

# Part 1: Wealth Accumulation Fundamentals

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# Agenda

- Reasons for wealth accumulation
- Budgeting issues and cash flow
- Debt Management
- Ownership structure
- Investment Strategy

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# Reasons for wealth accumulation

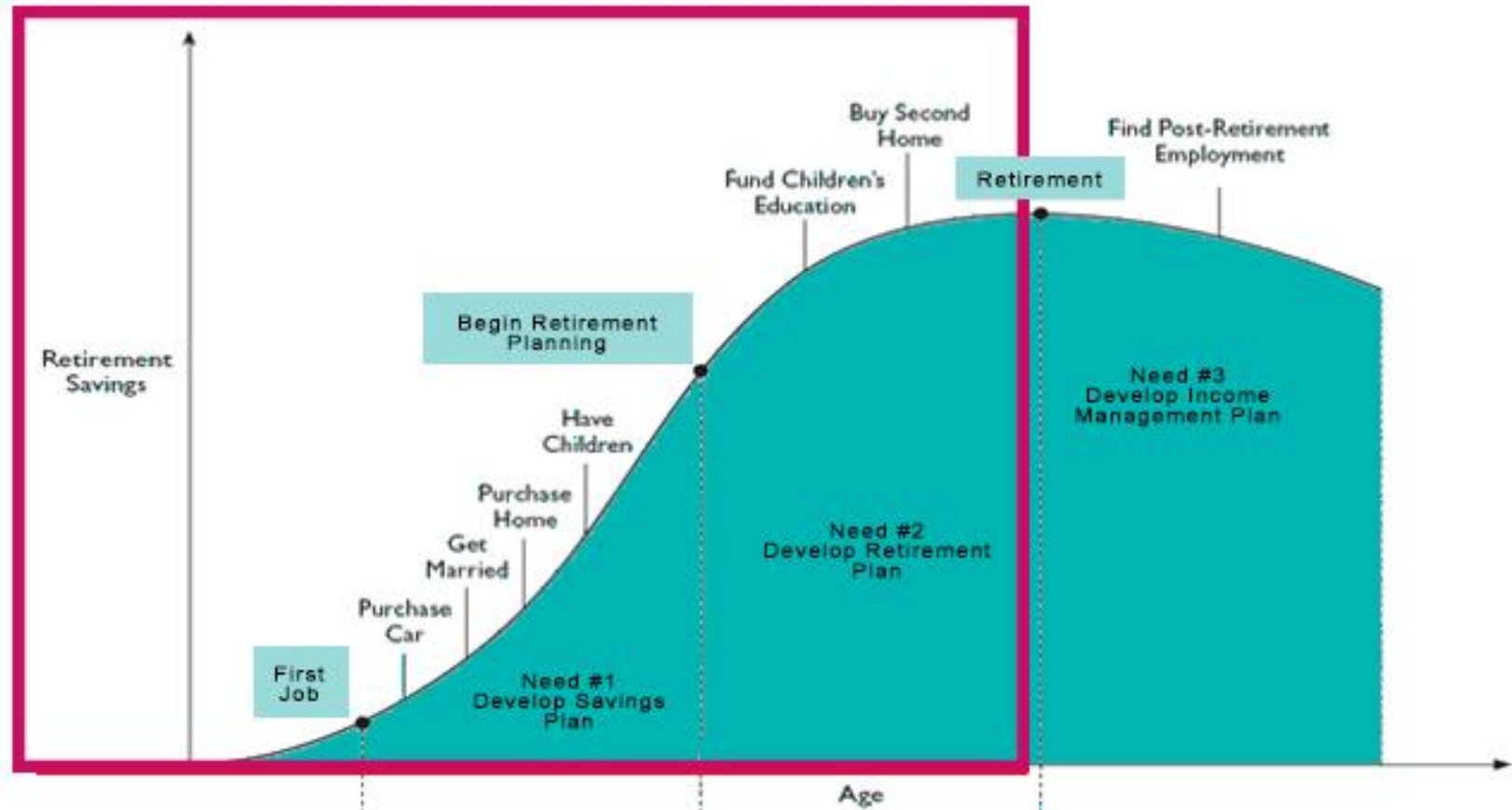
- Flexibility and control of own destiny
- Education funding
- Freedom
- Legacy/succession for family
- Passive income
- Self-funded retirement
- Philanthropy/charitable giving

# Reasons for Wealth Accumulation

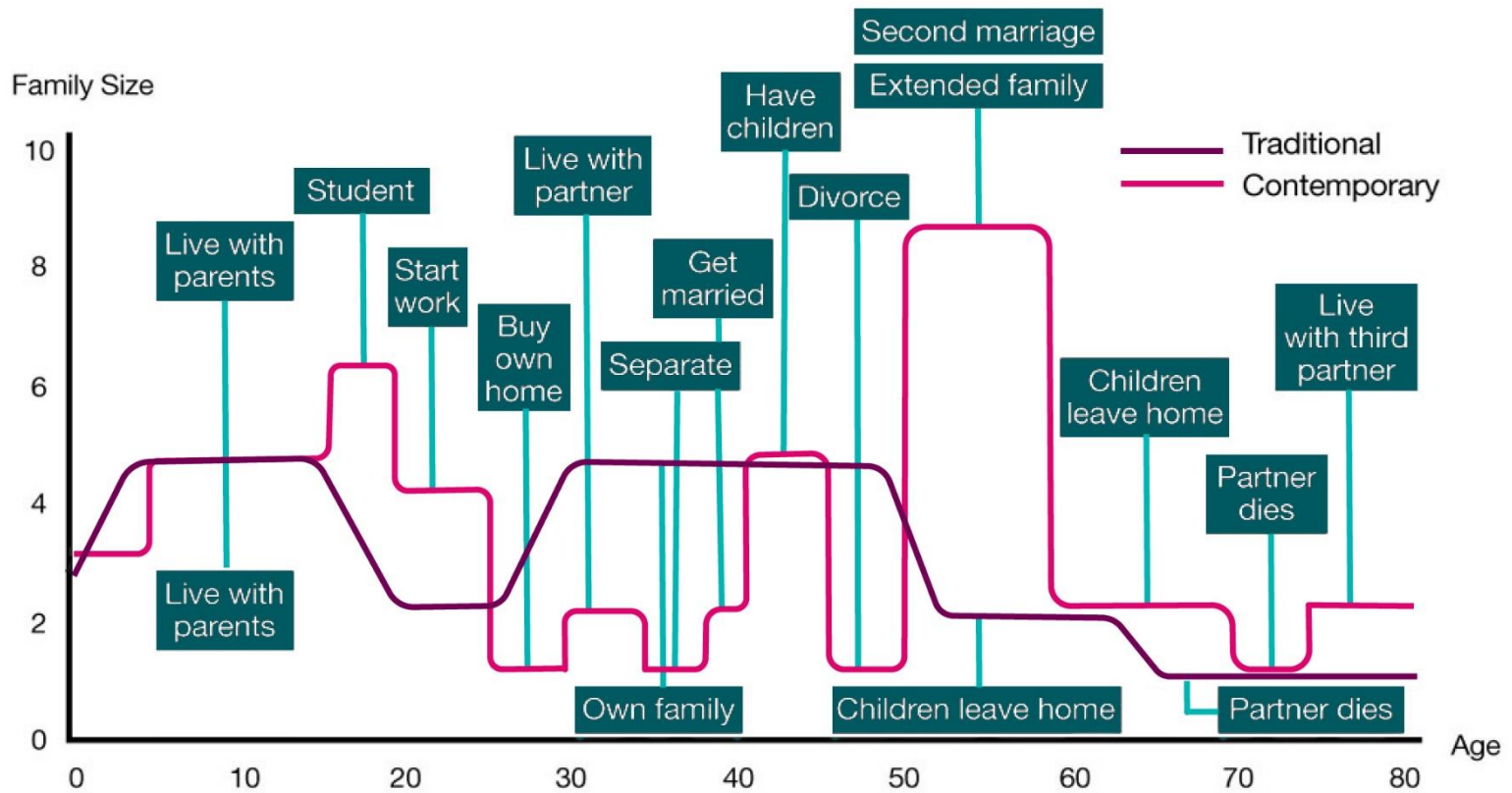
Key benefits of having a structured wealth plan in place:

1. Adapt to constant change
2. Discipline of budgeting
3. Keeping the cost of debt as low as possible
4. Investment strategy and ownership structure
5. Review the strategy regularly

# Reasons for wealth accumulation



# The life Cycle – Behavioural patterns





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# Budgeting issues and cashflow

- Making the most out of what you've got
- Provision for capital expenses
- Make important decisions today about your needs tomorrow



