GEN X | Learning how to balance wealth building with a busy lifestyle

Struggle to juggle priorities

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LIFE has no bigger juggling act than the one performed by people aged in their 30s and 40s.

Children, ageing parents, the mortgage, credit cards, keeping up with the Joneses, careers and holidays all compete for the time and money of the so-called Generation X – people born between the mid-1960s and late 1970s.

With such a busy lifestyle today, it is easy to forget about building wealth to make tomorrow much more comfortable.

We asked South Australian financial experts for their tips and traps to help Generation X navigate their way to a wealthy middle age.

HAVE A PLAN

KeyInvest managing director Ian Campbell said the 30s and 40s was a time of wealth accumulation: "When smart savings and investment strategies can make a major difference when retirement finally comes around".

"A key tip for Generation Xers is to set the financial foundations now for the long-term future. Although retirement may not be in front of mind for many, the money invested now can bring outstanding benefits 20 or 30 years down the track," he said.

"It is critical to prepare a weekly household budget and stick to it. This will allow you to prioritise your spending and allocate a proportion of your household income to investment and savings."

Smartline Blackwood mortgage adviser Cathy Anderson said the family spending plan did not have to be "mean".

"Make sure there is some breathing space in there for things like gifts and take-away coffee a couple of times a week," she said.

"With many families in this age group having both partners working, what can often work well is to have the larger salary allocated to paying the bills and the home loan. With the second salary, half can go to living expenses with the second half earmarked for saving and investing, or accelerating debt reduction."

BUY A HOUSE

Nothing can build wealth as easily and as passively as owning your own home. When Adelaide's median house price was $123,000 in 1999, almost nobody predicted it would be $350,000 in 2009. Gains in the value of your home are tax-free, and while there are likely to be ups and downs in the future, history has shown that house prices always rise over time.

"Those who still haven't purchased their first home would do well to enter the market early this year, particularly with the First Home Owners Grant and low interest rates," Zobel Modbury manager Nick Foale said.

"For those looking to expand as the kids come along, it's a great time to be looking at mid-to-top-end properties as the market levels out," he said.

MAKE YOUR HOME LOAN DISAPPEAR

Homeowners can take advantage of recent interest rate cuts by maintaining their existing repayment levels, which will shave years and tens of thousands of dollars off a typical mortgage.

Repaying the home loan faster also frees up equity in the home which can be used for investing.

NAB state general manager retail banking Ann-Marie Chamberlain said making extra repayments also built a buffer for when children arrived and the family's income dropped.

"The more voluntary repayments you can make in advance, the further ahead you will be when it's time to take maternity leave," she said.

"If you're far enough in front, this may give you the flexibility to lower your repayments for a period of time while you're living on one income."

INVEST NOW

Whether its shares, a rental property, managed fund or their own business, most people only become wealthy when they invest in assets other than their home.

"If you have equity in your home, think about whether you want to use that to create future wealth," Ms Chamberlain said.

"It's worth seeking advice from a financial planner who can help you to navigate the investment landscape. The key is not to leave wealth creation until the last minute, but to plan it well in advance," she said.

Zobel's Mr Foale said in terms of shares, there were some "excellent cost-effective options currently on the market, particulary in the banking and mining areas".

"As with everything, do your research first," he said.

SUPER STRATEGIES

Superannuation is the most tax-effective way to save for retirement, and once you get there it is even better, thanks to the Federal Government last year making withdrawals tax-free for those aged over 60.

Co-contributions, spouse contributions and salary sacrifice are among the terms and strategies people should educate themselves about, said financial strategist Theo Marinis.

"Contribute bonuses to your superannuation – you won't miss them now, but they will generate great returns for you by the time you retire," he said.

CHILD COSTS

Education can be the mother of all expenses, particulary for parents of children who attend private schools.

South Australian Secondary Principals Association president Jim Davies said some parents spent much of their life savings to send their children to an independent school.

"On average, the cost to put your child through an independent school is around $12,000 a year in fees. Over a 13-year education period, this amounts to a massive $156,000," he said.

An alternative was public schools, where fees ranged from $300 to $900 a year, he said.

KeyInvest's Mr Campbell said there were products available to help parents save.

"The importance of a child's education cannot be overstated and Generation Xers can begin saving for this from the moment their child is born. Putting money away when children are still young for other likely life events further down the track, such as weddings or their first home deposit, can reduce the financial strain in later years," he said.

A JOB FOR LIFE?

Mr Marinis said a potential trap was assuming you would remain employed until age 65.

"Big corporations in particular tend to make older people redundant, damaging a lot of retirement savings plans," he said.

People who aim to be financially secure by their 50s, rather than their 60s, will see working in their later years as a luxury instead of a necessity.

DON'T DIVORCE

Apart from the emotional pain of a marriage break-up, the financial effects can be disastrous.

Mr Marinis said divorce dramatically increased the chances of poverty in retirement.

Wealth For Life principal Rex Whitford said divorce was the biggest trap for generation X. "Having spent so much effort in building up assets, to see half disappear and have to effectively start again can be an unrecoverable situation," he said. "While there are some very good reasons why some people separate or divorce, in many cases the best financial advice would be to get professional marriage counselling to determine if there is any way forward."

MANAGE RISKS

Life and disability insurance and income protection cover are vital for people who have a family and don't want them to suffer financially should disaster strike.

On the financial side, Ord Minnett private client adviser James Scott-Young said people should consider risk management as much as asset acquisition.

"They need to set gearing limits, diversify their entire asset base, acquire quality investments regularly in small chunks, and ensure their household has a cash flow that can weather the worst case scenario," he said.

GOOD ADVICE: Accountant and relationship manager Rod Norris. Picture: SARAH REED

Wipe out home loan debt

FOR accountant Rod Norris, last year's superannuation and investment returns were not a nice set of numbers.

Like most Australians, his super fund has a significant proportion invested in Australian shares, which in 2008 incurred their heaviest falls in history.

The Hood Sweeney relationship manager, 44, is one of the earliest Generation X members.

Mr Norris said while he still had plenty of time for his retirement savings to recover, he felt for those about to retire who have watched their nest egg shrink rapidly.

"I haven't panicked. I haven't sold anything. I'm just looking for some bargains," he said.

"Given past share market history, you have to be confident that it will recover." Mr Norris said poor super and investment returns had been offset a little by falling interest rates, petrol costs and rising property prices. "So there's pluses and minuses in everything," he said.

His top tip for Generation X is to wipe out the home loan. "As soon as you have paid off the home loan debt, life is a lot easier," he said.