

The value of advice for *thirty somethings*

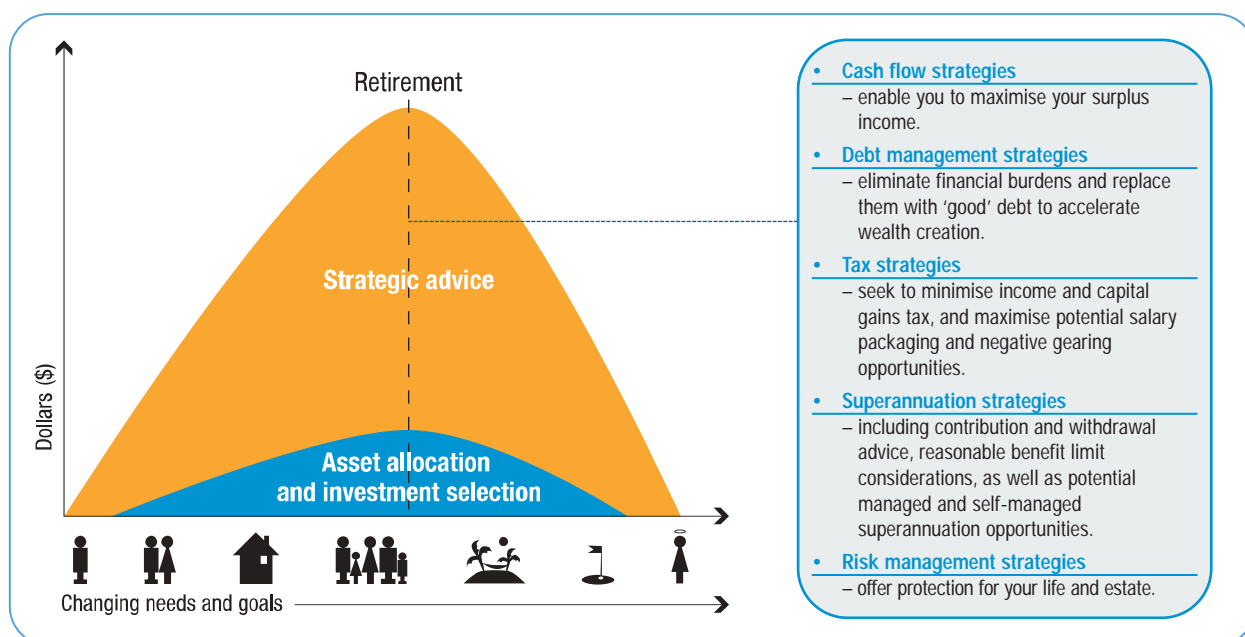


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When you're busy with a career or a young family, you probably find you scarcely have time to think about what's for dinner, let alone worry about securing your financial future.

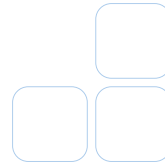
So why not let someone else do the homework for you?

Whether you've made a start – by buying a house or starting an investment portfolio – or you're just getting off the ground, a financial adviser can look at your circumstances and suggest ways to improve them. After all, you're never too young for good advice!



This diagram illustrates the importance of various elements of financial advice. Moving from left to right, it also shows how much these elements can contribute to achieving your goals during your life.

The initial financial plan is only the starting point. Your adviser can provide you with financial advice, monitoring, reviewing and coaching throughout your entire life. He or she can revisit your goals and your financial situation, and if required, recommend changes to your financial strategies.



Meet Scott and Amy

Scott is 39 and Amy 37. They're married, have a young family and see themselves as 'thirty somethings'. Scott works full-time and receives a salary of \$80,000 p.a., while Amy works part-time and earns \$25,000 p.a.

Scott and Amy have \$50,000 and \$15,000 in their respective employer superannuation funds. They have both selected 'balanced' portfolios and are receiving the minimum level of Superannuation Guarantee contributions (i.e. 9% of salary p.a.). Their super funds also provide life and TPD (total and permanent disability) insurance cover of three times their salary (including their accumulated super balance).

They have \$10,000 in a savings account and \$25,000 in a term deposit. Both of these accounts are in joint names. They own a home valued at \$450,000, however, they still owe \$150,000 on their home loan and the minimum repayment is \$1,348 per month for 15 years.

After meeting their living expenses, they have a surplus cashflow of \$20,000 p.a. (after tax).

	Scott	Amy
Salary	\$80,000 p.a.	\$25,000 p.a.
Ongoing super contributions (at 9% p.a.)	\$7,200 p.a.	\$2,250 p.a.
Superannuation account balance	\$50,000	\$15,000
Savings account (joint names)	\$10,000	
Term deposit (joint names)	\$25,000	
Home value (joint names)	\$450,000	
Home loan (joint names)	\$150,000	
Home loan repayments	\$1,348 (per month)	
Surplus cashflow (after living expenses)	\$20,000 p.a.	

Where do they want to be?

Scott and Amy have already built up some assets and decide to go to a financial adviser to see if their money could be working harder for them. However, the first thing their adviser does is to help them identify their lifestyle and financial goals.

