



When starting a family, plan early

It is estimated to cost more than \$1 million to raise the average Australian family of 2.7 children up to age 24.¹

So the more financially prepared you are for the patter of tiny feet, the more you will be able to cope as they grow into their size 11 boots.

Preparation needs to start even before you are pregnant – private health insurance will not cover childbirth until a year after you have joined the fund.²

Once pregnancy occurs, you need to work out your current financial situation, how long you plan being away from work and how you can afford to live on only one salary.

At this stage, it is important to find out whether any insurance you have through your super will continue while you are on maternity leave and not making superannuation guarantee contributions.

It might also be a good idea to negotiate with your employer whether you can salary sacrifice the cost of childcare once you return to work.

Now that the family is growing– it is also appropriate to check if you have the right insurance cover, particularly if the sole breadwinner were to lose his or her job. Amending, or preparing your will is important too.

Of course there is government assistance for many Australians. Paid parental leave will provide \$606.50 a week before tax for up to 18 weeks any time in a child's first year.³

From January 2013 fathers and partners can claim two weeks' pay (\$1200 approx in total before tax) in parental leave for those earning less than \$150,000.⁴

Or you can take advantage of the baby bonus if your estimated combined taxable income is less than \$75,000 in the six months following the arrival of the child.

This entitles you to \$5,000 for your first baby, payable in 13 fortnightly instalments, \$846.20 for the first fortnight and \$346.15 a fortnight for the subsequent 12 fortnights. The bonus for the second child is proposed to reduce to \$3,000 from July this year.⁵

You cannot benefit from both schemes and it is generally accepted that paid parental leave is the better option.⁶

Note: to be eligible for a government payment, you must meet specific eligibility criteria.

Continued next page

1 'Bringing up baby is a maturing investment', 23 October 2011, The Sydney Morning Herald, <http://www.smh.com.au/money/planning/bringing-up-baby-is-a-maturing-investment-20111022-1mdqm.html>

2 'Waiting periods', Australian Government Private Health Insurance Ombudsman, viewed 14 December, <http://www.privatehealth.gov.au/healthinsurance/howitworks/waitingperiods.htm>

3 Maternity Leave Australia, viewed 14 December 2012 http://www.maternityleaveaustralia.com.au/payment_amounts_3.html

4 Misha Schubert, 'Parental leave to keep dads at home with newborns', The Sydney Morning Herald, 4 September 2011, viewed 3 December 2012, <http://www.smh.com.au/national/parental-leave-to-keep-new-dads-at-home-with-newborns-20110903-1jrhz.html>

5 'Baby bonus', Australian Government Department of Human Services, viewed 14 December 2012, http://www.humanservices.gov.au/customer/services/centrelink/baby-bonus?utm_id=10

6 'Having a baby', Australian Securities & Investments Commission, viewed 14 December 2012, <https://www.moneysmart.gov.au/tools-and-resources/life-events/having-a-baby>

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When starting a family, plan early continued

Education costs

After all the excitement of a new child, the next major hurdle is the cost of education.

Figures show that secondary school education will cost \$34,990 at a government school, \$121,244 at a Catholic school and \$272,522 at an independent school.⁷

Clearly, the sooner you prepare for these sorts of costs, the better. Multiply these costs by two or three children and it can increase substantially.

There are several ways you can put money away for your children's education, particularly as the money has a reasonably long investment horizon.

If you are on the top marginal tax rate, you may consider an insurance bond. Once you have held the bond for more than 10 years, it is capital gains tax free, although an internal tax rate of 30% is still applied to income (less imputation credits) earned throughout the investment period.

However, a managed fund that is structured to achieve a return adequate to meet education expenses as and when they fall due, generally provides more investment choice and overall flexibility.

Of course, should you have adequate savings on hand, you could pay for the education upfront, locking in current prices.

As well as the considerable fees, you need to consider all the extras – uniforms, excursions and extracurricular lessons.

