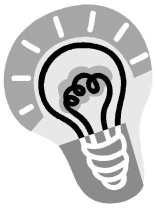
ADF Financial Services Consumer Council

YOUR MONEY AND YOU

During Career Financial Education Seminar
Version: April 2011

- This session is about independent financial education
  - no products
  - nothing to sell
- This session is not about personal advice
  - licensing laws

- None of this is rocket science.
- It's simply designed to make you think and act.



PROGRAM OUTLINE

- Personal Wealth Creation
- Financial Advisers
- Protecting your Assets
- Wrap Up – Your Checklist

PERSONAL WEALTH CREATION

HOW MUCH WILL YOU NEED IN RETIREMENT?

- Minimum incomes for a simple retirement:

	Single	Couple
Dec 2008	$36,600	$49,000
Sep 2010	$39,300	$53,700

Source: Westpac ASFA Retirement Standard

- But for you to maintain a standard of living that you desire, the minimum may be a lot more.

HOW MUCH WILL YOU NEED
IN RETIREMENT (cont'd)?

- What's your financial goal?
- Will your super and savings be enough?
- If you have no goal (most don't), this session should be a catalyst.
- If you do have one, this session might improve your position.

BUDGETING

- The foundation for everything.
- The need for financial discipline.
- Prepare a budget (you don't have to be an accountant).
- ADF Online Budget Planner:

CONTROLLING DEBT

- Financial institutions sell debt, some more responsibly than others
- Lessons from the recent past
  - Margin loans on shares and managed funds (eg Storm Financial)
  - Lenders increasing your debt levels (eg personal/car loans, home equity loans and credit cards)
  - Retailers' 'interest free' loan deals – no payments for 3 years

CONTROLLING DEBT (cont'd)

- Debt is not bad, just too much of it (especially on high-risk ventures and for non-growth assets).
- Have a fall-back position.
- Consider holding 3 – 6 months' worth of cash to cover disasters.

INVESTMENT CLASSES – **REAL ESTATE**

- Buy for the investment potential, not for the tax breaks
  - "Location, location, location"
- Understand negative gearing and its risks
- 'Guaranteed' real estate rental deals
- You can lose money on real estate, especially if you borrow too much

INVESTMENT CLASSES – **REAL ESTATE**

DEFENCE HOME OWNERSHIP ASISTANCE SCHEME

- Consider its suitability for you
  - switching costs
- Read website
  - www.dhoas.gov.au

INVESTMENT CLASSES – **SHARES**

- Can you beat ‘the index’?
- Should you actively manage, or just ‘set and forget’?
- The chances of beating ‘the index’ by active management over 10 years is 1 in 36.
- The odds on the ‘roulette wheel’ are 1 in 37.

INVESTMENT CLASSES – **SHARES** (cont’d)

- The chances are worse after tax and charges.
- An ‘optimum solution’ may be a solid (passive) foundation based on a long-term disciplined plan.
- Be aware of advisers over-promising when you seek advice.

INVESTMENT CLASSES – **CASH**

- ‘Cash’ isn’t always what it seems
- Distinguish:
  - Bank deposits
  - Debentures
  - Unsecured notes (mezzanine finance)

THE LURE OF THE ‘FAST DOLLAR’

- Nigerian / Eastern European email scams (one billion messages p.a., 10 Australian victims each week)
- Investing in a (franchise) business
- ‘Guaranteed’ systems (eg options trading)
- Learn more at www.accc.gov.au and www.asic.gov.au

RISK/REWARD RELATIONSHIP

- The Golden Rule: the higher the reward, the higher the risk.
- Lower the risk by:
  - Limiting borrowing
  - Diversifying your asset base
    (don’t put all your eggs in one basket)
- If any lesson came out of the GFC, this is it!

