CAN you get more from your money?

MAKE smarter decisions?

AVOID expensive mistakes?

ASIC
Australian Securities & Investments Commission

Your money

How can this booklet help you?

This booklet can help you:

- Use your money more wisely.
- Save for what you really want.
- Manage your loans, insurance, superannuation (‘super’) and retirement saving.

Information in this booklet is current at the date of publishing, May 2009.

About ASIC

The Australian Securities and Investments Commission (ASIC) enforces and regulates company and financial services laws to protect you.

ASIC wants you to be well informed and confident about financial decisions. This booklet can start you off on the right foot with general tips and explanations.

Our ideas may not apply to your particular circumstances. If you want personal financial advice, you may need to see a licensed financial adviser.

In this booklet

How are you going now? 4

Planning your finances 8

Budgeting and dealing with unexpected events 16

Managing your loans and your mortgage 23

Protecting yourself, your family and your property 28

Getting the most from your super 33

Retiring: How much money will you need? 40

Starting your personal investing 46

To find out more 54

Key tips for managing your money

- Decide what you really want, and focus on your most important goals.
- Start saving now: You can start small and increase your savings gradually (they’ll grow with interest, too).
- Always check the facts: Ask questions and get professional advice. If you aren’t comfortable or don’t understand, don’t go ahead.

Throughout this booklet we have used tables to work out budgets and so on. Copy them and add your own details to see how our suggestions might work for you.

How are you going now?

Taking stock of your financial situation is the first step in managing your money.

Ask yourself two important questions:

1. Are you better off today than a year ago? Look at what you own and what you owe.
2. Are you saving any money? Look at your income and your expenses.

Are you better off today than a year ago?

Write down what you own and what you owe today and a year ago in a table, like the one in our following example for Nat and Sam. It's fairly easy to make a few estimates, and then use your mortgage, credit cards, bank accounts and super statements to fill in the blanks.

What Nat and Sam own and owe

What they own	Value today	Value a year ago	Change
Home	$375,000	$350,000	Up
Car	$14,000	$16,000	Down
Super	$55,000	$47,000	Up
Total owned	**$444,000**	**$413,000**	**+$31,000 up 8%**

What they owe	Debt today	Debt a year ago	Change
Mortgage	$246,000	$250,000	Down
Car loan	$11,000	$16,000	Down
Credit cards	$3,000	$1,500	Up
Total owed	**$260,000**	**$267,500**	**-$7,500 down 2%**
Nat and Sam's net worth	**$184,000**	**$145,500**	**+$38,500 up 26%**

A year ago, Nat and Sam bought a home and a new car. Now, their home is worth more, their super has grown and their car loan is coming down. Unfortunately their credit card debt has gone up, and they don't have much saved for unexpected bills or time without work.

If Nat and Sam were 25 years old, they'd be pretty comfortable, because they have plenty of time to pay off their mortgage and build up their super. If they were 55 years old, they'd be facing some serious problems with so much debt and so little super, even if they kept working till 65.

When you draw up a similar table for yourself, first look at what changes have occurred. Then think about your age and how much longer you expect to work to see if you are likely to be comfortable or if you face some serious issues.

Are you saving any money?

Record all your income and expenses for a month, as we have for Nat and Sam in the table opposite.

TIP: *List each loan repayment as a separate expense, then convert everything into monthly figures.*

Nat and Sam, who both work and have two children, are doing well to save $697 each month. However, their debts take up a lot of their money, and $697 won't stretch far. There's also not much room for them to put extra money towards paying off loans or building up money for their children's education.

Looking at your own income and expenses is a first step in budgeting, and shows if you're making progress, standing still, or going backwards.

INCOME	Income	Converted to monthly amounts
Sam's take home pay	$1,707 fortnightly	$3,710
Nat's take home pay, works part time	$969 fortnightly	$2,106
Family tax benefit*	$3,772 yearly	$314
Total income		**$6,130**

EXPENSES	Expenses	Converted to monthly amounts
Home mortgage repayments	$1,688 monthly	$1,688
Car loan repayments	$490 monthly	$490
Credit card interest payments	$590 for 2 years	$25
Car running costs	$4,500 yearly	$375
Food and groceries	$260 weekly	$1,130
Holidays, entertainment	$100 weekly	$435
All other costs (school, clothing, medical, insurance, repairs, rates, water, electricity)	$1,290 monthly	$1,290
Total expenses		**$5,433**
What Nat and Sam save each month		**+$697**

* Be sure to include the family tax benefit if you are eligible. To find out if you're eligible go to the ATO's website, **www.ato.gov.au**.

Planning your finances

Your own plan will help you control your money. If you set some goals, make a plan and stick to it, you can make progress even with ups and downs along the way.

What do you want to achieve?

Would you like to:

- Pay off your credit cards?
- Buy a new car and pay it off quickly?
- Buy a home and pay it off quickly?
- Save for your children's education?
- Put some money aside for your retirement?

These are some typical financial goals. Others include paying off personal loans or saving up for a holiday.

Write down your own goals as the first step in your plan.

How long will it take to reach your goals?