A case in point

Lucy and James have two children aged two and five who they want to educate at a private secondary school. Assuming the cost is \$15,000 for years 7-9, \$20,000 for years 10 and 11 and \$25,000 for year 12, how much money would they need to cover the basic fees?

The couple went to a financial adviser to help put together a plan. The adviser calculated that to cover the cost, the couple would need to invest \$1,208 every month for the next 15 years with a seven per cent annual return.

While this may sound like a lot, it is comparable with lease payments on an upmarket car – and money spent on your children's future is a much better investment than money spent on a depreciating asset.

To achieve the seven per cent return, the money was invested in managed funds, split between the more conservative fixed interest and a growth fund investing in shares.



All the returns were reinvested in the funds, and every year the proportion would be rebalanced to continue to meet their risk profile.

With a plan now in place, the couple knew their children's education expense was secure and they would be able to provide them with a private secondary education.

Bringing up a child is certainly not cheap. But if you plan carefully, it will be one of the most rewarding investments in your life.

7 Lucinda Schmidt, 'Doing the sums – does a private education add up', The Sydney Morning Herald, 30 March 2012, viewed 13 December 2012 <http://www.smh.com.au/lifestyle/doing-the-sums--does-a-private-education-add-up-20120327-1vw9g.html>

How to invest a lump sum inheritance

Is the glass half full or half empty? There's no better example of that phrase than the call that greets vast numbers of Australians informing them they've received an inheritance.

While tempered by the loss of a loved one or close friend, a lump sum inheritance – be it in the form of money, property or other form of asset – can have a significant impact on your financial circumstances.

In contrast to the Hollywood view of inheritance – which would have you heading for the airport with a round the world ticket – your first move should be to sit down and take a deep breath and consider your options.

The receipt of an inheritance will often be accompanied by grief and high emotions so wait until you can make clear and practical decisions before spending or investing a cent.

In formulating a plan for your windfall, a common approach is to think about your short, medium and long-term goals.

For instance, you may decide to pay off a credit card and take a holiday (short term), make a few extra mortgage payments and plan for children's education (medium term) and invest for your retirement (long term).

At the point where you've formulated at least a basic strategy for your personal and family goals, it's time to seek expert opinion.

A financial adviser can help put your inheritance to work to make the most of your new situation and to help you achieve your goals.

Another consideration relates to the tax implications of your windfall. There is no inheritance tax in Australia (death duties were abolished in 1979) but assets acquired from the estate may become subject to capital gains tax once they are sold¹. To avoid any unwelcome calls from the ATO, you should consult an accountant about any tax issues.

For many Australians, advice from a real estate professional plus specialist legal advice will also be required.

The 2010 Bankwest Inherited Housing Report², revealed that a combination of rising property prices, an ageing population and high home ownership rates will combine to produce a 'perfect storm' with record intergenerational wealth transfer or inheritance.

Bankwest Retail CEO Vittoria Shortt said the report, based on ABS census data and life expectancy figures, showed that Australians are in line to inherit \$407 billion worth of housing assets over the next 15 years.



Family and friends can provide emotional support after the passing of a loved one. But financial experts help you make the most of the opportunities that come with a lump sum inheritance and effectively plan for your own future.

1 Managing the tax affairs of someone who has died, 7 December 2012, Australian Taxation Office, <http://www.ato.gov.au/individuals/content.aspx?doc=/content/31669.htm&pc=001/002/060/005/001&mnu=0&mfp=&st=>

2 2010 Bankwest Inherited Housing Report, 30 March 2010, <http://www.bankwest.com.au/media-centre/financial-indicator-series/bankwest-inherited-housing-report-2010-1269940011556>

Will you be eligible for the age pension



Close to 75 per cent of Australians over the age of 65 currently receive either a full or part government age pension. As the superannuation system matures and account balances grow, fewer people will rely solely on the age pension but most retirees will still qualify for some level of government support.

