



Budget



+ wealth + security

# Booster

February 2012

## Wealth health check

Are you keeping your finances healthy by doing the right thing at the right time? Taking the best action at the optimum time can be crucial to your financial future.

### Accumulators (aged 25–45)

#### Start a monthly investment plan

- 'Pay yourself first' rather than create unrealistic budgets.
- Salary sacrifice into super while other financial obligations are low and stop when current needs are more important.
- Use any pay rises to fund your regular savings.
- Be clear about what you're saving for and the best structure and investment options for that.

#### Control debt

- Reduce unnecessary spending.
- Pay off the credit card, it's probably costing you more than 15% pa interest.
- Consider consolidating credit card debt into a personal loan and potentially paying less interest. If you do this, resist the temptation to accumulate more debt into your credit card.

#### Check out the government co-contribution

- If eligible you could get up to \$1,000 added to your super for free every year.

#### Consider using a mortgage offset account

- This could reduce your loan interest while giving you access to the cash if you need it.
- Make sure you have sufficient death, disability and income protection insurance.

### Builders/Pre-retirees (aged 45–65)

#### Stay cash flow positive

- Live within your means.
- Reduce the mortgage and other non-deductible debt such as credit cards and personal loans. This may free up cash flow for other investment opportunities.
- Consider part-time work for a non-working spouse.

#### Increase contributions to super

- At age 50, the concessional (pre-tax) contribution cap increases from \$25,000 to \$50,000.<sup>1</sup>
- Consider transferring non-super assets to super. You'll need to take into account any capital gains tax on the transfer and the super rules covering what assets you can transfer.

#### Split income where possible to save tax

- Consider investing money in the name of the spouse who pays the lowest tax.
- Consider splitting super contributions between spouses. Up to 85% of concessional contributions within the contribution cap, including Super Guarantee and salary sacrifice contributions, can be split.

## Look into a pre-retirement pension if you're aged 55 or more

- Consider salary sacrificing, and drawing down regular income from your super to replace the lost income – this saves tax and builds your super without affecting your cash flow.
- Make sure you have sufficient death, disability and income protection insurance. Also consider taking out trauma insurance.

### Retirees (aged 65+)

#### Ensure you don't run out of money

- Understand your plan for spending in retirement – set a budget for essential expenses and additional lifestyle expenses and how you'll fund each.
- Ask yourself if you've invested your assets too conservatively – maintaining and growing your capital today can help you provide the income you'll need in the future.
- Consider whether you need to downsize your home.
- Investigate how your income and assets affect your Centrelink benefits. Simple changes can help ensure that you maximise your total income.
- Consider setting up investments to help grandchildren with education costs, a deposit on their first home or an investment nest egg. You'll need to include this in your retirement spending or estate plan.
- Think about aged care now. When the time comes, decisions often have to be made very quickly, so plan ahead for which care options you'd like to use and how they'll be paid for.

#### Review your estate plan

- Consider a Non-Lapsing Death Benefit Nomination for your super or a reversionary beneficiary for your pension.
- Ensure your Wills and enduring power are in order.

<sup>1</sup> The increased concessional contribution cap applies until 30 June 2012. However, the Government has indicated that it plans to permanently increase the concessional contribution cap to \$50,000 for individuals who have total super balances below \$500,000 and are 50 years old or over.

This communication has been prepared on a general advice basis only. The information has not been prepared to take into account your specific objectives, needs and financial situation. The information may not be appropriate to your individual needs and you should seek advice from your financial adviser before making any investment decisions.

Source: Colonial First State

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