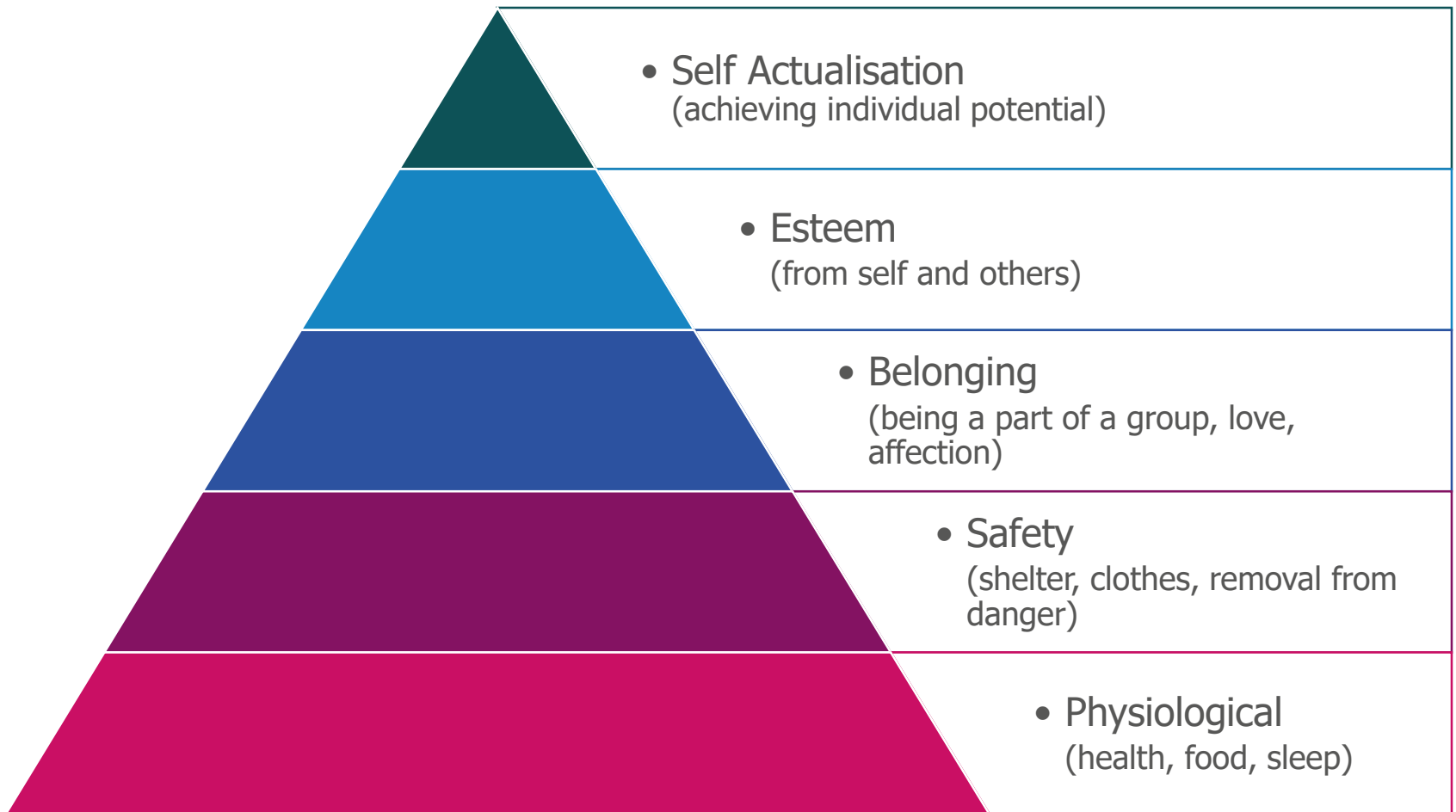
**Today**

**VS.**



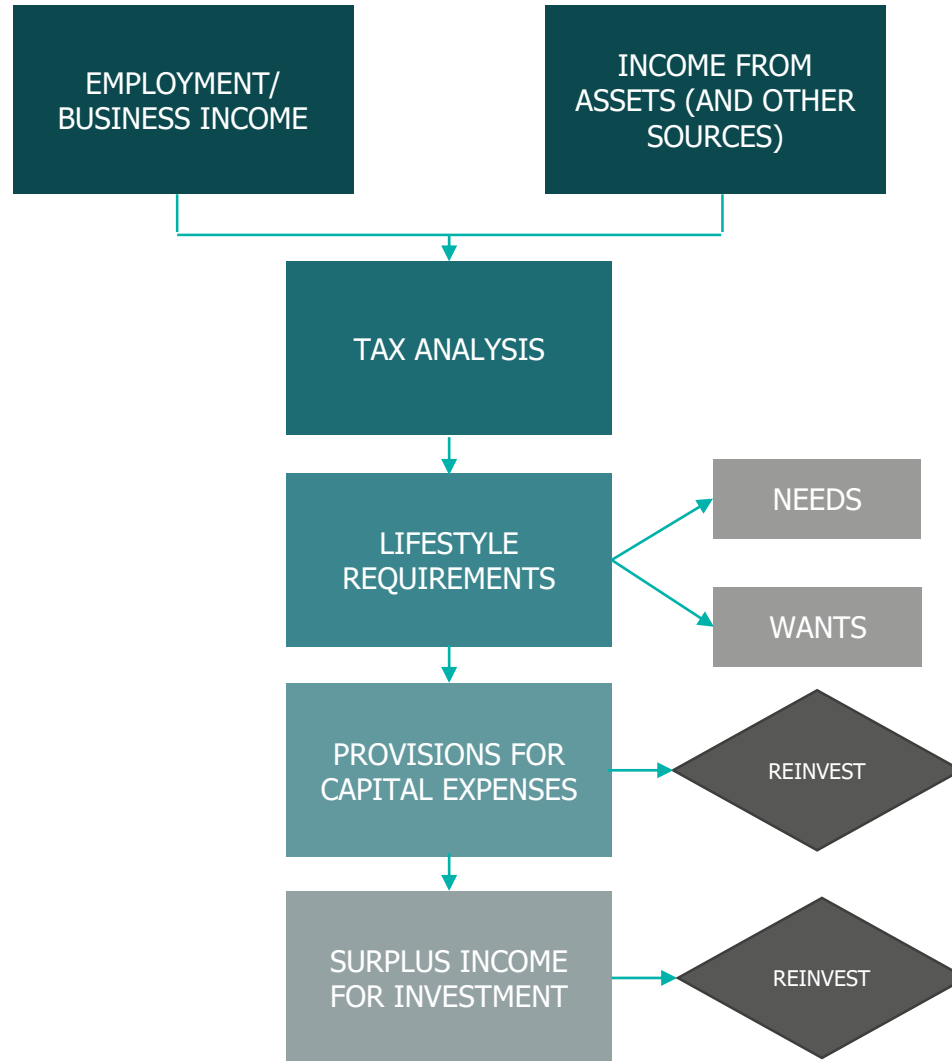
**Tomorrow**

# Budgeting issues and cashflow



Maslow Hierarchy of Needs

# Budgeting Process



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# Debt consolidation

## ■ Debt consolidation

- Consolidate debts into housing loan using any excess borrowing capacity
- Extinguish debts with higher interest rates

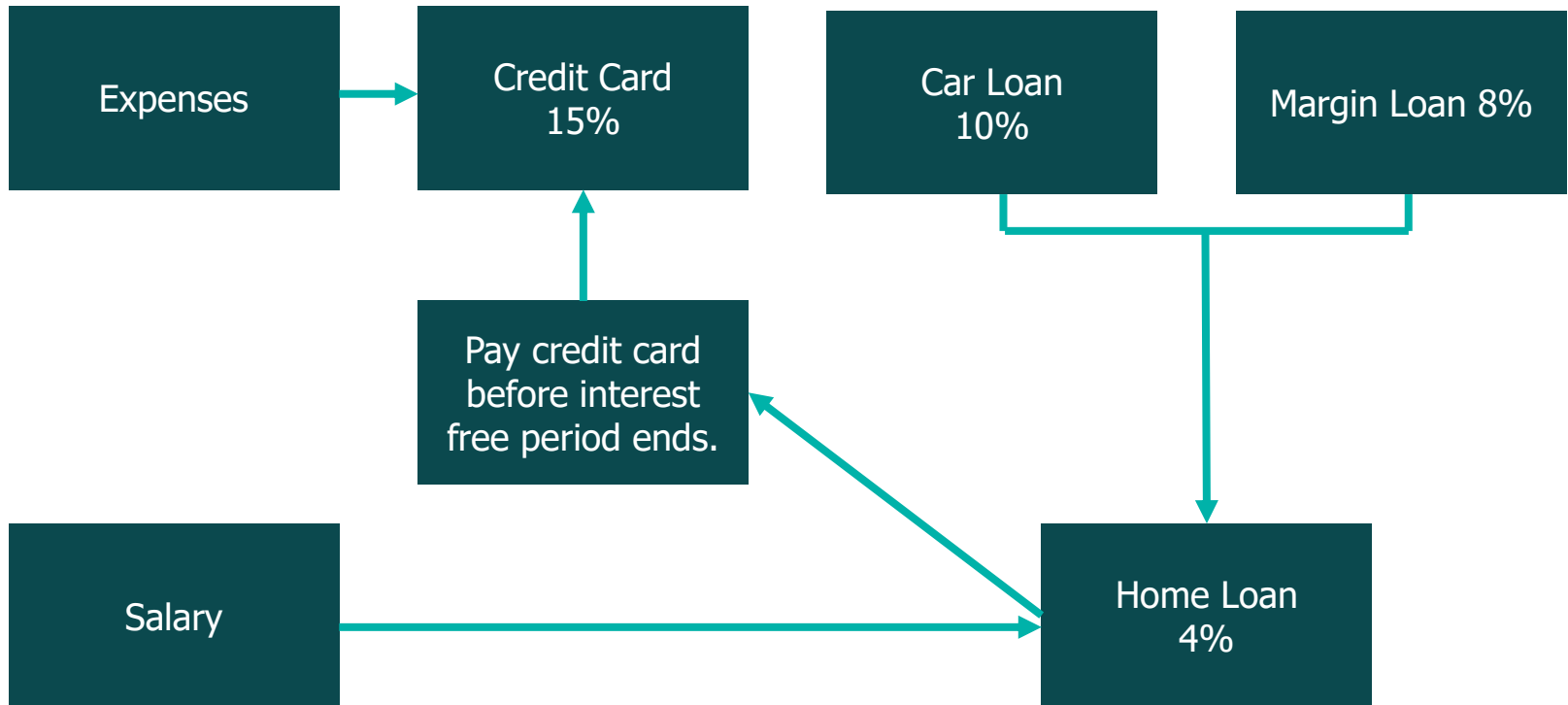
## ■ Advantages

- One loan with one payment
- Interest payable is lower
- Cashflow is freed – pay off debt quicker or finance new investment

## ■ Disadvantages

- Extending life of other loans
- Increasing borrowings on home – puts property at risk

# Debt consolidation



# Structuring debt

## The RBA Cash Rate is at a historic low



Source: RBA

## Resulting loan interest rates available to new lenders..

### Owner occupied loans (LVR <=80%)

*Variable*

Provider	Loan Balance	Repayment Type	Variable Rate	Comparison Rate
AMP Bank	>=\$250K	Principal & Interest	3.59%	3.70%

