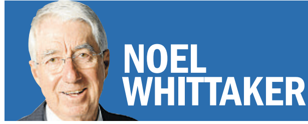
Make planner work for you



NOEL WHITTAKER

Three letters mean a lot when you are choosing a financial planner.

WHAT does "financial planning" make you think of? Anxious nights trying to make ends meet? Money disappearing into super with the promise you'll see it again in 20 years? The shonky advisers you've read about in the papers, who left their clients penniless?

It's not meant to be like that! Financial planning is about achieving goals at every stage of your life: buying your first home, living debt-free, and enjoying holidays without mortgaging your future. Yes, it's also about ensuring your superannuation is on track.

Knowing your needs, having goals and making plans are critical, but finance is a complex area, and a good financial planner has access to a wealth of knowledge that you don't. It's their job to help you make pragmatic, well-informed decisions, cut through emotional tangles about money, and help you adapt your strategies as things change.

So where do you start when choosing a financial planner and what should you expect from them?

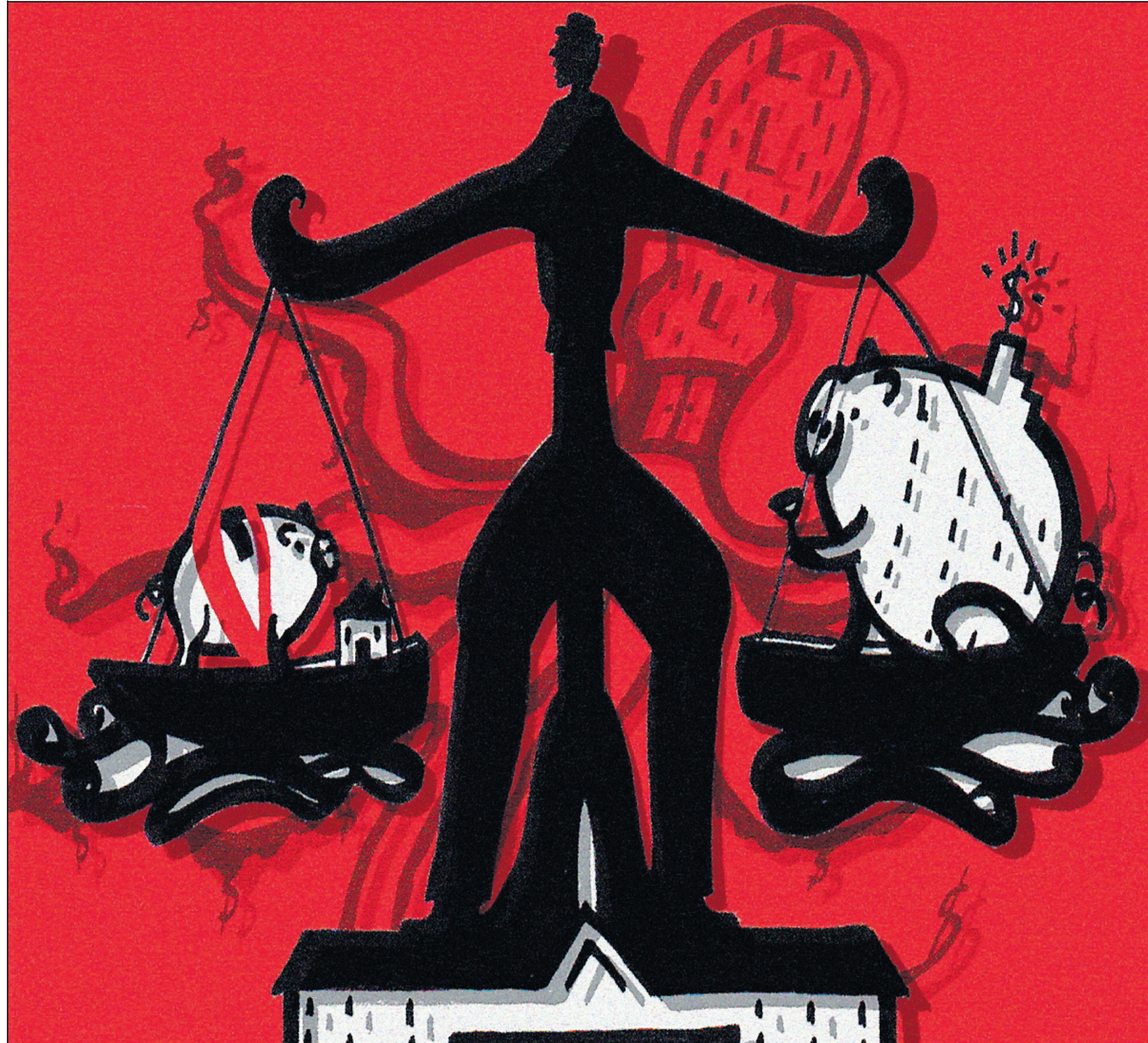
Step one: make sure that your planner is properly qualified.