Even if you expect to be a self-funded retiree, chances are you could still qualify for a part age pension and other benefits.

Pension eligibility

The qualifying age for the age pension is 65 for men and currently 64 for women, rising to 65 by 2014. But this is set to change. The government plans to gradually increase the age to 67 for everyone over the next decade.

To be eligible for the pension you must meet certain criteria, including being an Australian citizen or a permanent resident for 10 years, at least five of them consecutive. Once you qualify, you may also be eligible for other benefits, such as rent assistance and the pension supplement to help with household bills.

How much can I get?

The maximum rate of the age pension for single retirees is currently \$772.60 a fortnight, including the pension supplement, and these rates are adjusted for the cost of living each March and September. Couples receive up to \$1,164.80 a fortnight combined, including the supplement.

The amount of age pension you actually receive will depend on whether you are single or part of a couple, your income and assets and whether

or not you own your own home. The assets test in particular is surprisingly generous.

Single retirees with their own home can earn up to \$1,697.20 a fortnight, have up to \$707,750 in assets and still receive a part pension. Couples can earn up to \$2,597.60 a fortnight and have assets of \$1,050,000!

Income and assets tests

When determining age pension eligibility, two tests are applied. Centrelink determines the pension based on the test that produces the lowest pension — either the assets test or income test.

The amount of pension you are entitled to reduces by 50 cents for every dollar of non-pension income you receive. This includes income from part-time work, certain superannuation pension income and deemed income from bank interest and other investments.

Single people can receive \$152 a fortnight before they begin to lose any pension, while couples can receive up to \$268 combined.

Your pension entitlement will also decrease by \$1.50 for every dollar of assets above a certain threshold. Assets include cash in the bank, superannuation and other investments, holiday homes, boats, caravans and household goods, all valued at current market price. Some assets are exempt, such as pre-paid funerals and asset test exempt (ATE) complying income streams, such as complying pensions and termallocated pensions (TAPs).

A single homeowner can have assets worth up to \$192,500 and receive a full age pension while couples can have up to \$273,000 combined. Non-homeowners can have even more – up to \$332,000 for singles and \$412,500 for couples.

Take the case of John and Carol

John and Carol are 67 and 65 respectively and are about to retire after working part-time in their business, which they sold a year ago.

They ask their financial adviser if they will be eligible for a part age pension or other benefits and concessions.

They own their own home worth \$780,000, they own their car which is worth \$15,000, they have a day-to-day bank account with \$5,000 in it and superannuation of \$510,000 combined.

Their adviser says they should be eligible for a part age pension of about \$786 a fortnight, as well as a Pensioner Concession Card.

John and Carol leave feeling more confident that they will be able to lead a fairly comfortable retirement.

Concession cards

If you are eligible for the age pension, you will also get a Pensioner Concession Card. This entitles you to reduced cost medicines and discounts on a wide range of goods and services, such as rates, energy bills, car registration and public transport, depending on the state or territory you live in.

States and territories also offer a Seniors Card to people over 60 who are no longer working full time. This entitles holders to discounts on anything from public transport to restaurants and lawn mowing. Just flash your card at service providers and ask what is on offer.

Self-funded retirees are not completely left out either. Single retirees with income below \$50,000, and couples with income below \$80,000, may be entitled to the Commonwealth Seniors Health Card. This provides discounts on prescribed medicines, health services and transport.

So the message is clear. Even if you think you don't qualify for the age pension it is worth setting aside some time to assess your financial position and to seek advice about what may be on offer.

1 Reforming the Age Pension, Rice Warner Touchstone Newsletter, August 2012, p. 5

2 Department of Human Services, 2012, viewed 12 December 2012, <http://www.humanservices.gov.au/customer/services/centrelink/age-pension>

3 Your Life Choices, 2012, viewed 12 December 2012, <http://www.yourlifechoices.com.au/news/how-do-i-know-which-concession-card-i-am-eligible-for>

No job is for life

In today's workplace, it is highly probable that you will face at least one career change. It might be a promotion within an existing organisation, a move to another industry or even loss of a job.