### Investment Loans (LVR <=80%)

*Variable*

Provider	Loan Balance	Repayment Type	Variable Rate	Comparison Rate
Bank of QLD	>=\$750K	Principal & Interest	3.74%	3.75%

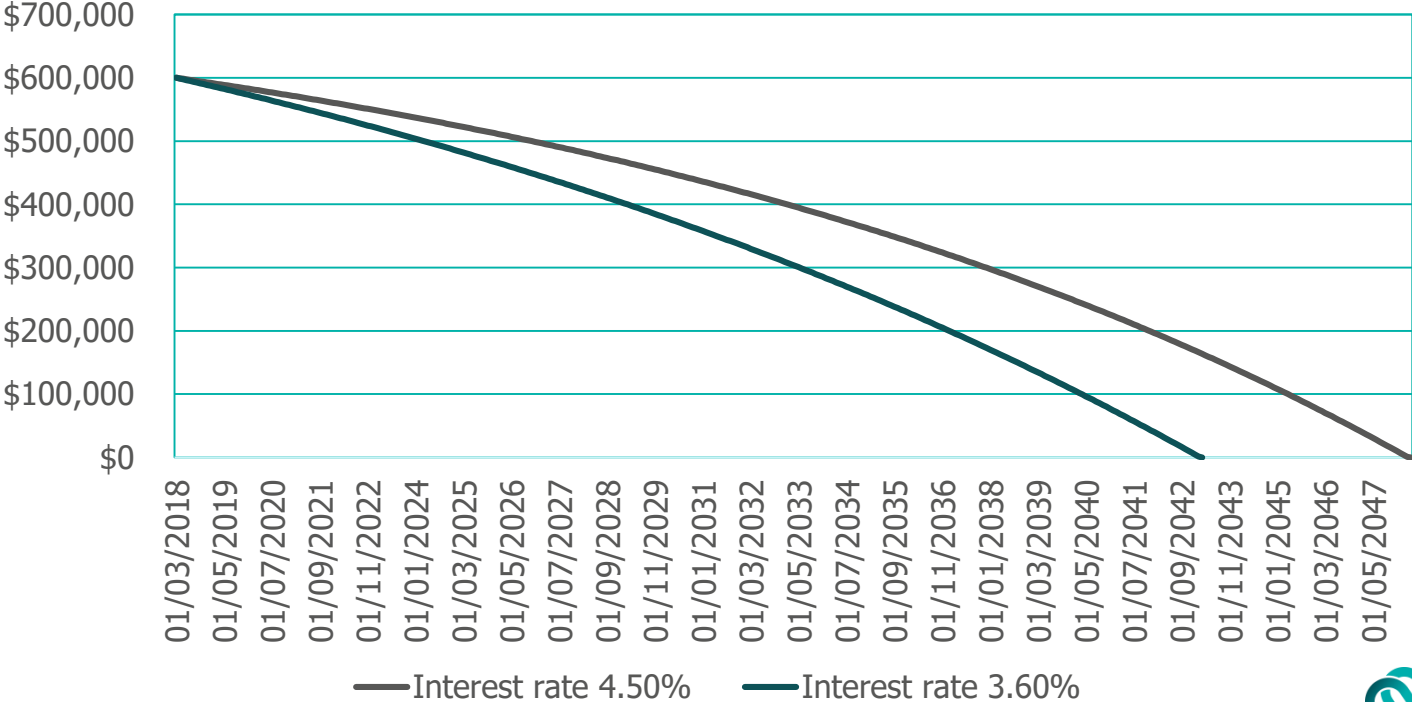


# Case Study

## Refinance Home Loan for 0.9%pa Saving

- Interest saving over 1 Year: **\$5,500**
- Interest saving over Life of the Loan: **\$184,000**

### Refinance Comparison



## Structuring debt – Other Issues

- Switch from interest-only to principle and interest repayments.
- Take advantage of mortgage offset accounts/ loan re-draw facilities.
- Switching your repayments from monthly to fortnightly.
- Reduce credit card limits and cancel unnecessary credit cards.
- Always make repayments on time and review your credit score regularly.

