05

STEPS TO FINANCIAL SECURITY

manly financial services

Financial Success, Security & Independence

When people come to us for financial advice, they all have specific lifestyle goals and aspirations they want to achieve. These often include buying or upgrading the family home, creating wealth for the security and well-being of a growing family, and having the funds to be able to live the retirement they want.

However, the path to achieve these lifestyle goals and aspirations is rarely a smooth one, constantly being challenged by the surrounding environment, introducing fears and concerns. The economy and its effect on your job, income, interest rates, often compounded by market volatility, can require shifts in your financial strategy impacting achievement of your goals.

Without a robust financial plan your feelings of uncertainty can derail your financial progress.

All of these elements can affect the value of your assets, ability to achieve your goals and the timeframe you wish to achieve them. They can also create feelings of uncertainty, worry, insecurity and fear, which can derail progress towards the life you want to live.

The financial planning process aims to traverse this rocky path in order to guide you from your current situation to your future goals and aspirations, whilst meeting these economic, market and lifestyle challenges.

"The path to achieving our lifestyle goals and aspirations is rarely sooth, but with the right approach you can significantly improve your ability to turn them into reality"

> Many households are experiencing significant cash flow stress

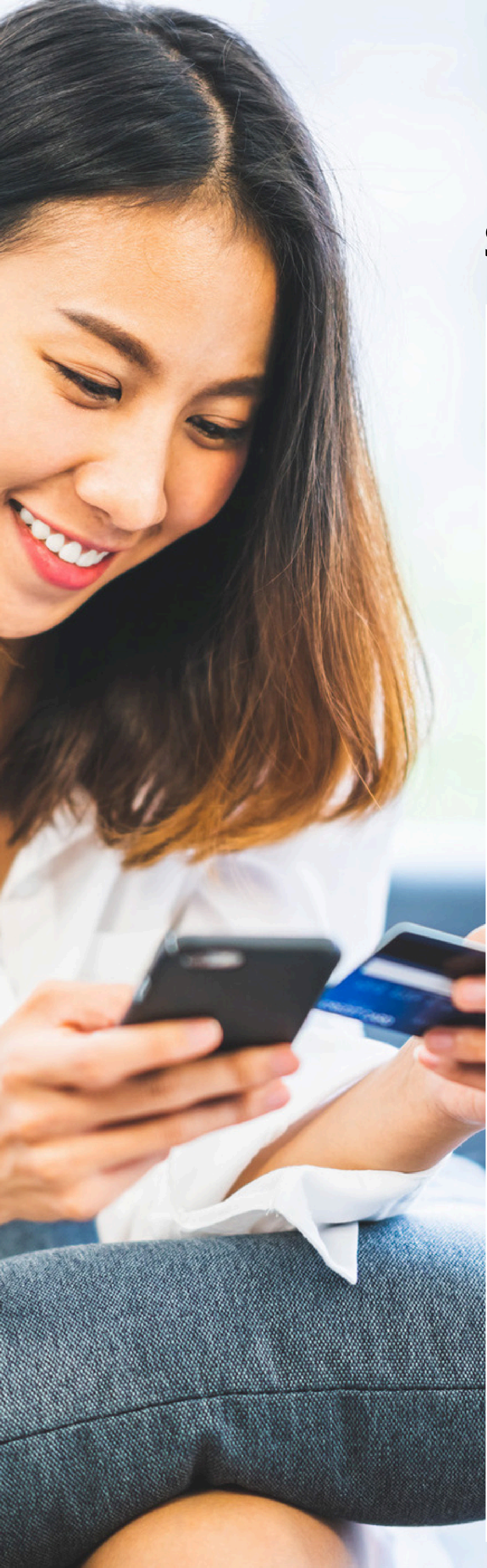
WHAT'S HAPPENING RIGHT NOW?

The current environment is a good example of one of these challenges and will go down as one of the major economic crisis of our times, along with the 2008-2009 Global Financial Crisis and the Covid19 Global Pandemic.

Governments and central banks all around the world have been providing significant stimulus to individuals and businesses, in order to prevent crippling the domestic and global economy during the pandemic.

Now that stilumus has caused global inflation, which can only be controlled with increasing global interest rates. This means that not only has the cost of day-to-day items increased, but our mortgage interest rates have also increased causing many households to feel significant cash flow stress.