Anyone can call themselves a "financial planner" – or a "wealth coach" for that matter – but you're looking for one who is highly qualified, experienced, ethical and up to date on legislative changes, aren't you?

For that, you need a planner who has the CERTIFIED FINANCIAL PLANNER® designation. Planners who have this designation – the highest level available – must meet ongoing competency, ethics and practice standards, meeting higher professional and ethical standards than those required by law. Look for the letters CFP® after their name.

Step two: set up an introductory meeting, and use it to make sure that you feel comfortable with your planner.

The relationship between you and your planner will be a very personal one. For it to work, you're going to need to talk to them not just about money, but about your goals, dreams and your family situation. It's a bit like choosing a doctor.



Financial planners should help you make well-informed decisions, cut through emotional tangles about money, and help you adapt your strategies as things change. *Illustration: Kerrie Leishman*

A good financial planner doesn't rush you – they listen carefully, take interest in your goals, needs and objectives, then clearly explain where they can add value and where they can't.

Alarm bells should start ringing if your planner:

- ■ Fails to take time to learn about your individual circumstances, needs and goals;
- ■ Is more interested in selling you a product than developing a strategy for you;
- ■ Promises you the world (that is, high returns and low risk) and tells you not to worry;
- ■ Avoids questions or withholds information; and
- ■ Is not clear about fees and charges, or their fees appear excessive.

An introductory meeting should be obligation-free. If you see any of the warning signs above, start again at step one.

Step three: make sure you are receiving good advice for your situation.

Ask: "How will you help me reach my goals?" The answer will quickly show you whether your planner is a good match. They should understand your goals and lifestyle, create a plan specifically suited to you, then clearly explain the plan before putting it into action.

It is your financial planner's responsibility to make clear recommendations and ensure that you fully understand their recommendations as well as the possible risks. If something isn't clear or you don't understand, ask.

Once you've agreed on your plan, you'll be given a statement of advice. This tells you who is covered by the advice (just you? your partner? children?) and includes the products and services suggested, with a clear explanation of why these were chosen and how they will benefit you.

It also explains the fees and charges that you will be paying, including the financial planner's fees, product fees, costs of switching products and all future costs. Make sure you take the time to understand these fees before agreeing to them.

Don't be intimidated to ask questions or take along this article. Remember, your financial planner's job is to help you achieve a better financial future. Don't settle for anything less.

Q My mother is 57, and recently widowed. My father's sudden passing has left her in a less than ideal financial position, and she has taken out a $155,000 fixed-rate mortgage on a home worth $277,000. She earns $104,000 a year, and has sufficient cashflow to repay the loan in eight years at $1000 per fortnight. Would it be preferable from a tax perspective for her to contribute as much as possible to super until age 65, then withdraw enough to pay out the loan, instead of repaying the loan over the next eight years? The current super balance is $100,000.

A The best strategy would be to salary sacrifice to the maximum, because such contributions lose just 15 per cent entry tax whereas money taken in hand by her loses 39 per cent when the Medicare levy is taken into account. At her age, lack of access is not an issue. Obviously you'd need to ensure that the return on her super was at least as good as she was paying on the mortgage.