Some goals may be urgent, for example getting credit card debts under control and paid off. Remember how Nat and Sam's credit card debt had gone up? Paying more than $400 in the first year for just $3,000 (18.5% interest) is very expensive, so they would probably need to fix this soon.

Longer term goals, for example buying a home or saving for retirement, can be just as important.

Because they cost a lot of money, the sooner you start working towards your goals, the sooner you can achieve them, even if you can only spare a small amount of money. It can cost a lot more to do these things later.

In the table on the next page, based on Nat and Sam's situation, we have:

- drawn up some financial goals
- estimated how long they may take, and
- noted some things to do to get started.

***TIP:** Using your own goals, you could draw up a similar table for yourself. If you're not sure about some of the things you need to do, come back to them after reading the ideas in this booklet.*

Nat and Sam's financial goals, time needed and how to start

Pay off credit card (2 years)

Stop using the cards. Instead, use a card that debits their savings account, so they spend their own money, not pay to use someone else's.

Check how much they need to pay monthly to get rid of the debt within 2 years, and stick to that amount each month.

Pay off new car (3 years)

Work out how much they can afford to pay per month, including the cost of insurance.

Choose a model within their price range and shop around for the best price.

Make the biggest deposit they can.

Shop around for the best loan, as well as the car. Maybe extend their mortgage, so long as they quickly pay off the extra they borrowed.

Buy a home and pay it off (Long term)

Work out how much they can afford each month, and look around in their price range.

Shop around for a low interest rate.

Make payments fortnightly and pay a bit more than required each time.

If it won't cost more in interest, a redraw or offset savings account can let you put any extra money you may have, including your pay cheque, on your mortgage.

Save for children's education (Medium to long term)

Set up a long term investment account that they won't touch. Check personal finance magazines about suitable long term investments.

Put some money aside for retirement (Long term)

Put more money into super.

If their funds offer investment choice, consider which option best meets their needs.

How much will each goal cost?

The next step in planning your finances is to estimate how much your goals may cost, and compare that cost with what you are saving. Then you can see if there's a gap to close.

Estimating costs is fairly straightforward for the goals you have already started, such as loans you are paying off.

Useful internet loan calculators can show how much a loan will cost, and how your repayments are affected by shorter or longer term loans.

To estimate long term savings and investments, we will show you some calculations for Nat and Sam, which you could use or adjust. Later we'll offer some extra figures on super and saving for retirement.

What Nat and Sam's financial goals will cost

Nat and Sam's goals	On track?	Monthly cost	How they worked this out
Repay a $16,000 car loan in 3 years	Yes	$490	Borrowed more against their home loan at 6.5% interest, and increased their payments by $490 to pay the car off in 3 years.
Pay off $3,000 credit card debt in 2 years	Not started	$155	Interest is 18.5%. Stopped using the cards immediately.
Buy a $350,000 home, and pay it off in 25 years	Yes	$1,688	Borrowed $250,000 at 6.5% interest. (Their families helped with their deposit of $100,000 plus $15,000 for costs.)
Save $21,000 towards children's education in 10 years time	Not started	$120	Invest an initial $2,000, and contribute for 10 years, earning 5% after tax each year.
Make extra super contributions	Not started	$242	'Salary sacrifice' 5% of Sam's pre-tax salary. (More about super later.)
Total cost per month		**$2,695**	

A gap between your goals and your savings?

Is there a gap between what you can save each month and the cost of your goals?

Nat and Sam weren't sure if there was a gap between their savings and their goals. So they created the table below and found out that with interest rates going down recently, they can actually afford their goals. In fact, they even have $180 extra which they may decide to add into their mortgage repayments.

1. What's the total cost of Nat and Sam's goals each month?	$2,695
2. Subtract the total amount they are already paying for what's on track	-$2,178
3. Here's the cost of what they still have to pay for	$517
4. Subtract what they are saving now	-$697
5. Here's the gap between their savings and the cost of all their goals	**-$180 (No gap)**

Nat and Sam can afford their goals from the $697 they save each month.

They can achieve their goals if they make a start.

If you have a gap, try to close it by finding ways to free up cash that you can devote to your financial goals.

For example, you could stop using your credit cards and use the savings to pay off your debts.

Usually the top priority is paying off high-interest loans.

When you achieve that goal, you can channel the extra money you save into your next goal, and so on.

Budgeting and dealing with unexpected events

What if you're not saving any money, not saving enough or unexpected events throw your finances into disarray? Budgeting and being prepared for unexpected events can change things for the better, often without too much pain.

Budgeting: What you need, and what you want

The best tool for finding extra money is a budget, much like Nat and Sam's record of income and expenses.

Look at the things you ***need*** – the essentials, such as housing and food – and those you simply like to have, or ***want***. When you need to trim the budget, cut back on the 'wants' first – things that aren't essential for everyday life. Don't cut out all the wants, because if your budget's too tight, it's not going to work.

How can you save more?

The best way to save is to put money away as soon as you are paid and ***before*** you spend.