As people's circumstances change so can their work choices, you may change from full time to part time or move from a salaried position to being self-employed.

Of course, not every move is planned – illness and redundancy can take you on a whole new trajectory.

Planned or not, a job change or an unexpected loss can be financially risky unless you are prepared.

For example, if you are facing a pay cut, you need to know that your new salary will still be enough to meet any debt obligations – such as a mortgage – and your overall lifestyle needs. If it does not, then you may need to revise your budget and expectations.

If your setback is only temporary and you are likely to be earning more down the track, then have a plan in place to do something beneficial with any wage increase. If you did not need the extra money when you were earning less, it might be useful to talk to a financial adviser about where to invest any extra pay to help meet your longer-term goals.

Promotions may generally be accompanied by weightier increased salaries, they can also mean more stress and travel, which may take its toll on your health and ability to stay in the position as long as you had planned.

Generally paid by a company, hidden costs like travel time or parking can quickly detract from the prospect of more money.

A high salary almost certainly means paying more tax and putting more money into superannuation – two areas where specialist knowledge can make a substantial difference to long-term goals.

Professional advisers can also help with decisions such as whether to spend a bonus on a holiday, reduce the mortgage or put the money into superannuation.

Depending on how long you have been working, superannuation may well be your biggest financial asset. Just knowing how much you have put away and whether it is being invested with your retirement time-frame in mind, could make a difference to how long you continue in the workforce.



Working with a financial planner early – perhaps even before a change becomes inevitable – can help work establish long-term goals and how best to achieve them.

Small business and social media

It's taken less than a decade for the word 'like' to go from a passive compliment you might apply to a slice of cake to the cornerstone of the biggest social media revolution since the phone book.

Facebook and its social media relatives like Twitter, LinkedIn and YouTube are used by millions of Australians every day. However, these, and myriad of other forms of digital media tools, create unique challenges for small businesses attempting to build a marketing program with often limited resources.

A good place to start is the Australian Communications and Media Authority's digital media literacy research program, which provides essential information relating to digital media literacy levels in Australia.

CPA Australia social media manager Jillian Bowen then suggests businesses pose a series of simple questions before creating an effective digital media plan.¹

- What do I want to achieve?
- Why will this be more beneficial than other tactics?
- Who is my target audience?
- Where does my audience spend the most time?
- When will I fit this activity into my existing work schedule?

- What is my competition doing in the online space?

"The bigger the business, often the bigger the established audience. For a small or new business, the process of identifying and connecting with an audience is significant so it's an extra hurdle above and beyond the education, set-up process and ongoing management of their social media presence," Bowen said.

Director, Andrew Kent of B2B marketing consulting agency Green Hat, said digital media offered many advantages for the small business owner.

"Social media also has a lot to do with personality and personal representation. For a smaller business, the senior managers or founders are often an important part of the brand, so social media is a more natural fit for them," Kent said.

"But with B2C, you need to consider what sort of business you are and how people find you."

Certainly for services industries social media is most helpful for creating communities, giving companies another way to converse with customers and provide a better customer experience.



Erica Swallow from leading digital innovation website Mashable also advises that opportunities for small businesses go well beyond a Facebook status update.

"New tools are allowing small companies to efficiently mine data like the big boys; eCommerce on tablets is growing at a staggering rate while niche media properties like blogs and eBooks allow businesses to connect with their target audiences like never before," Swallow said.

Digital media may not have completely replaced the community noticeboard or Yellow Pages listing, but the opportunities have added some valuable weaponry to the marketing arsenal of the small business.

¹ Carly Greenwood, 'Social media strategies for small business', 23 August 2012, ITB Digital, viewed 13 December 2012, <http://www.itbdigital.com/opinion/2012/08/23/social-media-strategies-for-small-business/>