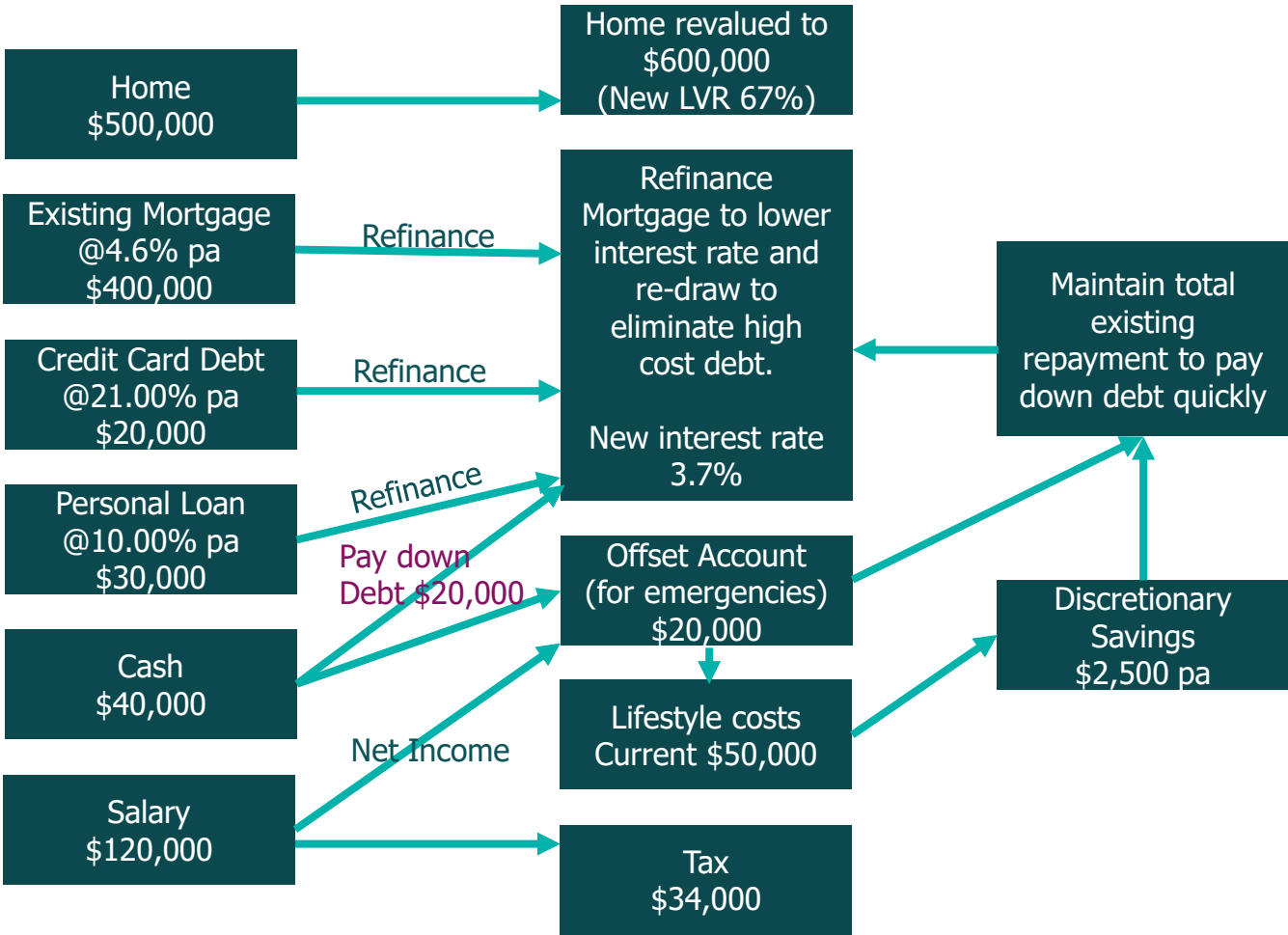
# Case Study: Bringing it all together

## Assumptions:

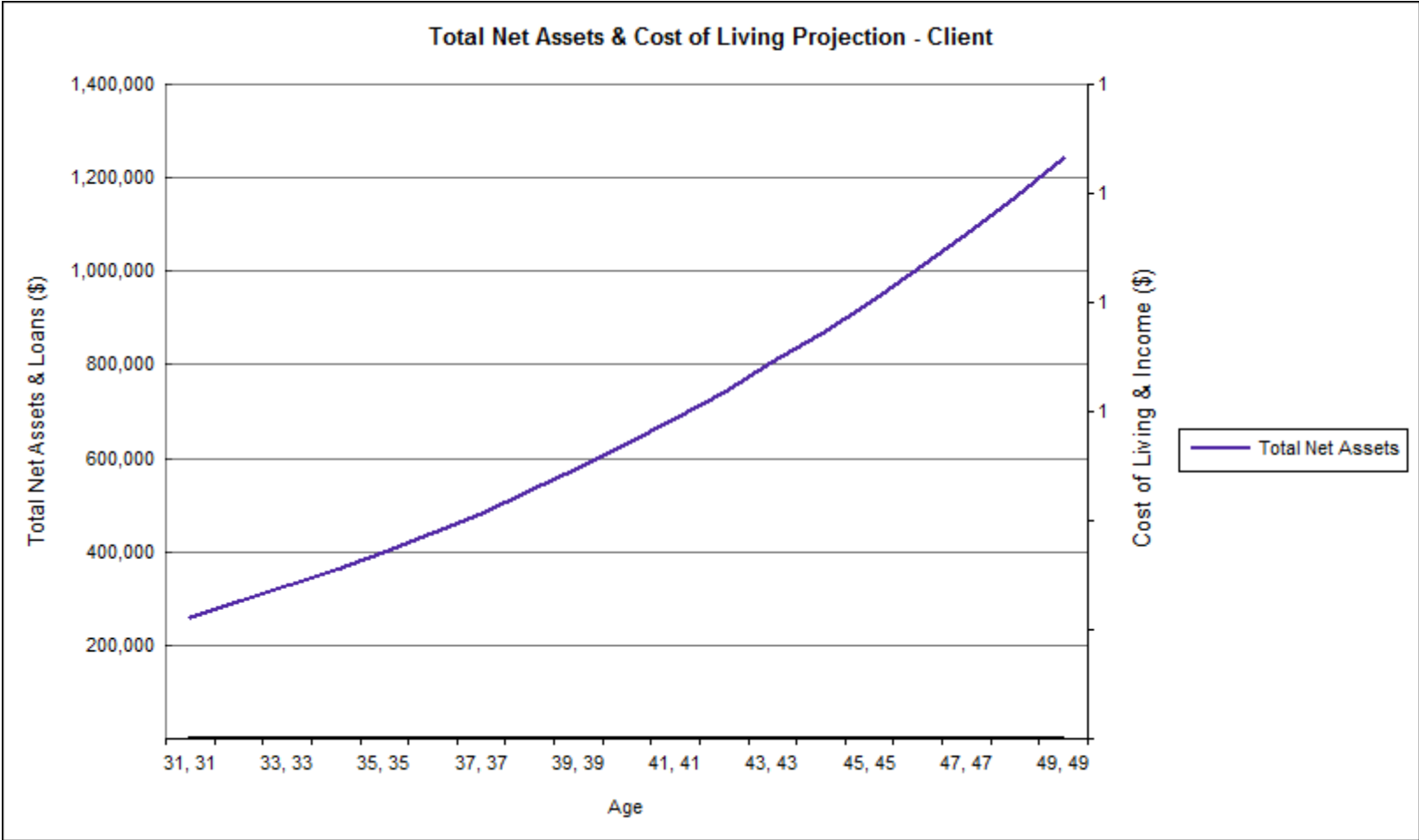
- Marie & Harris Jones, married couple;
- Both aged 31;
- Marie Salary: \$120,000 (Marketing executive)
- Harris Salary: Nil (stay at home dad)
- Home value: \$500,000
- Mortgage on home: \$400,000 @ 4.60%pa interest rate
- Credit card debt: \$20,000 @ 21%pa interest rate
- Personal Loan: \$30,000 @ 10%pa interest rate
- Cash Account: \$40,000

# Case Study: Bringing it all together

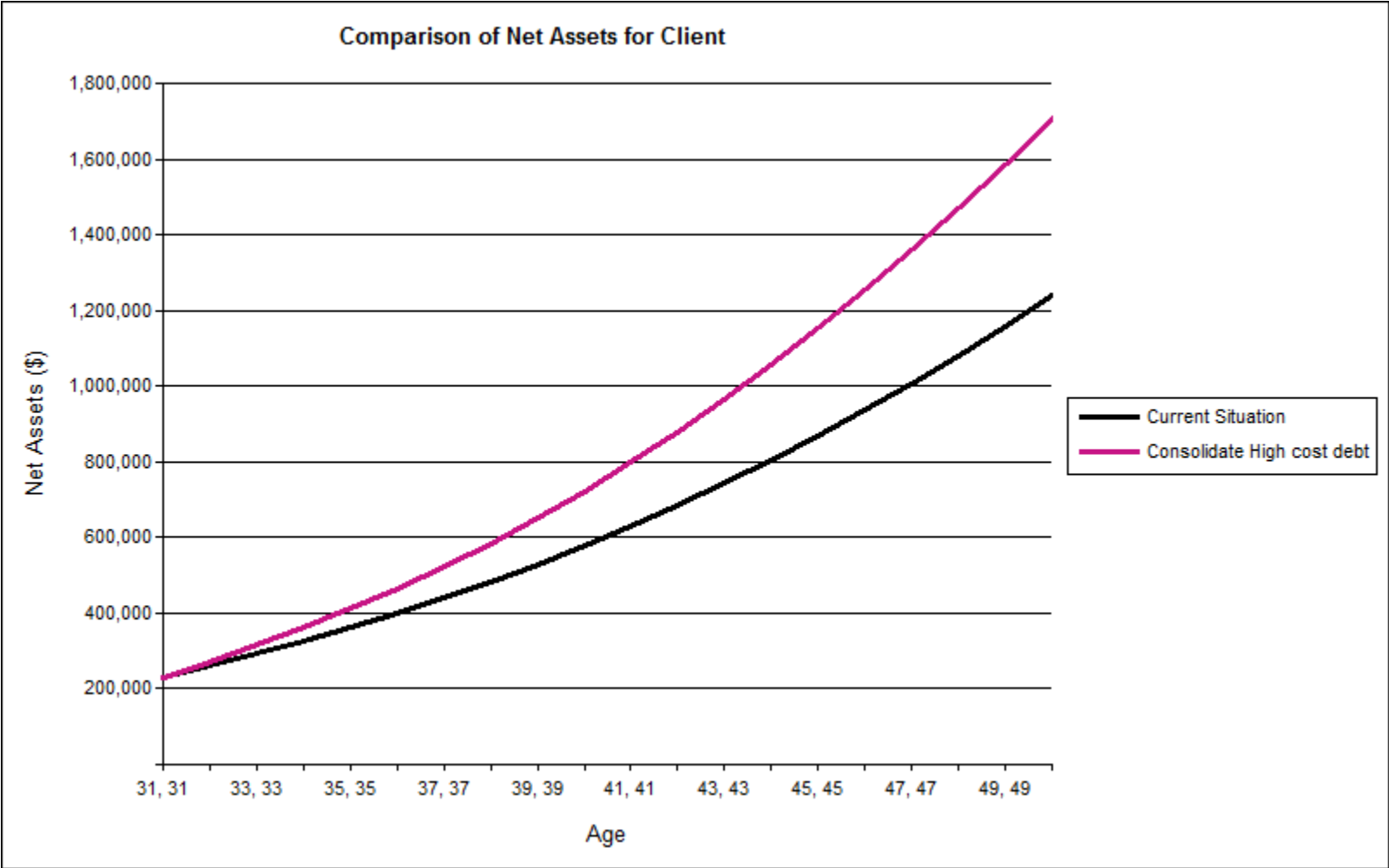
## Stage 1 – Wealth Accumulation Foundations



