**SELLING YOUR HOME** AUCTION v PRIVATE SALE | **MORTGAGE BROKER SECRETS** WHAT THEY TELL THEIR CLIENTS | **STANDOUT STOCKS** NEXT 2 YEARS' PICKS

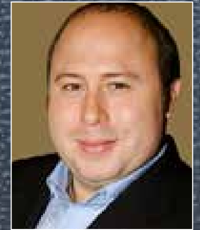
# Money

OCTOBER 2013 $7.50 ISSUE 161
www.finance.ninemsn.com.au /money-mag

**PAUL CLITHEROE** Build wealth pre-kids

**VITA PALESTRANT** Real cost of financial advice

**PLUS RATE YOUR SUPER FUND** **READER OFFER P98**



**GREG HOFFMAN** Time to take profits – stocks to sell

# RETIRE ON $60K A YEAR

## SMART STRATEGIES for 20s, 30s, 40s, 50s

**PLUS**

- **HEALTHCARE BOOM** RETURNS OF UP TO 53.5%
- **INVESTMENT PROPERTIES** BUY WITHOUT A DEPOSIT
- **PRECIOUS METALS** GOLD AND SILVER OUTLOOK

→ **EXCESSIVE SURCHARGES** THE BIG CREDIT CARD RORT

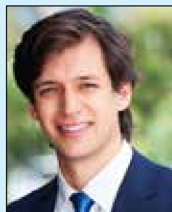
# FROM 20 TO 30: TIME IS ON YOUR SIDE

## PROFILE
25-year-old earning $50,000 a year. Average super balance for a 25-year-old man, $15,200; woman $13,200.

## SAVINGS NEEDED
$668,000 in today's dollars; $1,840,000 in 2055 dollars.

## HOW TO GET THERE
- Start contributing early.
- Make the most of low living costs if you're still at home and save.
- Set goals and save for them.
- Invest outside superannuation.
- Invest in your super fund's growth option as you have time on your side.
- Pay attention to the fund's insurance.
- Take advantage of the government's co-contribution if you take time out of the workforce. Watch for government changes to regulations and benefits.

## HOW TO MAKE IT LAST
- Make sure your super is in one place.
- Learn about investment markets to avoid making poor investment choices later in life.
- Monitor your plan regularly.
- Make adjustments to allow for changes in economic conditions.
- Invest in own name – $100,000 in cash, term deposits and bonds allowing easy access to capital.
- Take full advantage of age pension benefits.



**EXPERT**
**BRENDON VADE**

*Brendon Vade is financial adviser and self-managed superannuation fund expert with Edney Ryan Wealth Management, licensed by Hillross Financial Services.*

**RETIRING ON $60,000 A** year is not something most 20- to 30-year-olds think about. It is easy to put off getting on top of your finances and say "I don't have any finances to plan yet". For those people I have bad news – the principles of good financial management don't change very much, the stakes just get higher as you get older.

Actuaries Rice Warner say studies show the average super balance for a 25-year-old was $15,200 for men and $13,200 for women, at June 2012. This will grow substantially over 42 years as your employer makes contributions. You will be the generation to benefit from an increase in the superannuation guarantee from the current 9.25% to 12% by 2021.

These balances will grow to about $668,000 in today's dollars for someone on $50,000 a year (indexed). In theory, this should provide $60,000pa for about 19 years from the age of 67. This is based on a 7%pa investment return but, in reality, economics and investments do a very bad job of sticking to average assumptions.

So your investments need to be checked against your plan regularly and you will need to make adjustments to allow for changes in economic conditions.

You will probably need to contribute more at some point in the future, depending on your goals. If you start putting $25 a week away from the age of 25, it will only cost you $1300 a year or $13,000 over 10 years. By the time you reach 67, it will have grown to be worth $112,000. If you left putting extra into your superannuation until you turn 55 to save this amount, you would have to contribute $190 a week. So start early and it will compound and grow.

