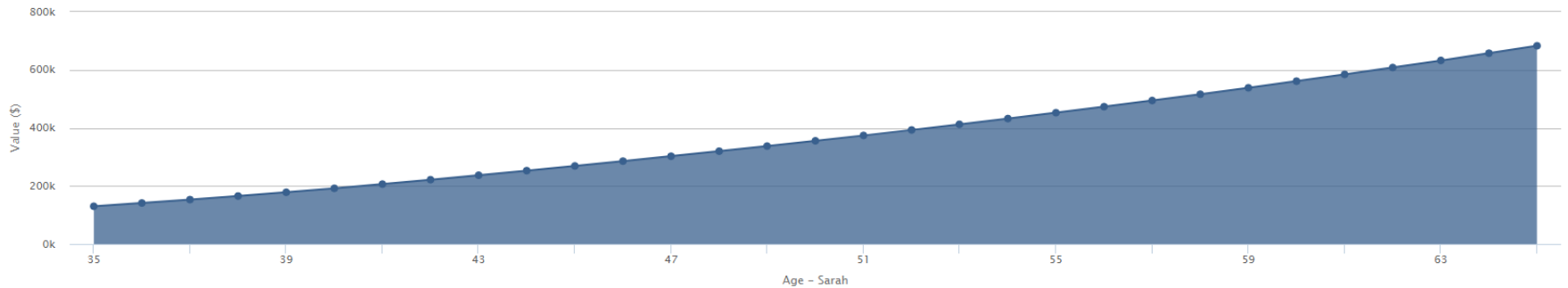
Sarah's balance at age 64 is estimated to be \$496,000



# SCENARIO 3

## SARAH RETURNS TO WORK FULL-TIME SHORTLY AFTER BIRTHS

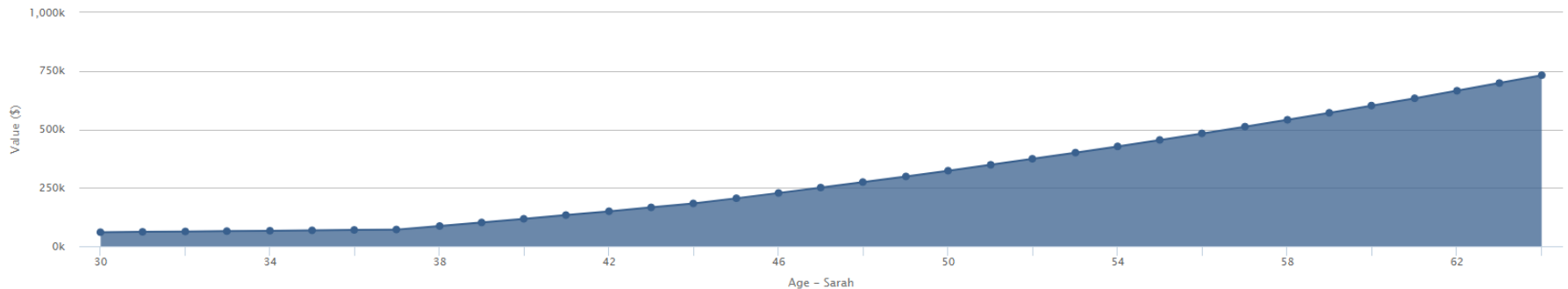
Sarah's balance at age 64 is estimated to be \$627,000



## SCENARIO 4

SARAH HAS THE NEXT 7 YEARS OFF WORK THEN RETURNS PART-TIME FOR 7 YEARS THEN FULL-TIME. ONCE SHE RETURNS SHE BEGINS CONTRIBUTING AN EXTRA \$10,000 P.A TO SUPER