After much discussion, Scott and Amy agree their primary goal is to be financially independent by the time their children leave home. In other words, they'd like to be in a position where they can live comfortably without having to work. With guidance from their adviser, they decide they will need investments worth approximately \$700,000 in 20 years time.

Along the way, they will also have some major expenses that need to be met. These include renovating their kitchen and bathroom (to suit their growing family) and replacing their car.

What	When	How much*
Renovate kitchen and bathroom	5 years	\$30,000
Replace car	10 years	\$20,000 (net of trade-in)
Financial independence	Commencing in 20 years	\$700,000

The table above summarises the goals Scott and Amy identified with their adviser.

* All figures are in today's dollars.

How will they get there?

In addition to helping them define their goals, Scott and Amy's adviser reviews their budget and assesses their current financial situation. Their adviser then recommends a range of clever strategies they hadn't even considered.

Initial advice

Home loan

They refinance their home loan into a facility that offers a 100% offset account.

Savings account

They transfer the \$10,000 into the offset account to save on interest and pay off their home loan quicker. Because the offset account has ATM, internet and cheque book access, they are still able to access their emergency cash at all times.

Term deposit

They redeem this account and use the \$25,000 to reduce their home loan to \$125,000. This strategy also delivers interest savings and enables them to eliminate their mortgage faster. What's more, the money can still be accessed via a 'redraw' facility to pay for the renovations and car.

Gearing

Scott borrows \$150,000 against the value of the family home, via a separate interest only investment loan. Because Scott pays tax at the highest marginal rate, he receives greater tax benefits from gearing than Amy. The borrowed money is invested in a diversified share portfolio (through an Investor Directed Portfolio Service ('IDPS'))*, comprising a mix of Australian and global shares. Scott uses the tax benefits (as well as income from the investment) to help pay the investment loan interest.

Income protection insurance

As Scott is the primary bread-winner (and because the investment loan is in his name), he takes out income protection insurance to replace up to 75% of his pre-tax income if he is unable to work due to illness or injury.

Superannuation

Both Scott and Amy switch their super into 'growth' portfolios within their employer's fund. With a higher exposure to shares and property, their super has the potential to work harder over the longer-term. Amy also makes personal after-tax super contributions totalling \$1,000 per annum, so she can qualify for a Government co-contribution of \$1,500 p.a.

Life and TPD insurance

Scott and Amy take out an additional \$500,000 and \$200,000 in life and TPD cover respectively to help ease the financial burden if either of them dies prematurely or suffers a total and permanent disability. This additional cover is taken out through their employer's superannuation funds.

Surplus cashflow

They use the balance of their surplus cashflow each month to pay off their home loan.

* An IDPS is an investment service that generally allows you to access a wide range of investment options and provides consolidated reporting on those investment options.

Ongoing advice

Scott and Amy also find that getting financial advice is not a one-off process. Their adviser reviews their goals and financial situation at least once a year and makes several ongoing recommendations.

Life and TPD insurance

Over time, they decrease the level of additional insurance cover as their home loan decreases and their superannuation account balances increase.

Home loan

They redraw money from their home loan to pay for the renovations (in year five) and the new car (in year ten). Despite these withdrawals, they still pay off their home loan in 13 years.

Emergency cash reserve

After repaying their home loan, they transfer their emergency cash reserve (\$10,000) into a 100% offset account linked to their investment loan to reduce their interest bill.

Superannuation

With their home loan paid off, Scott arranges with his employer to salary sacrifice \$2,500 per month (or \$30,000 p.a.) of his pre-tax salary into superannuation. These contributions commence in year 14 and are in addition to the Superannuation Guarantee contributions Scott's employer has to make on his behalf.

Surplus cash flow

Amy invests the remainder of their surplus cash flow in a balanced portfolio (through an IDPS). By accumulating assets in both names, Scott and Amy are able to split income tax-effectively in retirement.



Investment loan

At the end of year 20, Scott repays the investment loan of \$150,000. This is achieved by selling a sufficient portion of the diversified share portfolio to cover the loan and capital gains tax on the amount withdrawn.

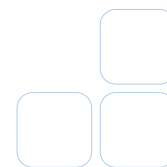
Diversified Share Portfolio

After repaying the investment loan, Scott retains the rest of the money in the diversified share portfolio.

Emergency cash reserve

They transfer the \$10,000 in the investment loan offset account into a cash management trust in Amy's name.

Where do they end up?



When we wind the clock forward 20 years, Scott and Amy have accumulated investments worth \$1,539,018. This takes into account the money they required for their renovations and new car, as well as additional insurance cover.

However, you need to keep in mind that a dollar in the future won't buy what it does today. After taking into account an inflation rate of 3% p.a., the value of their portfolio in today's dollars is actually \$852,117.

By following their adviser's recommendations, Scott and Amy have comfortably achieved their goal of accumulating \$700,000 (in today's dollars) by the time their children leave home. In other words, not only are they financially independent, they have additional money to fund their lifestyle.