We understand full well what is happening to our jobs and businesses now, but what effect will this have on our incomes, our mortgages, our taxes and our wealth over the medium to long-term? In attempting to answer this question, we have put together a list of 5 actions you can take to manage this inflationary environment and come out prosperous on the other end as interest rates start their downward cycle.



01

STOP WASTING MONEY

> **“It is critical that we stop wasting money right now!”**

More than ever before, it is critical that you stop wasting money right now, and to do this you firstly need to know where you are spending money, so that you can make educated decisions around limiting or eliminating specific discretionary spending.

To do this you need to use your online banking systems, to review how much and where you’ve been spending our money, over the last six months, and categorising them as nonnegotiable, priority 1, 2 and 3 items.

Have you identified your non-negotiable expenditure?

Non-negotiable expenditure includes items such as utility bills (energy, water, telephone/internet), rent or mortgage repayments, healthcare, education, food and groceries. These are items that you need to stay safe and well.

All other expenditure items include those that can be reduced or eliminated and are ranked from priority 1 to 3 to help you make decisions.

For instance, if you currently have 2 cars for your family, is there any way this can be cut to 1 car? Can public transport to and from work be a viable alternative? If not, could usage of the second car be reduced in order to reduce fuel, maintenance and insurance expenses?

Similarly, can gym memberships be substituted with workouts at home, daily walks or jogs; can take away food be substituted with simple home-cooked meals; or could it be a good time to stop smoking?

These are all questions that should be asked in relation to your priority 1 to 3 expenditure.