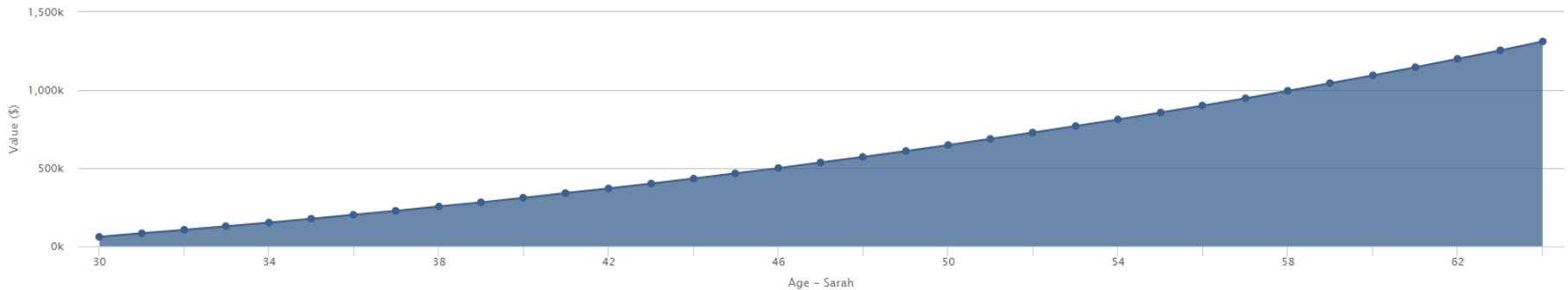
Sarah's balance at age 64 is estimated to be \$732,000



# SCENARIO 5

## SARAH RETURNS TO WORK FULL-TIME SHORTLY AFTER BIRTHS AND BEGINS CONTRIBUTING UP TO THE CONCESSIONAL CAP

Sarah's balance at age 64 is estimated to be **\$1,311,000**





**TO SUMMARISE**

**THERE ARE WAYS TO CATCH UP YOUR SUPER BALANCE**

Sarah Accumulated Superannuation

Value (\$)

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Age - Sarah



### 3) INVESTMENT SELECTION IS THE FINAL DECISION

#### EXPLORE DIFFERENT TYPES OF INVESTMENT;

- **Cash** (bank deposits, online high interest savings accounts, term deposits)
- **Fixed Interest** (Govt Bonds, Semi Govt Bonds, Corporate Bonds, Senior Secured Debt, Subordinated Debt, Hybrid Securities, etc)
- **Property** (REITs, Direct property - residential (unit/detached house), commercial, rural, retail, etc)
- **Shares** (listed companies or investments, ETFs, LICs, etc)
- **Alternative** (Unlisted, Infrastructure, Cryptocurrency, Derivatives, Venture Capital, Mezzanine Finance, Art, Private Equity, etc)
- **Own control** (hands on personal exertion - private company or direct investment, property development/renovation)

# REPAY DEBT - VS - INVESTING

If you have surplus cash flow but also have outstanding non-deductible debt, it may be better to pay off debt rather than invest.

For example, if you are earning \$90,000 p.a. (marginal tax rate of 39% incl Medicare) with a non-deductible mortgage at an interest rate of 4.10% p.a. on your home loan, your investments would need to earn 6.72% p.a. on an investment to achieve a better return than paying down the mortgage.

*This can be calculated as follows;*

$$= \frac{\text{Interest Rate}}{(1 - \text{Marginal Tax Rate})}$$

$$= 4.10\% / (1 - 39\%)$$

**= 6.72% p.a. return required to be better off than repaying your non-deductible home loan.... But with investing, comes risk to achieve this return.**