So what are some of the things a 20- to 30-year-old should be thinking about to get ahead of the curve? You need to build a solid financial platform to support you into a comfortable retirement.

## 1. Sort out your super

**Avoid these three big mistakes:**

- Having multiple funds. This simply allows them to be eaten up in fees and forgotten about. When you change jobs, make sure you either keep your current fund or roll over into a new one. An industry super fund can be a good place to start, while you may not need the extra features that come with more expensive funds.
- Investing inappropriately. Many people think super is an investment. This is not actually true. Super is a low-tax environment where investments are held, and you ultimately choose the investment option (whether actively or by default). A 20- to 30-year-old should consider investing 70%-100% in growth assets, as this has shown to have higher returns over a long period of time.
- Inappropriate insurance. Some people aren't aware that you can hold insurance through your super fund. In fact, many super funds automatically give you insurance when you join. The premiums will come out of your super fund and lower the balance over time. You need to check if you are holding a stack of life insurance you don't need.

**What about adding extra into super?**
If getting your employer to put more into super is a good way to stop you just spending it on a night out, go for it. If it were a choice between saving for a first home and putting extra into super, I'd say save for your first home. The big disadvantage of contributing extra money into super is you can't access it until retirement and there are plenty of financial hurdles that need to be jumped before then. You will need to save for a deposit, buy a home, pay off the loan, maybe raise a family, probably buy a bigger house, replace the hot water etc. I believe income at this stage is better saved directly for these purposes than being locked away in super. I also believe the psychology of setting a goal, saving for it and reaping the rewards is extremely powerful.

## 2. Spend wisely

Being able to control your personal cash flow is arguably the most important foundation in your financial life. Each time you get paid, it needs to be split between saving, spending, super, tax and giving (a personal view). Whether you earn $10,000 or $1 million, the discipline is just as important.

If you're living at home and working full time, make the most of the opportunity to save as much as you can. Invest the time into getting this right by attending a course to get equipped with great tips. If you're not sure where to start, CAP Money (www.capmoney.org) is a great short course on how to spend, save and budget. It's free and run around Australia.

GETTY IMAGES

**Good financial habits** can have big pay-offs later in life

### 3. Save and invest

The secret is getting good financial behaviour in place early. Such habits can have big pay-offs later in life and see you retiring comfortably with less stress along the way. Ways to get started include:

- Online saving account.
- Set up a first home saver account.
- Start a share portfolio. The low-cost, diversified SPDR S&P/ASX 200 (STW) exchange traded fund (ETF) is a good place to begin, or you could build a portfolio of individual blue-chip shares and reinvest the dividends.
- A small investment property if you can save a deposit.

**Shares**

Aim for quality blue-chip shares and reinvest the dividends. Rather than dreaming of making millions overnight, spend that energy researching good, stable companies. Alternatively, you can simply start with an ETF, the one mentioned above is like buying the top 200 companies in one share.

Contribute regularly. It sounds boring to just save regularly and build your portfolio over time, but it is the best way for a young person get started. Consistently adding and reinvesting dividends averages out the cost of the shares and reduces the risk of just buying at one time. The sharemarket can have some pretty dramatic ups and downs, but buying shares over time smooths out the ride.

When you need help, ask for it. Speak to someone who has sharemarket experience before launching into your first portfolio.

**Property**

Buying an investment property can ensure your free cash flow is put to work rather than just spent. There's nothing like a mortgage to pay to help you stick to the plan! As this is a much larger transaction, lots of time and research are needed to make sure you buy well.

Don't jump into something you can't afford because you think the opportunity won't come again. Surround yourself with older people with much more experience to help you keep a cool head.

Living at home can be a good way to start building equity in a place before you move out. Once you move out and the full cost of life sinks in, you'll wish you'd made the most of it. A friend of mine has done just that, saying that buying an apartment "fits in well with my lifestyle and means I can make the most of living at home".