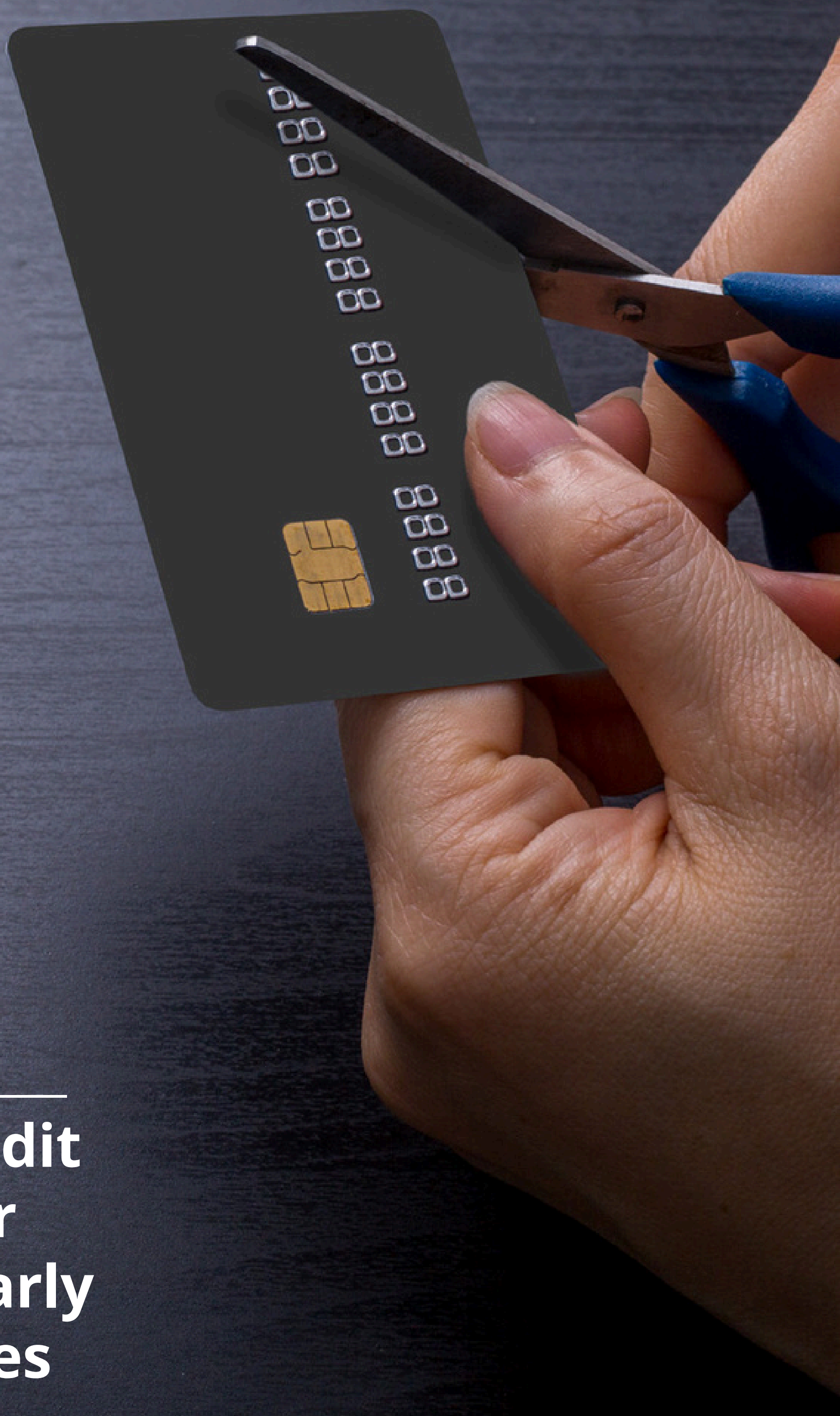
02
NO MORE CREDIT CARD DEBT

Another waste of money is high interest rate debt repayments, such as personal loan or credit card interest. These interest rates do not follow the trend of falling household mortgage interest rates, and additional transaction costs combined with late payment fees add to the amount wasted every day in these accounts.

With mortgage interest rates potentially reducing in the short-term, it may be time to look to consolidate these high double-digit interest rate credit card debts into your home loan, or to set a plan to pay off credit card debt over the next 12 months.

If you have multiple credit cards and cannot consolidate them into your mortgage, then it's important to pay additional amounts into the higher rate cards first, as opposed to spreading the additional repayment across all your credit cards.

Once a card is paid off, it is time to cut up any unnecessary additional credit cards you may have acquired over the years.



> **"Consolidate any credit card debts into your home loan particularly when mortgage rates start to fall"**

03

FOCUS ON YOUR MORTGAGE

For homeowners it is important to focus on your mortgage, as it is tied to a key asset capable of which in turn will provide financial independence providing multiple benefits, including financial safety and security.

Your home will additionally provide you with shelter and physical safety in the short term, which as you approach retirement, can also provide you added financial flexibility. One option often exercised is to downsize and use the home sale proceeds towards funding your retirement.

Focus on reducing your mortgage, especially in times of financial uncertainty.

So it is critical to focus on reducing your mortgage, especially in times of financial uncertainty and stress, if you have the means to do so.

THE FIRST STEP

When focusing on your mortgage it is important to ensure you have a mortgage product with low variable or fixed interest rate options and low ongoing fees. The lower the mortgage rate and fees, the more of your repayment will go into reducing your debt.

THE SECOND STEP

Lock in additional amounts you can repay off your loan each and every month, and to set this additional amount as a non-negotiable item in your budget.

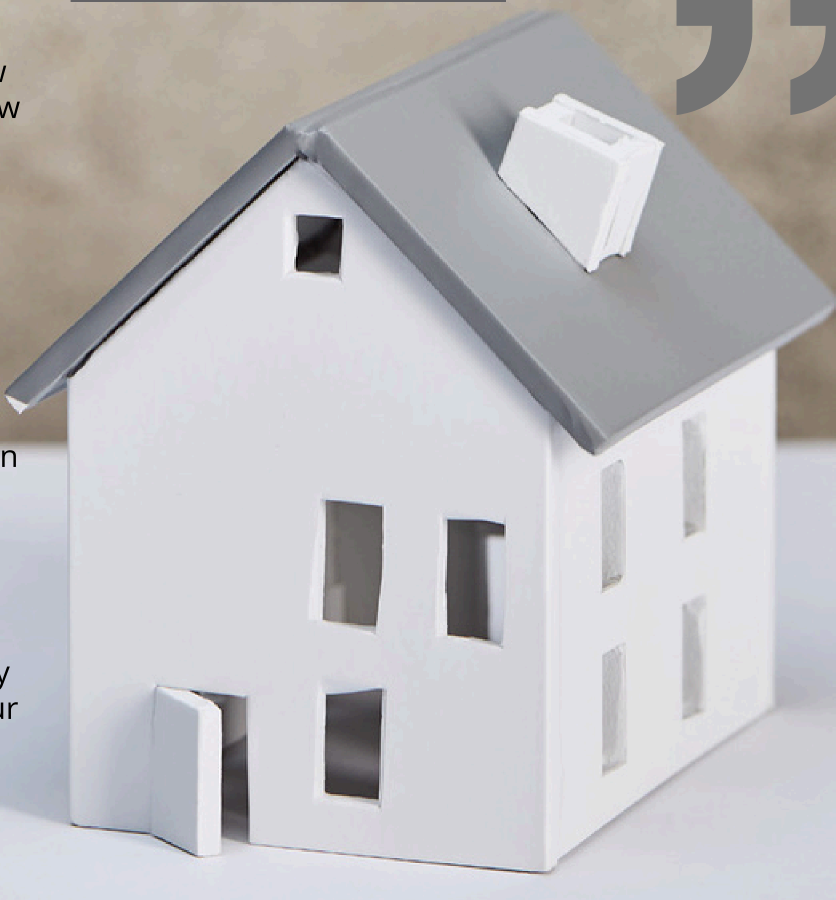
It is important to stick to an amount that you know you can make every month and not to set an amount that will be unsustainable, leading to disappointment. Even a small additional monthly amount of $100, can significantly reduce your mortgage over the long-term.