## REPAY DEBT - VS - INVESTING

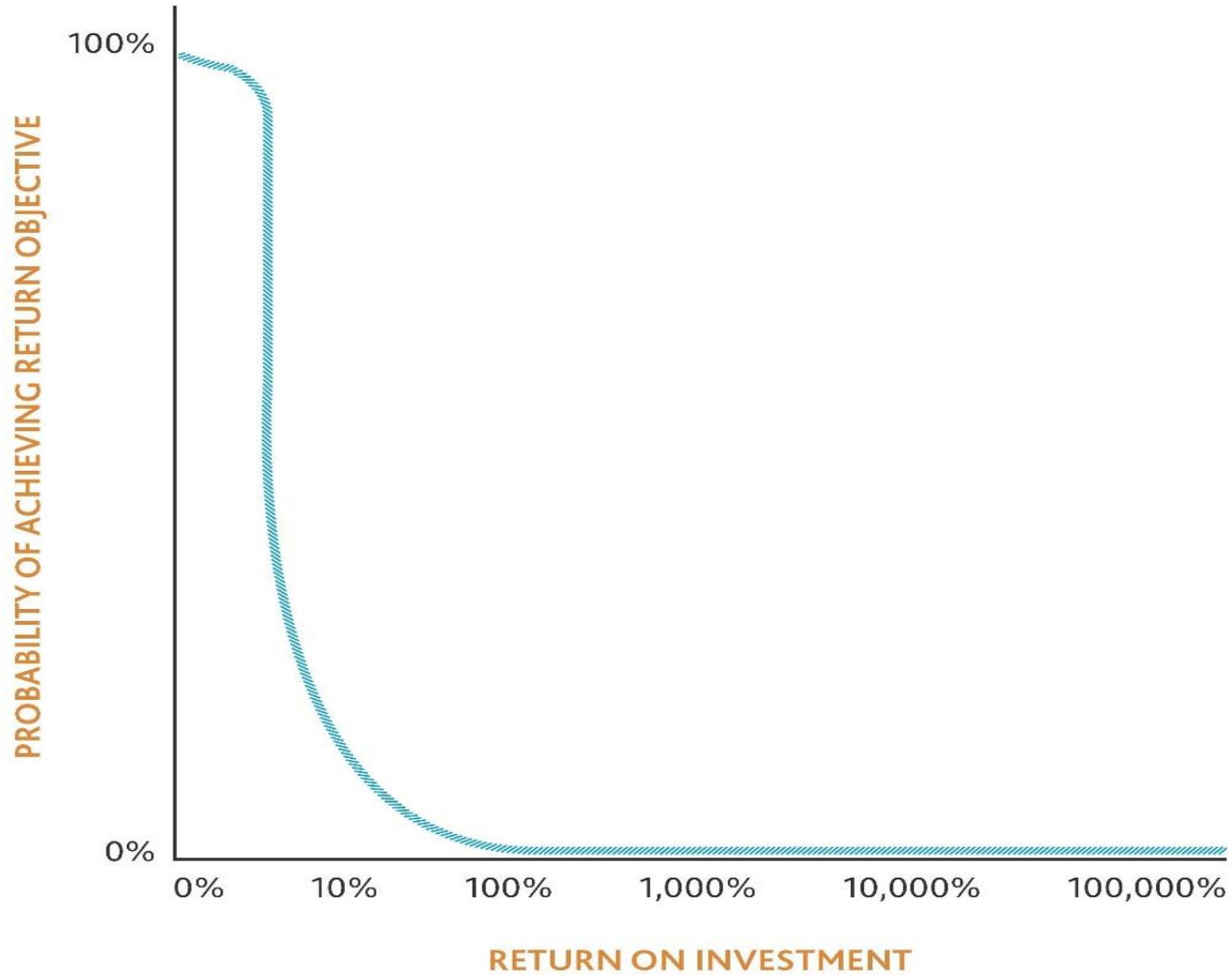
So what do you invest in  
to achieve a 6.72% return?