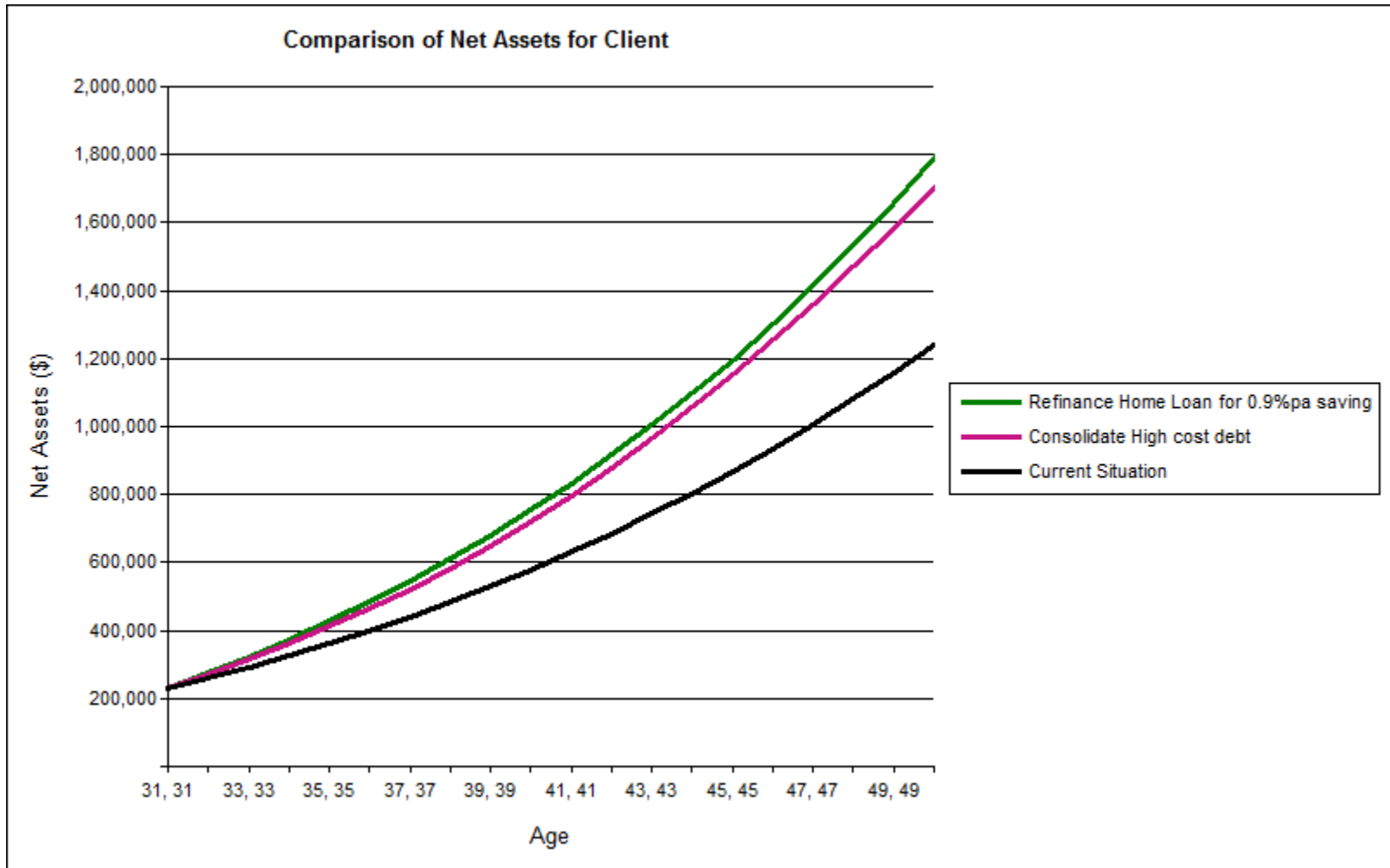
# Current Situation



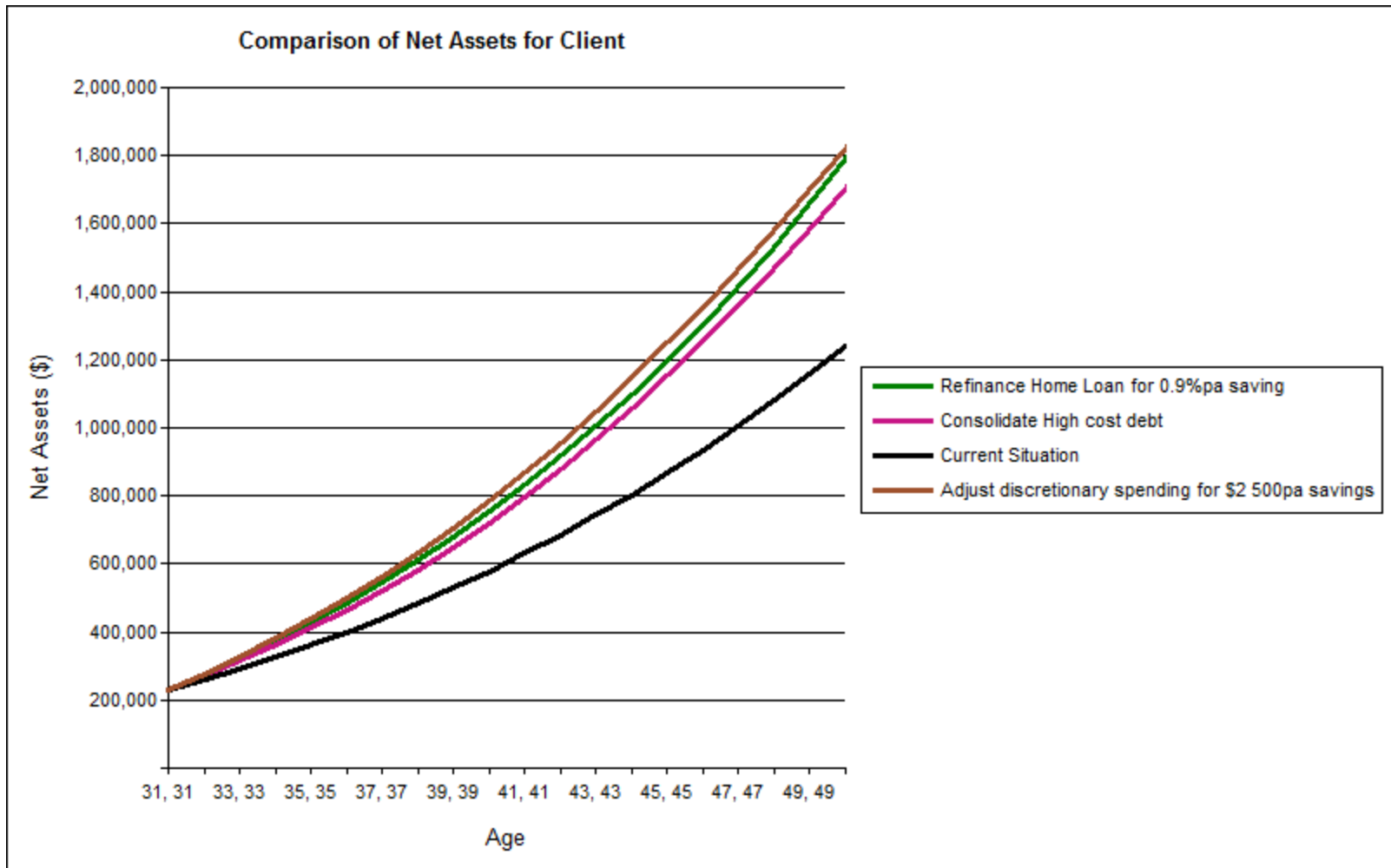
# Consolidate High Cost Debt



# Refinance Home Loan for 0.9%pa saving



# Adjust discretionary spending for \$2,500pa savings

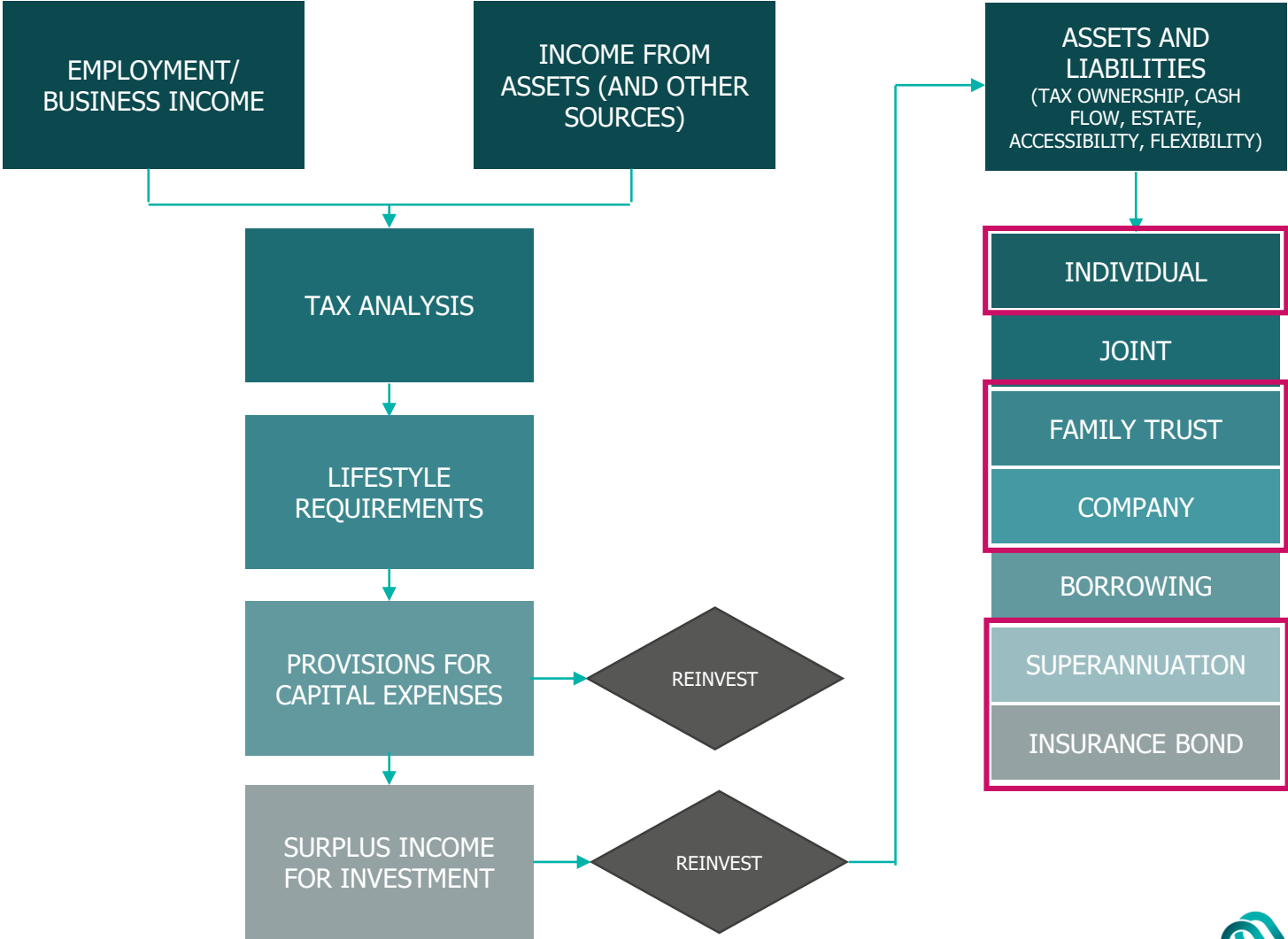




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# Ownership structure



# Ownership structure

## Individual

Tax

- Up to 49%

Capital gains

- If held > 12 months – 50% discount
- Gains assessed at marginal rates

Cash flow

- Full and immediate access to cash flow

Accessibility / flexibility

- Offers flexibility
- No accessibility issues and capital can be accessed at any time

Asset protection / risk

- No asset protection

Estate planning issues

- Estate assets are covered for under the Will

Cost

- Nil to low cost

# Ownership structure

Company	
Tax	<ul style="list-style-type: none"><li>▪ Taxed at 30%*</li></ul>
Capital gains	<ul style="list-style-type: none"><li>▪ No CGT concessions for companies</li></ul>
Cash flow	<ul style="list-style-type: none"><li>▪ Dividends paid</li><li>▪ Utilising franking credits depends on tax position of company</li></ul>
Accessibility / flexibility	<ul style="list-style-type: none"><li>▪ Accessing capital requires dividends to be paid out</li></ul>
Asset protection / risk	<ul style="list-style-type: none"><li>▪ Provides limited liability</li><li>▪ Company directors held personally liable for potential compensation, fines and legal costs</li></ul>
Estate planning issues	<ul style="list-style-type: none"><li>▪ Shareholdings are dealt with under Will</li></ul>
Cost	<ul style="list-style-type: none"><li>▪ Higher set up costs and ongoing admin costs than other structures</li></ul>

\* Based rate entity tax rate is 27.5% if aggregated turnover is < \$25m turnover threshold (2017/18)