Q Why must we draw down more super pension per month than we require? I have to take money from a super fund that is only 50 per cent assessable by Centrelink, then save the extra in a bank account where it earns less, and is 100 per cent assessable. I know government provided formulae must be used to calculate the minimum drawdown, but why must the result be that all our super will be gone by our late 80s? We want it to last until our mid 90s but seem unable to achieve this within the current rules. Is there any alternative?

A It appears that you have a Term Allocated Pension, or an Annuity. The reason these products were given preferential treatment by Centrelink is that they are extremely inflexible. Remember that superannuation is merely a structure that lets you hold money in a low tax area. If you invest your excess income into growth assets outside super, you may well find that the returns are higher than anything you may lose in respect of your age pension.

Noel Whittaker is the author of *Making Money Made Simple*. His advice is general and readers should seek their own professional advice before making decisions. Email: noelwhit@gmail.com.

Self-employed slip through super scheme cracks

By **CHRISTINE LONG**

IF you are self-employed, chances are you will have relatively little super savings or none at all; according to the Association of Superannuation Funds of Australia (ASFA), 29 per cent of self-employed people have no super.

That puts the self-employed in the same category as women, casual workers and Indigenous Australians – groups known to be slipping through the cracks in the super system.

Pauline Vamos, the association's chief executive, says one of its areas of greatest concern is those people who are not covered by the compulsory 9.5 per cent super guarantee system because they are treated as dependent contractors. According to the Productivity Commission, they represent about a quarter of the self-employed.

"The areas that concern us most are taxi drivers, the construction industry and some parts of the health industry," Vamos says.

There can be other reasons business owners are not saving for retirement via super, including a lack of confidence in the system.

Marion Mays, 44, is a Melbourne business owner who is choosing to bypass the super system. Instead, she is saving for her retirement by investing in property. Mays has about $40,000 in super from her days as an employee and contributes enough to maintain her personal insurance coverage.

"Even prior to the GFC [global financial crisis], not feeling secure with the constant, ever-changing government regulation around [super], I felt that it would be better to do something for myself . I decided to make direct property investments for myself outside of super."

Cashflow challenges can also mean retirement is the last thing on a business owner's mind.

"A lot of self-employed people, particularly early in the development of their business, they use every piece of cashflow to fund their business," says Vamos.

They may also be relying on their business as a retirement plan, either through its sale or as an income stream. However, many small businesses are based around the labour of the business owner. If the owner is no longer doing the hard yards,the business can be worth very little. Jonathan Philpot, wealth management partner with HLB Mann Judd, says: "It's actually very difficult to sell businesses. The succession planning that should be going on five years before the person exits the business often doesn't occur until the last 12 months."

He also points out that the system supports people receiving an income in retirement from super savings.

"Once you're over age 60, if you've got a fair amount of your wealth within a superannuation fund that's paying a pension it's virtually tax-free, whereas any other structure you're paying tax on it."

Plus, with business cycles becoming faster and faster by the time the owner retires, the business may no longer have the same value.

ASFA would like to see the self-employed – almost 10 per cent of the labour force – brought into the compulsory super guarantee system and has flagged the possibility of a scheme similar to the Medicare surcharge.

A surcharge would be payable by self-employed people unless they contributed a minimum amount of taxable income to super. It advocated transitional arrangements, such as an annually increasing percentage of taxable income to be contributed to super until it reached 12 per cent.

In the meantime, Philpot says it makes sense for the self-employed to make the most of super's tax advantages. The self-employed receive a full tax deduction for contributions made to super and those contributions, up to a certain point and before the age of 75, are concessionally taxed at the superannuation rate of 15 per cent.

"If the business is either paying tax at the corporate tax rate of 30 per cent or if you're taking out a higher salary or dividend from it, normally your personal tax rate would be much higher than the superannuation rate, so that's a potential tax saving that you're not benefitting from if you're not putting money in super each year."