# ASSET CLASSES & INVESTMENT RETURNS

| Investment  | 10 year average return | 30 year average return |
|---|------------------------|------------------------|
| Cash AUD<br>(online savings account / term deposit)                                     | 3.4% p.a.              | 6.2% p.a.              |
| Australian Fixed Interest<br>(Bonds, corporate securities)                              | 6.1% p.a.              | 8.1% p.a.              |
| International Fixed Interest<br>(Bonds, corporate securities)                           | 6.9% p.a.              | 8.8% p.a.              |
| Australian Listed Property<br>(REITs - ASX traded property trusts)                      | 8.2% p.a.              | 9.9% p.a.              |
| International Listed Property<br>(REITs - overseas traded property trusts)              | 10.1% p.a.             | 10.5% p.a.             |
| Australian Listed Shares<br>(ASX stocks and listed securities)                          | 7.0% p.a.              | 9.8% p.a.              |
| International Listed Shares (Hedged)<br>(overseas listed equities AUD\$)                | 8.4% p.a.              | 8.0% p.a.              |
| International Listed Shares (Unhedged)<br>(overseas listed equities - currency exposed) | 10.0% p.a.             | 8.6% p.a.              |
| US Shares<br>(Listed US Equities)   | 13.9% p.a.             | 12.1% p.a.             |
| Australian Residential Property<br>(Residential housing Australia)                      | 8.1% p.a.**            |                        |
| Brisbane Residential Property<br>(Residential housing Brisbane)                         | 6.1% p.a.^             |                        |
| Privately Owned and Controlled Company<br>(Small business owner, practice owner, etc.)  | 10% - 20% p.a.?        |                        |

- The above are statistical average returns from various asset classes over a 10 and 30-year period for the financial year ended June each year up until 2018.
- \*\*Capital return for 10-years across Australia averaged 5.1% plus 3% gross rent avg.
- ^Capital return for 10-years across Brisbane averaged 2.1% plus 4% gross rent avg.
- Source: RP Data Corelogic, ABS, Vanguard Investments.

# DIMINISHING PROBABILITY OF RETURN



# CASE STUDY - EXAMPLE

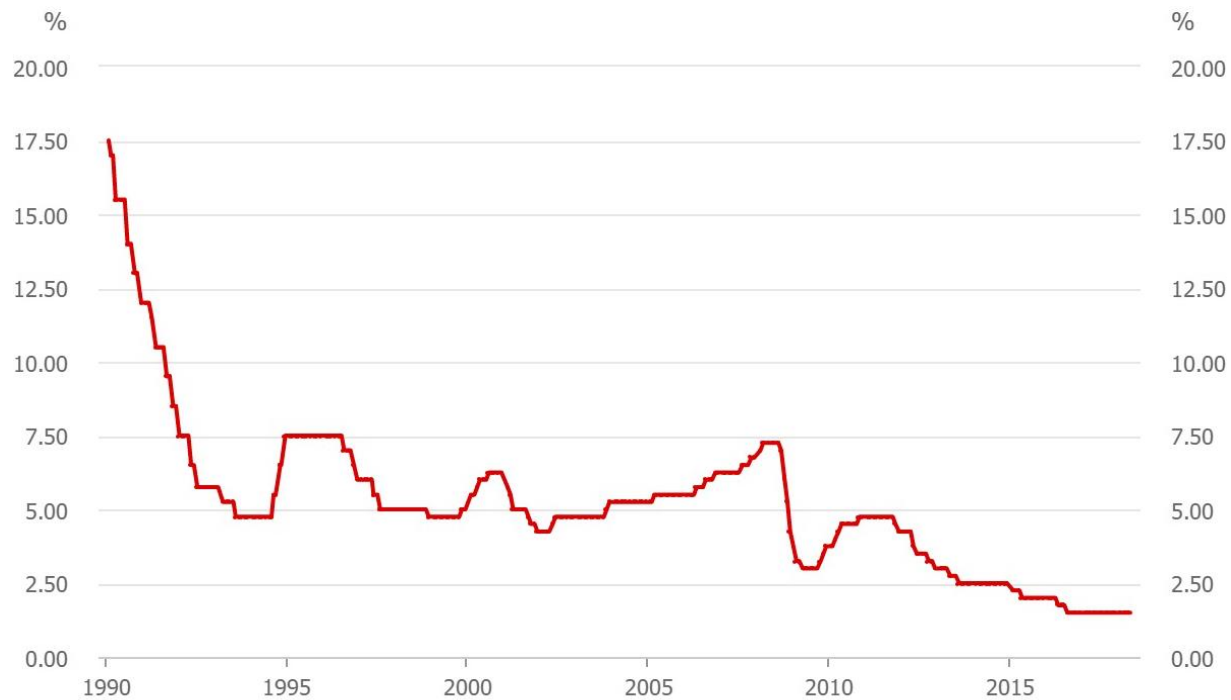
## PROPERTY CONSIDERATIONS

Without question, Australian property has been an excellent asset class for investment over the past 30 years. There are a number of factors that have contributed to the returns during this time:

- 12<sup>th</sup> December 1983 - Hawke/Keating Labor Govt floats off AUD\$; This leads to...
- Financial Deregulation = increased availability of credit (international banks enter the Australian market and Australian banks raise funds offshore).
- Change from single income to dual income households.
- Social change - decrease in number of children per household and delay in starting families (focus on career).
- Structural decline in interest rates (18% p.a. → 1.5%p.a. official RBA Cash Rate).
- Supply / Demand of housing = limited new land release and population increase.
- SMSF's and International buyers enter the market.
- Australian tax system incentives such as Negative Gearing.
- Australia has not had a recession since June 1991.
- The great Australian dream.

# CASE STUDY - EXAMPLE

## RBA CASH RATE



Source: RBA



## SPECIFIC AREAS WE CAN HELP WITH

- Big picture planning - education to understand = putting you in control.
- Cash flow / Budgeting
- Tax Returns
- Superannuation review
- Insurance advice
- Salary Packaging
- First Home Super Saver Scheme



# CASE STUDY EXAMPLE

## SARAH & SIMON

- Sarah & Simon are 30 years old and expecting their first child in July 2019 and planning on having a second child in July 2021.
- Sarah earns \$100,000 (plus super) and has a current super balance of \$60,000. Simon earns \$90,000 (plus super) and has a current super balance of \$50,000.
- They spend \$60,000 per year plus mortgage repayments.
- They have \$100,000 in cash and an existing mortgage of \$400,000 on their home with an interest rate of 4%.



# CASE STUDY EXAMPLE

## SARAH & SIMON

How would we help them?

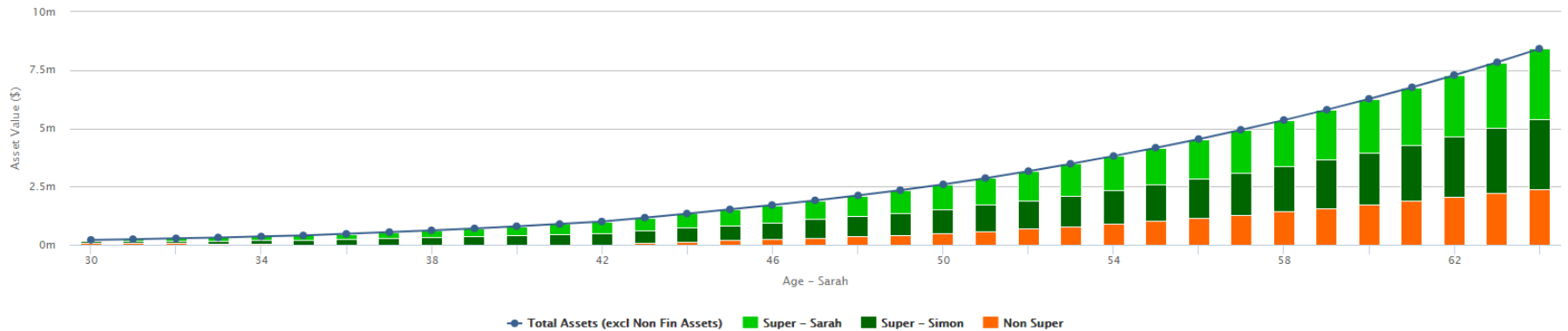
- Identify surplus cash flow and how to allocate and capture it effectively
- We monitor and maximize super contributions each year where possible
- Implement and manage an investment portfolio once the mortgage is repaid
- Ensure they are adequately insured
- Ensure their super funds are appropriate

# CASE STUDY EXAMPLE

## SARAH & SIMON

Ultimately, we show them what is achievable and set out a detailed plan to reach their goals.

The graph below shows an overall financial asset position at age 64 of \$3,636,000.



# CONTACT US



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