# Ownership structure

## Discretionary Trust

Tax	<ul style="list-style-type: none"><li>▪ Taxed internally at 49%, or</li><li>▪ Distributions taxed at beneficiary's marginal rates</li></ul>
Capital gains	<ul style="list-style-type: none"><li>▪ Capital gains (not losses) can be distributed to beneficiaries</li></ul>
Cash flow	<ul style="list-style-type: none"><li>▪ Income distributed to beneficiaries</li></ul>
Accessibility / flexibility	<ul style="list-style-type: none"><li>▪ Offers flexibility regarding accessing capital</li></ul>
Asset protection / risk	<ul style="list-style-type: none"><li>▪ Generally provides protection against creditors or relationship breakups</li></ul>
Estate planning issues	<ul style="list-style-type: none"><li>▪ Assets remain in the trust after death</li></ul>
Cost	<ul style="list-style-type: none"><li>▪ Moderate establishment and ongoing administration costs</li></ul>

# Ownership structure

## Superannuation Fund

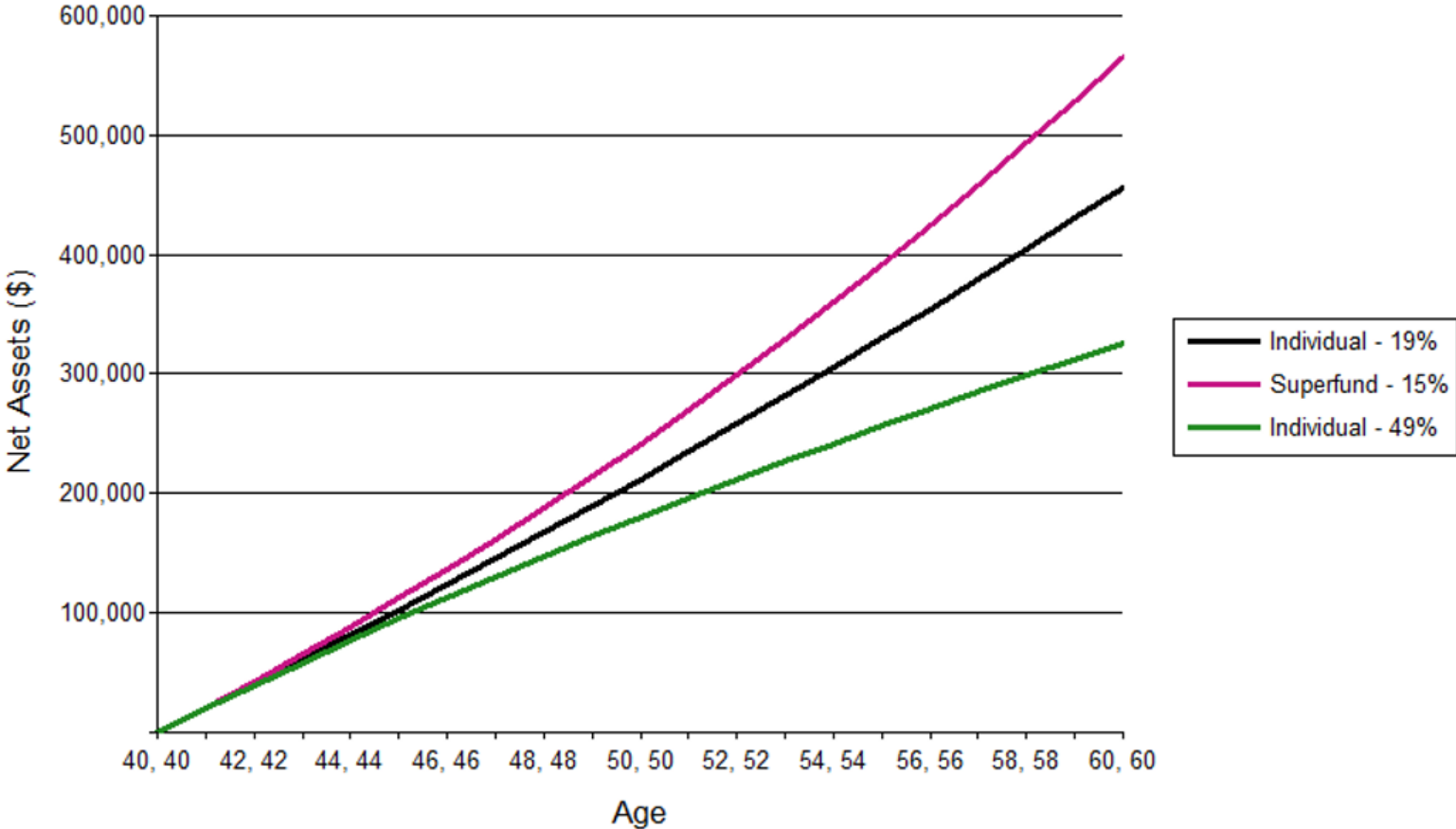
Tax	▪ 15% - accumulation, 0% pension
Capital gains	▪ 10% - accumulation, 0% pension
Cash flow	▪ Can only be accessed upon meeting a condition of release (e.g. retirement)
Accessibility / flexibility	▪ Funds may be trapped per the above ▪ Legislative risks – rules are continually changing
Asset protection / risk	▪ Provides asset protection
Estate planning issues	▪ Not covered under the Will ▪ Nomination needs to be established ▪ Potential tax implications depending on beneficiary nominated
Cost	▪ Moderate establishment and ongoing costs

# Ownership structure

## Insurance bond

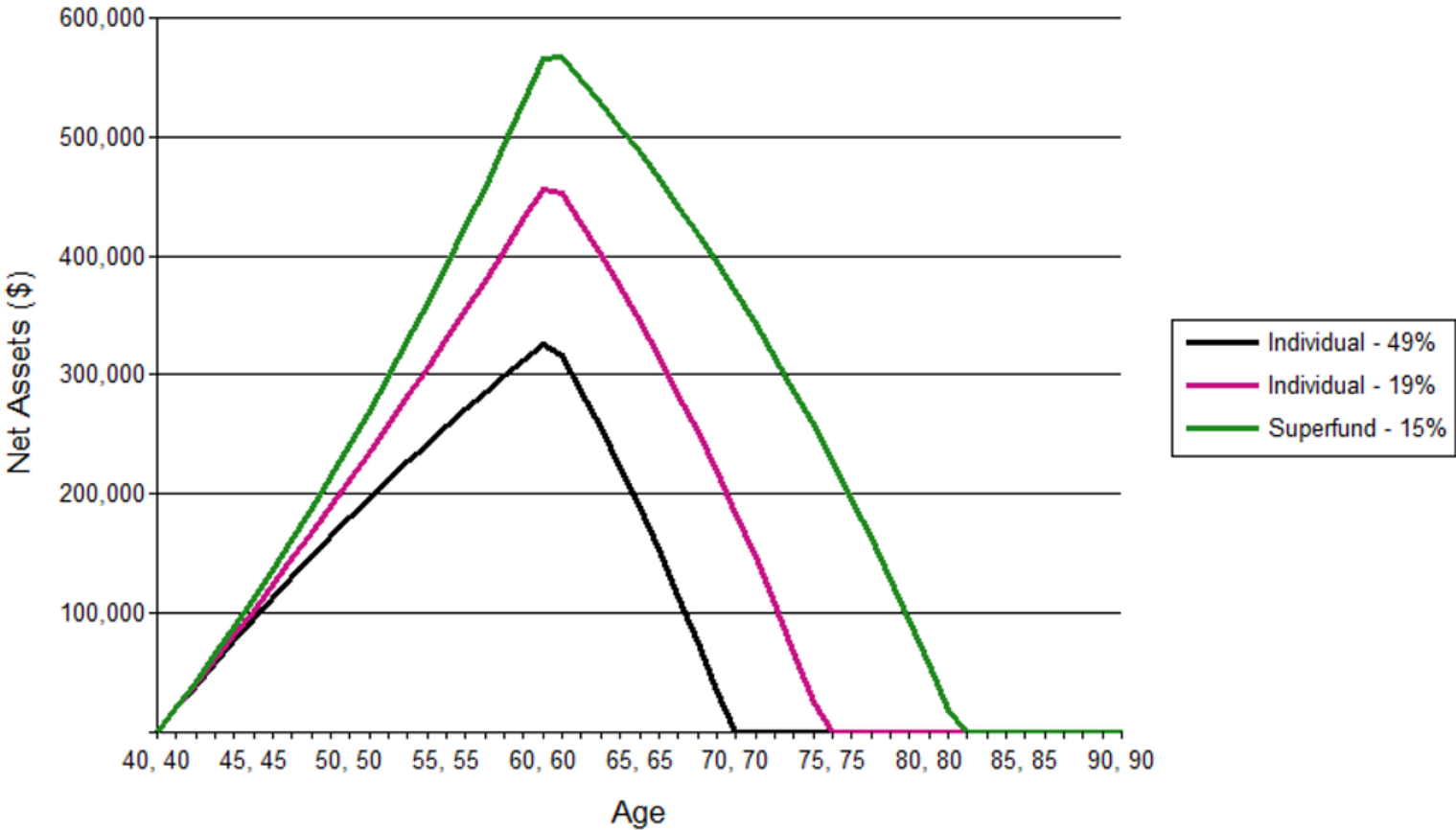
Tax	<ul style="list-style-type: none"><li>▪ Taxed internally at 30%, tax free in hands of investor after 10 years</li></ul>
Capital gains	<ul style="list-style-type: none"><li>▪ Taxed internally at 30%</li><li>▪ CGT discount not applicable</li></ul>
Cash flow	<ul style="list-style-type: none"><li>▪ No income paid</li></ul>
Accessibility / flexibility	<ul style="list-style-type: none"><li>▪ Can access but will be subject to tax if withdrawn prior to 10 years</li><li>▪ Must meet "125% rule" in order to retain tax advantages</li></ul>
Asset protection / risk	<ul style="list-style-type: none"><li>▪ No asset protection</li></ul>
Estate planning issues	<ul style="list-style-type: none"><li>▪ Dealt with under the Will</li></ul>
Cost	<ul style="list-style-type: none"><li>▪ Fees charged by the life company can be high – average 1%</li></ul>