THE THIRD STEP

Look to add acounts that you can offset your loan against. Any funds that are in these accounts will reduce the loan amount upon which interest is calculated, leaving more of your repayment for debt reduction, as opposed to merely meeting the interest repayment.

All these measures will allow you to focus on your mortagge and reducing your household debt, which in turn will provide financial independence and security.

> **“For homeowners it is important to focus on your mortgage”**



04

ARE YOU PAYING TOO MUCH TAX?

Most people pay more tax than they really need to.

Another 'leakage' in the household budget is taxation.

There is an amount of tax that we all have to pay to fund the services the Government is providing for our well-being, such as roads, hospitals and schools. However, in some cases people pay more tax than they really should, by structuring their affairs in an inefficient way.

Reducing tax in this way is not tax-avoidance and must not be done to the detriment of your financial situation.

For instance, prior to the GFC many investors would borrow money to invest purely to reduce tax. Out of every $1 of tax-deductible interest they paid, they would only receive a maximum of $0.50 as a tax refund. Paying $1 to get $0.50 back makes little sense for most people.

Tax reduction can be as simple as ensuring that you structuring your assets appropriately, are claiming all of the appropriate items in your tax return, remembering to claim tax-deductible donations you make throughout the year, paying for your income protection policy personally, or making a small additional pre-tax contribution to super.

All these simple measures, as well as other more complex tax strategies, will allow you to keep more of your taxable income in your back pocket and will set you up for success in the future, just by being smart and diligent.

> **"Retaining more of your income will set you up for future success"**

05 PROTECT YOUR MOST IMPORTANT ASSET

For the vast majority of people, you are the biggest wealth generating asset you have access to, therefore it is critical to protect your financial situation from the financial consequences of accidents, disability, medical illnesses such as cancer and death, especially if you are supporting dependents.

Protecting your income will allow you to be able to meet your financial commitments such as food, mortgage repayments, kid's education and other expenses upon disability or illness. Without an income protection strategy your financial position could be completely exposed to events that are out of your control.

A debt clearance strategy, can allow you to repay your mortgage and other debt if you were diagnosed with a medical illness, such as cancer or heart disease, medical events that many people recover from health-wise, but not always recover financially.

Finally, a family protection strategy can provide your dependants with funds upon your untimely death or total & permanent disability, so they can repay all debt, keep the family home, and provide an ongoing income stream to fund their expenses.

Structuring protection the right way is just as important as having it in place.

Structuring this protection the right way is just as important as having it in place, as you can claim significant tax benefits, depending on your situation and the way the protection is structured. For instance, structuring life cover via superannuation, can allow you to deduct premiums from taxable income, however, if your dependants are over a particular age, the lump sum death benefit may not be tax-free.

Similarly, income protection through super can give you cash flow benefits, but these policies will not provide personal tax benefits and can be limited in cover and the period over which they will support you upon disability or illness.

"You are your biggest wealth generation asset so ensure you are adequately protected"

NOW IT'S UP TO YOU

We can help you with all these strategies for success.

So if you would like to further explore opportunities to reduce the level of uncertainty, improve your chances of achieving your financial and lifestyle goals, enabling you to live your best life, contact us to make a free, non-committal appointment via:

contactus@manlyfs.com.au | (02) 9976 – 3388

HOW WE CAN HELP

With a steadfast focus on long-term planning, proactivity, and genuine partnership, we have proudly guided our clients through the ever-changing investment and economic landscape for over two decades.

Whether you seek guidance on wealth creation, mortgage and debt planning, tax management, retirement planning, or personal risk protection, our pragmatic and insightful approach is tailored to navigate any uncertainty and propel you toward your financial and lifestyle aspirations.

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