PERSONAL INSURANCE

- Group vs Individual contracts (note definitions)
  - Life / TPD / Trauma / Salary Continuance
- Don't stop a contract before you buy a new one
- How much cover should you have?
- Note exclusions affecting the ADF
  - War
  - 'War-like activity'
  - Notice of deployment
- Review by Australian Government Actuary

PERSONAL INSURANCE (cont'd)

	Defence Health	Navy Health	Defcredit	MyAdviser
Life Insurance	Asteron Term Life	Zurich Ezicover Term Life	n/a	n/a
Accident Insurance	AIG / Chartis Services Accident Insurance	AIG / Chartis Services Accident Insurance	AIG / Chartis Services Accident Insurance	AIG / Chartis Services Accident Insurance
☎	1800 335 425	1300 306 289	1800 033 139	(07) 5667 7543
💻	defencehealth.com.au	navyhealth.com.au	defcredit.com.au	mya.com.au

DO YOUR HOMEWORK

- Research your options
  - ratecity.com.au
  - infochoice.com.au
- Don't rush in without reading the fine print
- Don't be pressured into signing

FINANCIAL ADVISERS

BE SCEPTICAL

- Take advice, but be sceptical about the motives of advisers.
- Structural 'conflicts of interest' in the financial services industry.

THE INDUSTRY

- Understanding the industry – AFSL & reps
- Short course or university qualified (RG146, CFP, CA, CPA)?
- See www.fido.gov.au for licence holders
- Qualifications and licences – don't guarantee independence or knowledge

REMUNERATION

How do they get paid?

- Commissions
- Percentage of assets
- Bonuses
- Hourly rate / flat fee
- Trailing fees / commissions

WHAT DO THEY DO?

1. Investment advice ('best' returns)
2. Asset allocation / diversification (risk/reward)
3. Structures and strategies
   - Tax planning
   - Asset protection
   - Estate planning

If you don't get pts 2 and 3, you're dealing with a salesman – not a financial planner!

WANT TO LEARN MORE?

GETTING ADVICE

Video and e-Learning module:
www.adfconsumer.gov.au

PROTECTING YOUR ASSETS

THE LEGAL ISSUES

LEGAL DOCUMENTS

- Wills
  - Preparing
  - Updating
- Powers of Attorney
  - General
  - Enduring
- Getting professional assistance

NOW WHAT SHOULD I DO?

PUTTING EVERYTHING INTO PRACTICE

ADF Financial Services Consumer Council

FINANCIAL INFORMATION SERVICE

- Make an appointment with a FIS Officer
  - – Free financial education and information service
  - – Independent and confidential
  - – Helps people make informed financial & investment decisions, and to plan for the future
  - – Provides service by phone, interview or seminar
- Call FIS on 132 300, book into FIS seminars on 136 357
- More info at www.centrelink.gov.au

31 **www.adfconsumer.gov.au**

ADF Financial Services Consumer Council

WRAP UP

YOUR CHECKLIST

32 **www.adfconsumer.gov.au**

ADF Financial Services Consumer Council

YOUR CHECKLIST

1. Understand your superannuation entitlements
2. Conservatively manage debt
3. Conservatively minimise tax
4. Understand the risk/reward relationship (don’t be greedy)

33 **www.adfconsumer.gov.au**

ADF Financial Services Consumer Council

YOUR CHECKLIST (cont’d)

5. Control costs of investments
6. Have adequate insurance
7. Have a cash buffer for bad times
8. Do your homework and research your options
9. Get advice, but be sceptical
10. Understand conflicts of interest

34 **www.adfconsumer.gov.au**

ADF Financial Services Consumer Council

YOUR CHECKLIST (cont’d)

11. Keep your will up-to-date
12. Consider a Power of Attorney
13. Make an appointment with a FIS Officer
14. Have a budget/plan and exercise discipline

Online Budget Planner at 💻 www.adfconsumer.gov.au

35 **www.adfconsumer.gov.au**

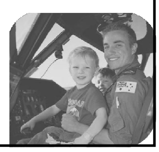
ADF Financial Services Consumer Council

YOUR MONEY AND YOU

✓We said it wasn’t rocket science, it’s just commonsense

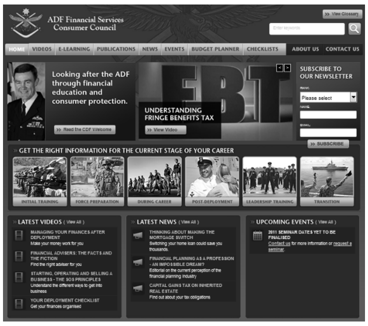
✓It helps you to sleep at night, not worrying about money

✓Living life for the things that really matter



36 **www.adfconsumer.gov.au**

ADF Financial Services Consumer Council



For more detailed information about these topics,
and if you'd like to sign up to our free eNewsletter, go to
www.adfconsumer.gov.au

37

ADF Financial Services Consumer Council

YOUR MONEY AND YOU

During Career Financial Education Seminar
Version: April 2011

38