# Ownership structure





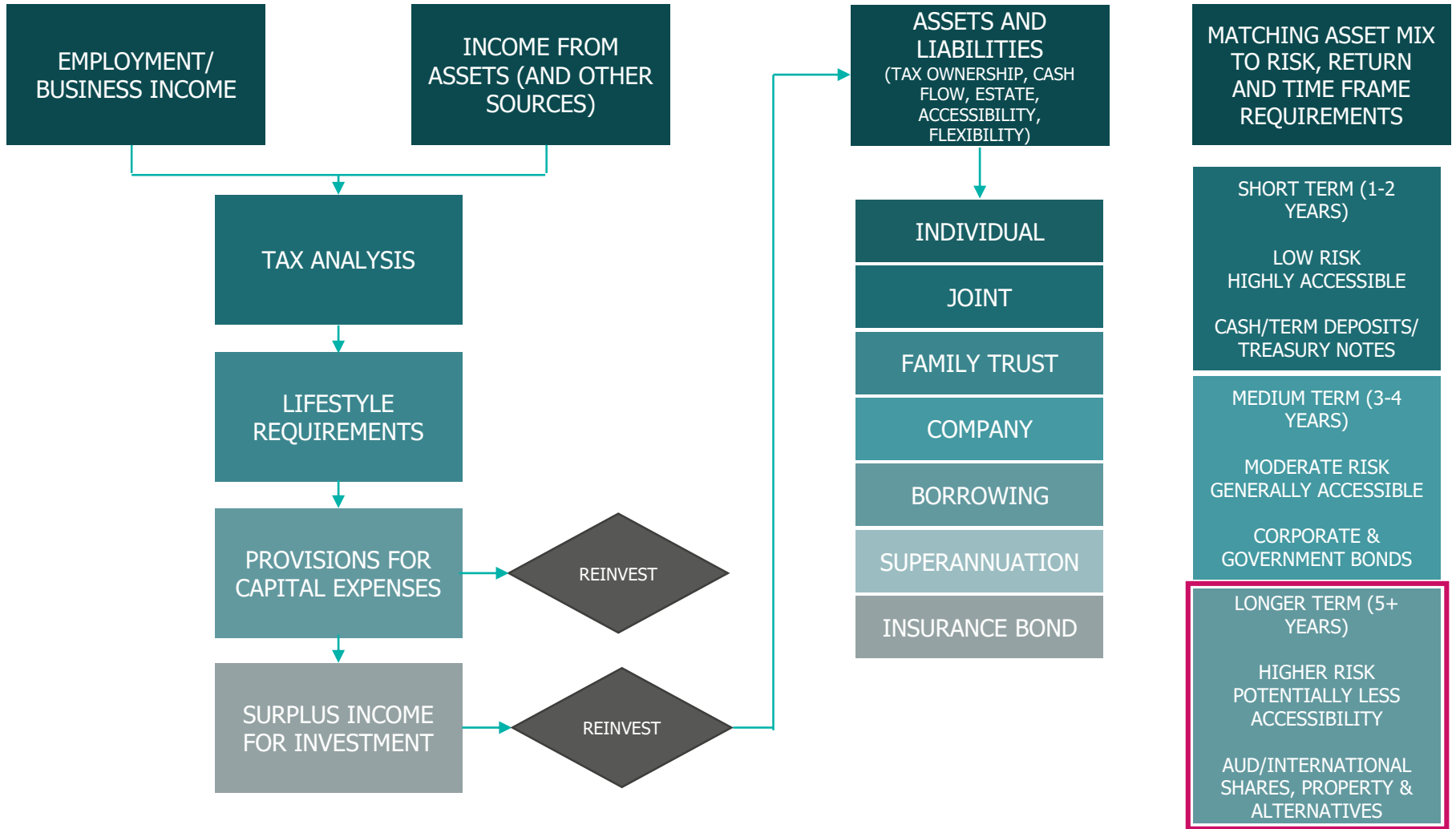
# Ownership structure



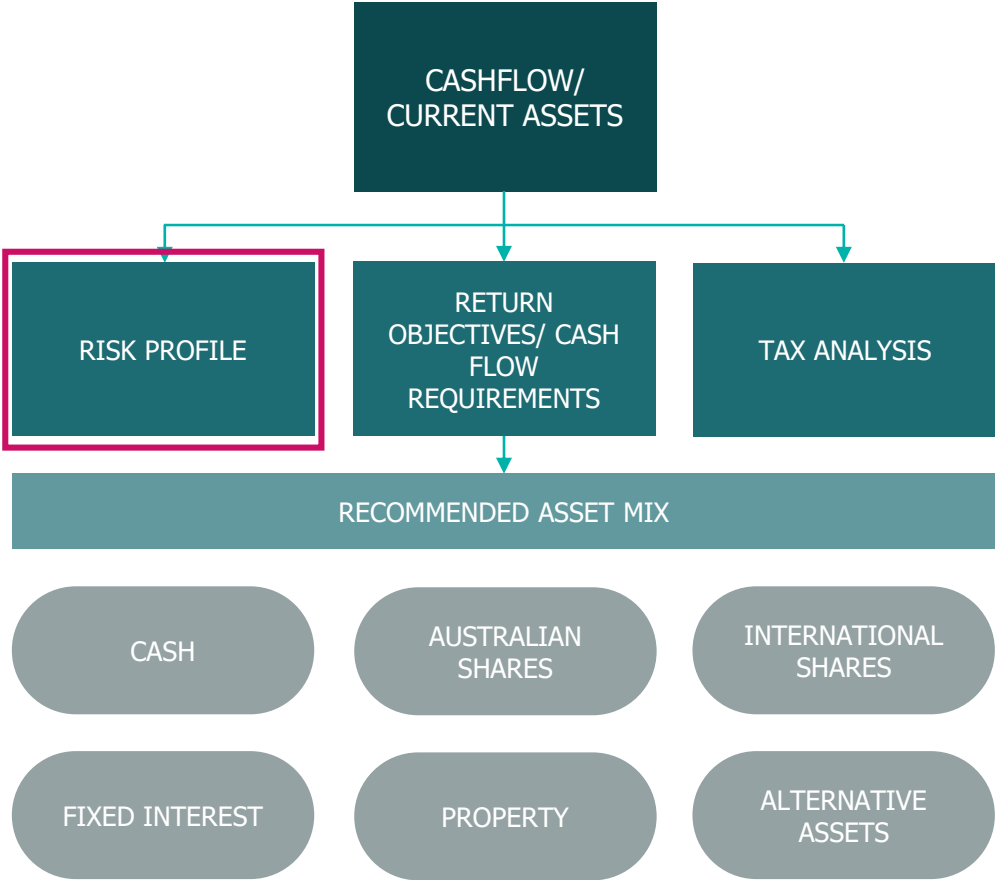
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# Investment Strategy



# Investment Strategy



# Risk Profile



# Risk-Return Trade off

Risk Profile: Spectrum of Return/Risk (for illustrative purposes)