With advice[∞]

Cash management trust (Amy)	\$10,000
Geared IDPS investment (Scott)	\$347,019*
IDPS investment (Amy)	\$130,366
Superannuation (Scott)	\$773,823
Superannuation (Amy)	\$277,810
Total	\$1,539,018
In today's dollars that's	\$852,117

[∞] Assumptions: The home loan and investment loan interest rates are 7% p.a. Scott's geared IDPS diversified share portfolio returns 8.5% p.a. (split 2% income and 6.5% growth). Scott selects a benefit period to age 65 and a waiting period of 12 months for his income protection insurance. Scott's and Amy's super earns 8% p.a. (split 2.5% income and 5.5% growth). Scott's salary sacrifice super contributions are increased by 3% each year and he is not subject to the superannuation surcharge. Amy's IDPS balanced portfolio returns 7.5% p.a. (split 3% income and 4.5% growth).

* This represents the balance of the geared IDPS investment after repaying the investment loan of \$150,000 and capital gains tax on the amount withdrawn.

Scott and Amy's DIY approach

Let's now wind the clock back and assume Scott and Amy decided they didn't need to see a financial adviser.

As a result, they make the following choices:

Superannuation

They make no additional contributions (above the 9% p.a. currently paid by their employer) and they retain their existing balanced portfolios.

Savings account

They keep this account to provide for their emergency cash needs.

Term deposit

They also keep this account and use it to save for their renovations and new car.

Home loan

They continue to repay \$1,348 per month so the loan is paid off in 15 years.

Surplus cashflow

They invest half their surplus cashflow in the existing term deposit and the rest in a balanced portfolio through an IDPS (in joint names).

Where do they end up (without advice)?

After completing their renovations and buying a new car, Scott and Amy have accumulated investments worth \$1,049,527. But remember we assumed an inflation rate of 3% p.a., so that means the value of their portfolio (in today's dollars) is only \$581,098.

By taking a DIY approach, Scott and Amy fall well short of the \$700,000 they need to achieve financial independence. Unless they decide to work longer to accumulate more assets, they may need to revise their lifestyle expectations.

Without advice[∞]

Savings account (joint)	\$12,691
Term deposit (joint)	\$133,865
IDPS investment (joint)	\$230,995
Superannuation (Scott)	\$513,267
Superannuation (Amy)	\$158,709
Total	\$1,049,527
But in today's dollars, that's only	\$581,098

[∞] Assumptions: Scott's and Amy's super earns 7.5% p.a. (split 3% income and 4.5% growth). The savings account earns 2% p.a. The term deposit earns 5% p.a. The home loan interest rate is 7% p.a. The IDPS balanced portfolio earns 7.5% p.a. (split 3% income and 4.5% growth). All distributions and interest are reinvested. Scott and Amy's salaries and living expenses increase at 3% p.a.

The value of advice

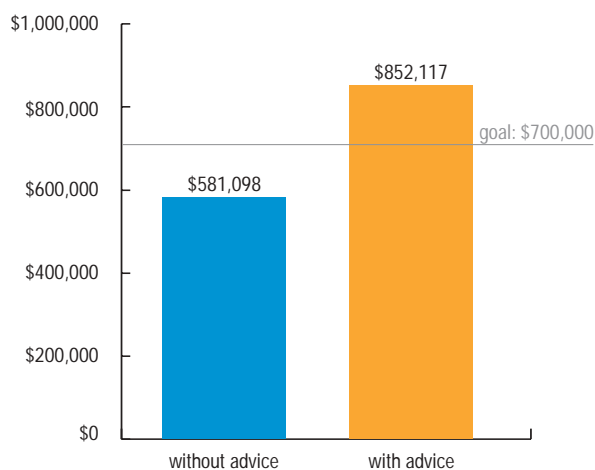
The case study in this brochure, which is illustrative only, demonstrates that a properly structured financial plan (coupled with ongoing advice) can be the difference between reaching your financial goals and falling well short.

In this example, Scott and Amy would have accumulated \$581,098 without advice compared to \$852,117 by following the strategic recommendations of their adviser.

In all likelihood, your situation is very different from Scott and Amy's, and the right advice for them is not necessarily the right advice for you.

If you really want to achieve your lifestyle and financial goals, you should probably get started now.

Value over 20 years[†]



[†] Assumptions: Salary, after-tax savings and pre-tax super contributions are indexed in line with inflation each year (3% p.a.). The overall level of franking on income is 20% for the balanced portfolio, 25% for the growth portfolio and 75% for the diversified share portfolio (Australian income only). Investment earnings are taxed each year (at marginal tax rates, except for superannuation which is taxed at 15%). Except for repaying the investment loan, Scott and Amy don't cash out their investments, so capital gains tax and lump sum taxes do not apply until the investments are actually realised.

How to Contact Us

MLC MasterKey Service Centre

For more information call the MasterKey Service Centre from anywhere in Australia on **132 652** or contact your adviser.

Website

For details on MLC's investment process, services and other investment options visit our website at **mlc.com.au**

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