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2019 - Time to get it all sorted

By Theo Marinis

Welcome to 2019. No doubt for you, as it did for me, last year passed by in about five months! Time does indeed seem to fly with age – but with the New Year comes the time to get our finances right.

Step 1: Stop procrastinating

My old boss used to say "If you can measure it, you can manage it". There has never been a better time to get a real budget in place. Once you know where your money goes you are in a position to make some hard decisions.

Most of us have a hunch about where the money 'tip' is located – more often than not it will be the weekender, the boat or the overseas holidays. It is also time to challenge these expenses.

An airline pilot friend told me proudly his Tasmanian weekender only cost him $2,000 pa; "Where could I get a family holiday for six weeks a year for that amount?"

What he is not considering is that he has owned it for 15 years, and during that time it has increased in value by just $100,000. If he had invested $250,000 over 15 years at a conservative 5.0% pa, he could have rented a place at the same beach for $1,000 per week at today's prices.

Over 15 years, therefore, he has paid just short of $100,000 for the family break… of course, there are sentimental reasons to consider, but the financial argument ***against*** the 'shack' are compelling.

Consider an alternative investment – for example, had that $250,000 been invested for the same period in a 65/35 growth/defensive portfolio, he would have achieved **$755,354** (based on an average annual return over 15 years of 7.65%)*.

Similarly, boats are a money 'tip'. Consider immediate depreciation of 30% (from day one when you drive away from the marina) – plus the maintenance, fuel, mooring/storage and registration fees etc. I am aware that one of my clients estimates the annual costs for his 'gin palace are $25,000 before depreciation.

Another subscribes to a marine club and gets ten days on a boat per year for a cost of $12,000 – with no depreciation.

Overseas holidays, particularly to Europe or Scandinavia, are outrageously expensive. Australia has ski fields, as does New Zealand. Vietnam, Thailand and Indonesia are cost effective destinations – or perhaps, consider a holiday in Australia and save a fortune.

**Vanguard Growth Index Fund since inception return from 20/11/2002 = 7.65% pa – source:*
https://www.vanguardinvestments.com.au/adviser/adv/investments/product.html#/fundDetail/wholesale/portId=8133/assetCode=balanced/?performance

Step Two: Get a plan – and follow it

Building and following a financial plan going solo is almost impossible. It is a bit like going to the gym without a personal trainer – most of us give up pretty quickly.

Choose a competent financial adviser with a track record; look for someone a little younger than you are, preferably someone who is prepared to share their own financials.

Make sure you are allocating $25,000 pa into super for you and your partner as tax deductible (Concessional) super contributions. If you have extra cash, you can also contribute up to $100,000 pa as further non-tax-deductible (Non-Concessional) super contributions each, BUT don't forget the individual Transfer Balance Cap of $1.6million. (Get your adviser to supervise this so you don't inadvertently create a problem for yourself.)

Part of the plan should include 'risk' protection

Life insurance is arguably the most boring topic in the world – unless you need it. And it is not just about dying. How will the family survive with you in rehab and no income coming in?

Income protection and Trauma insurance is very important – and often overlooked.

As for 'Death' insurance, $1,000,000 sounds like a nice figure… but at 5% return that's only $50,000 pa for the family to live on. Is that sufficient? (Probably not for many!) Bear in mind that the younger and healthier you are when you get insurance the cheaper it is.

Step Three: Plan to die.

Make sure your will is up to date. We are flawed creatures and doing it alone could leave an estate open to be contested, particularly where blended families are involved. My advice – always engage a professional in the drafting process.

Make sure you have a financial Power of Attorney and an Advance Care Directive (the new name for a medical Power of Attorney) in place. If you are retired, make sure your financial adviser has removed the risk of paying 'Death Benefits tax' on your remaining super balance. This is the only optional 17% tax of which I am aware, and a simple 'cash out and re-contribution' strategy will wash away this liability to your estate.

You should also spend time discussing your plan for the last quarter of your life with your family and loved ones. Euthanasia laws now apply in Victoria, and other states may follow. Whilst this may or may not be part of your plan, speak up to ensure that your wishes are carried out.

Step Four: Build your team

Get your financial adviser, your accountant and lawyer together in the same room. Explain to them what you and your family want in terms of wealth creation advice and protection. Ask them to work together under the leadership of your financial adviser.

This will cost you a reasonable amount, probably around $1,200 per hour, but the savings will be enormous.

Step Five: Educate yourself and your family

Invest the time and money in subscribing to good quality financial media – and share it with your loved ones.

Talk about money. Tell your young ones about your mistakes – and the learning that came with them. Don't just boast about the 15,000 Apple shares you bought thinking it was an orchard.

Step six: Prepare for the shocks

As part of your financial plan, you must have the expectation that the market will 'break' at least three times over the rest of your days. On average it tends to correct every seven years, but that is just a part of investing in growth assets and should not be feared. It is to be expected and planned for!

While the past is no predictor of the future, it does tell us that over the last 30 years the stock market has returned just below 10% per annum, despite the turmoil of the GFC, wars, elections and earthquakes.

My mantra? Get rich slowly – and stay rich.

Contribute to super, as soon as you – as much as you can - for as long as you can.

Protect yourself and your loved ones with reliable insurance - knowing full well that not having to lodge a claim is a far better win than having to do so!

If you are drawing an income from your super, build in a "Marinis Buffer" – a cash reserve based on the equivalent of two years' income requirements.

Take a balanced (or conservative) approach to investment returns so your portfolio can keep ticking away – even during the down times.

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