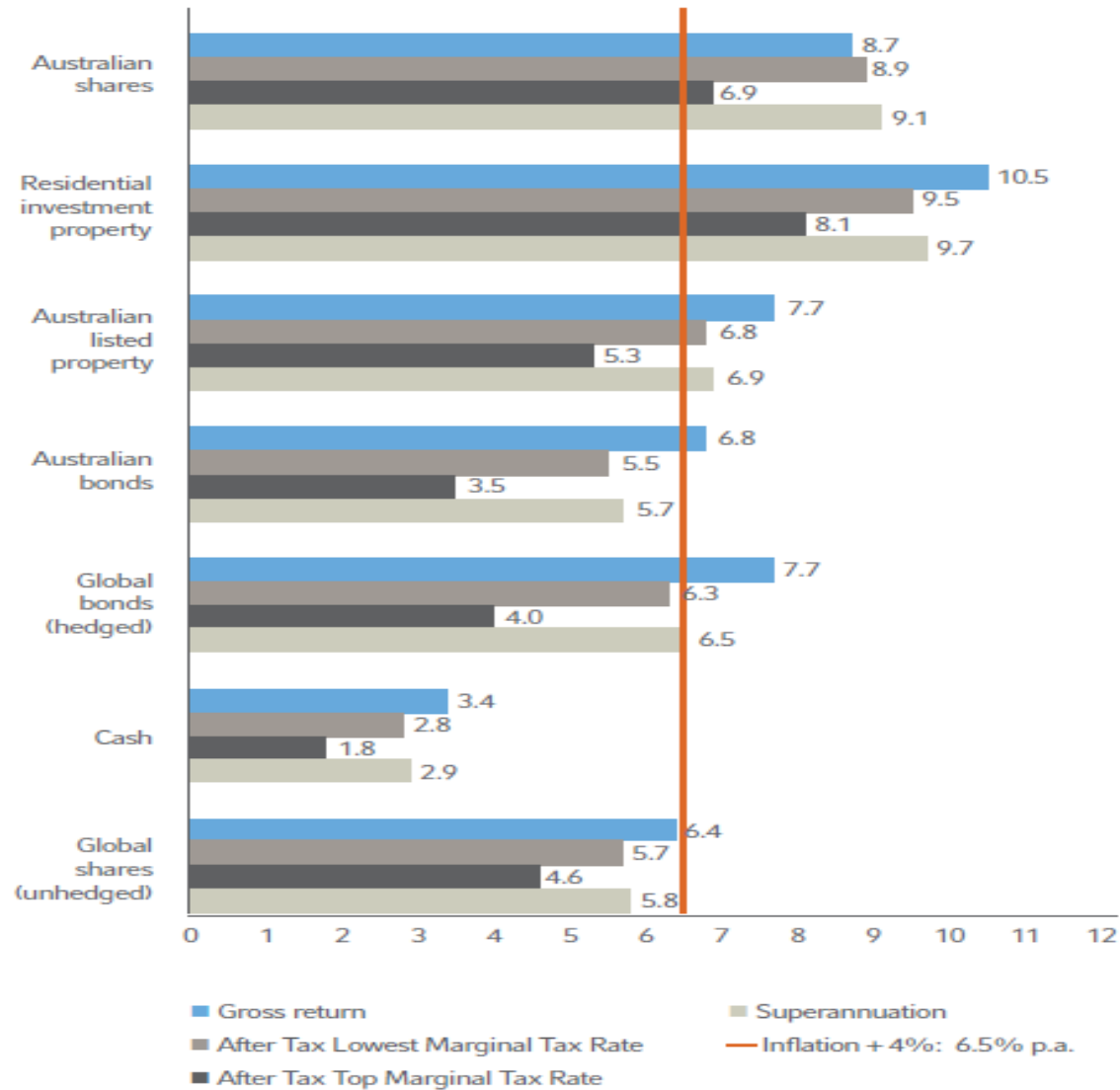
# Asset classes

	Asset class	Characteristics	Risk	Potential return
Defensive assets  (focus on generating income)	Cash	Suitable for investors who have a short term outlook, a low tolerance to risk. No recommended minimum timeframe.	Low	Low
	Fixed Interest	Can be more volatile than cash, but are still relatively stable. Minimum suggested time frame: 1 – 3 years	Low/ Moderate	Moderate
Growth assets  (focus on capital growth and income)	Property	Less liquid than other asset classes. Entry and exit costs significantly higher. Minimum suggested timeframe: 5 - 7+ years	Moderate/ High	Moderate/ High
	Equities	Returns usually include capital growth and income through dividends. The most volatile asset class but over long periods of time, on average, has achieved higher returns. Minimum suggested timeframe: 5 – 7+ years	High	High

# Investment performance – 20 years

**Exhibit 5** Before & After Tax Returns over 20 years to 31 December 2015

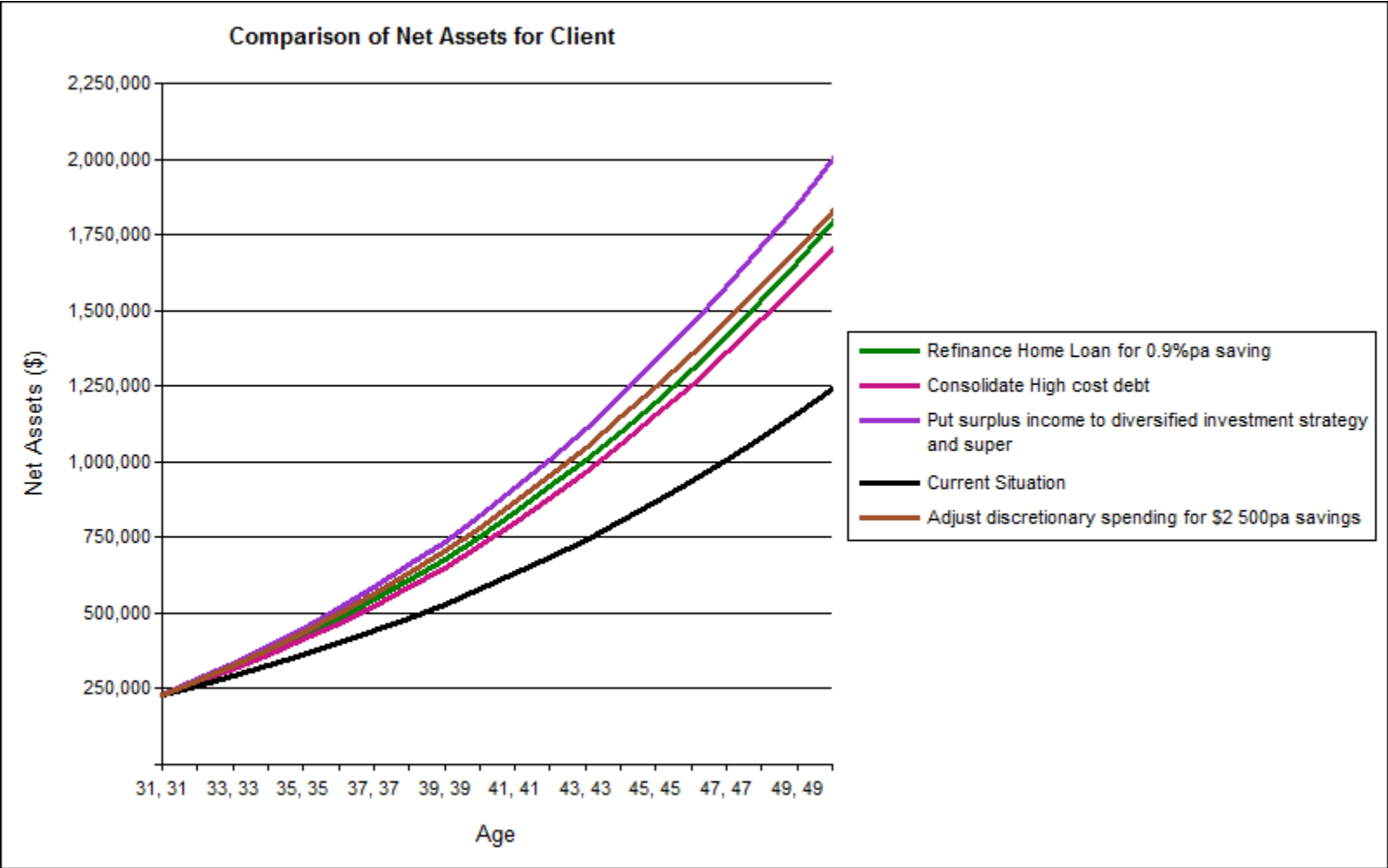
Returns (% p.a.)



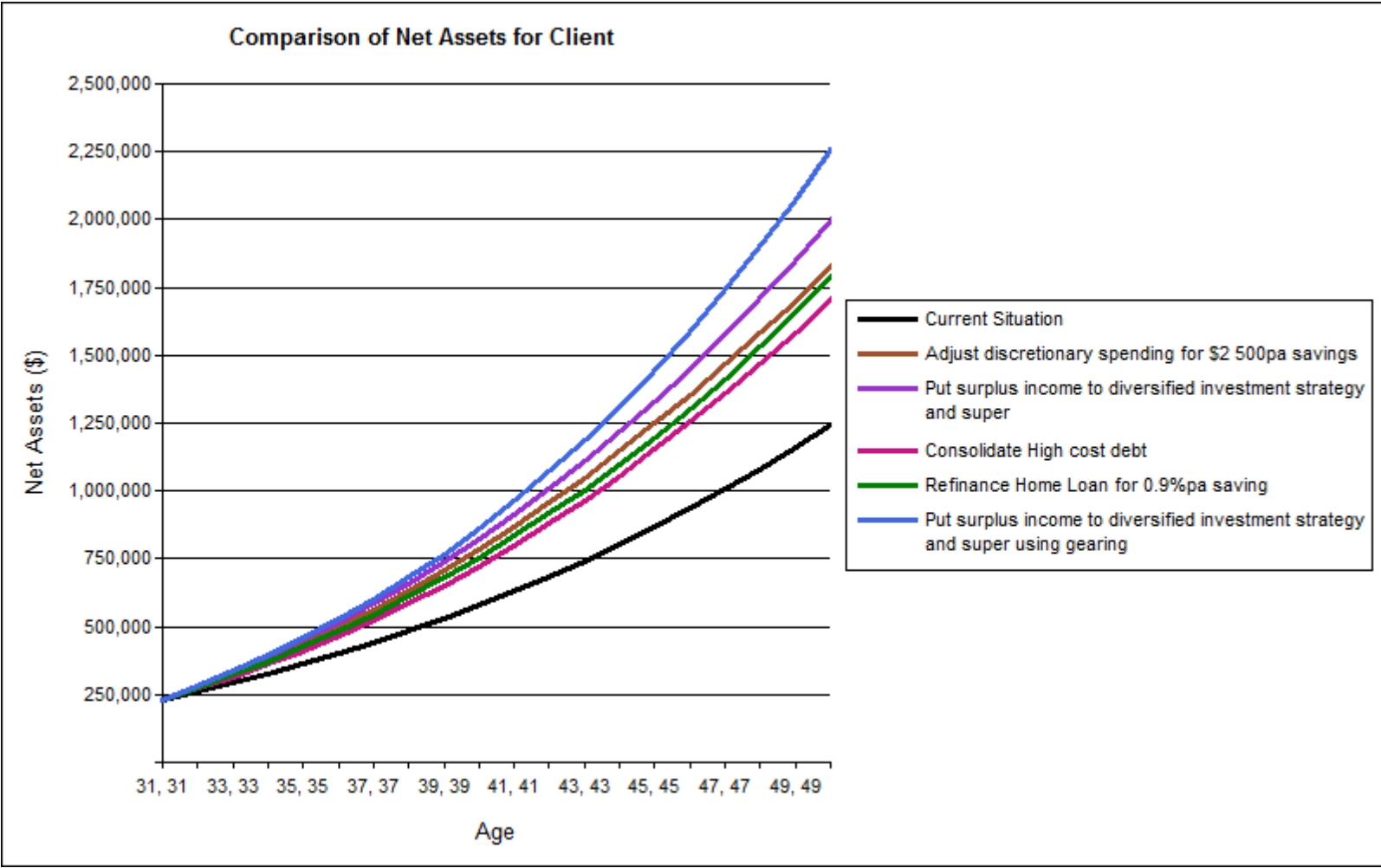
Source: ASX/Russell, May 2016



# Case Study: Bringing it all together



# Case Study: Bringing it all together



# Conclusion

The key to creating wealth is to follow the five aspects of a well structured wealth accumulation plan:

1. Being able to adapt to constant change
2. Having the discipline of budgeting
3. Keeping the cost of debt as low as possible
4. Having the right investment strategy and ownership structure in place
5. Reviewing the strategy regularly

# How We Operate

## Complimentary Meeting

No cost to you

## Fee for Service

Complete objectivity

## Hourly Rate

Varies depending on the complexity of your situation

## No Commission

Our advice is in your best interest

## Contact Details

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Thank you