What you can do: Have an easy access cash account for everyday needs, with a debit card attached

Potential savings: Reduces need to use credit card; earns interest

How it could work

Get your pay deposited into this account

What you can do: Save or invest a fixed amount of money every pay period in a separate account

Potential savings: More for your future goals, and an emergency source of money

How it could work

Get your employer to pay direct to your account or have a fund manager direct debit your bank account

What you can do: Save your pay rises, bonuses, special payments or tax refund

Potential savings: Savings build up significantly over time as you continue to live within your existing budget

How it could work

Increase your automatic savings amount. Immediately invest your extra money

How can you save more? *(cont)*

What you can do: Pay your mortgage fortnightly, and pay an extra 5–10% on your mortgage every month

Potential savings: Saves interest costs and pays off your mortgage sooner

How it could work

Get your lender to deduct your mortgage and extra payments fortnightly

What you can do: Budget a specific amount for fun, leisure and personal expenses

Potential savings: Controls impulse buying

How it could work

Makes it easier to stick to your budget

What you can do: Put your change into a savings jar at the end of each day

Potential savings: Creates a little pot of ready cash

How it could work

Use this money for small personal expenses

What you can do: Make extra super contributions from your pre-tax salary ('salary sacrifice')

Potential savings: More money for retirement and less personal income tax paid

How it could work

Discuss with your pay office, but make sure that you can afford to make extra contributions and that you aren't better off making extra after-tax contributions and getting the government's co-contributions.

Tips for cutting costs

Pay by cash or EFTPOS instead of using credit

Potential savings: Encourages saving because you use your own money (which is limited) instead of borrowing it. Saves interest on credit cards

Pay credit cards off in full each month

Potential savings: Saves 18.5% per year on your outstanding balance

Use lay-by for Christmas shopping or save small amounts over the year

Potential savings: $25 per week would mean $1,300 in Christmas cash, avoiding high credit card bills in the New Year and interest payments

Tips for cutting costs *(cont)*

Combine multiple accounts, such as cheque and savings accounts at the bank, and separate super funds

Potential savings: Saves fees and charges

Use internet or phone banking

Potential savings: May save bank fees

Take your own lunch to work

Potential savings: If you work 5 days a week and save $10 per day, that's $2,600 a year

Save for your next car and choose a lower-priced model

Potential savings: A big deposit reduces the total purchase price, and you may also get savings on borrowing and insurance costs

Use pre-paid cards for your children's mobile phones

Potential savings: Make your kids top up the card themselves if they spend too fast – it teaches them how to budget

Use self-catering holiday accommodation

Potential savings: Saves on eating out at cafés, hotels and restaurants

What if you can't pay your bills?

Stay calm and work out what you can reasonably pay each person to whom you owe money (your creditors), considering your living costs, rent or mortgage, and all your debts. Not-for-profit financial counsellors can help you, see 'To find out more' on page 54.

Contact your creditors promptly and tell them you are having financial difficulties and want to discuss repayment arrangements. This is especially important if creditors hold security over your home, car or other assets.

Offer only what you can reasonably afford to pay, and offer something to each creditor. Try to cover interest or charges applying to the debt.

Ask if the creditor will agree to reduce the interest on the debt until you can get back on your feet. Confirm any agreement in writing.

What if you get retrenched?

Before making any decisions, taking any money or signing any documents, find out your entitlements and the best way for you to deal with any money you may receive. You may not be able to undo a decision you are unhappy about.

Centrelink's Financial Information Service conducts seminars on retrenchment and financial issues and can offer face-to-face interviews so you can find out about all of your options, see 'To find out more' on page 54.

Ask someone who understands your terms of employment and your super benefits, how much tax you'll pay and what makes the best sense for you financially. If you belong to a union, they may be able to give you free advice.

What if you get a windfall?

Above all, go back to your personal goals. Consider paying off all personal debts first and then your home mortgage.

If there's still money left over, consider making a personal contribution to super, a contribution to your spouse's super or starting to invest.

Windfalls can easily disappear through unplanned spending or hasty investments. For large sums of money, you may need the help of a financial adviser.

More information? *Use MoneySmart's Budget planner calculator at* ***www.moneysmart.gov.au****.*

Managing your loans and your mortgage

Getting into debt is far easier than getting out of it. If you shop around and manage your loans, they won't make a mess of your finances.

When should you borrow?

Look at the total cost including all the interest before you borrow.

Only borrow if you are sure you can afford the repayments.

For things you just ***want***, such as a holiday, it's cheaper to save up for them. For example, Nat and Sam's $3,000 two-week holiday, paid on their credit cards, took them two years' hard saving to pay off, and cost them an extra $590 in interest. Even for things you may ***need***, such as a car, it's cheaper to save if you can.

If you do borrow, pick the shortest repayment period you can afford, especially for anything that you use up quickly, like a holiday, or that loses value, like a car.

For a home, almost everyone has to borrow because it's hardly realistic to save up for one. In this case, it can make good sense to borrow, because a home could increase in value, perhaps even faster than the interest rate you will pay.

How much should you borrow?

It pays to be cautious. Lenders or mortgage brokers may offer you a bigger loan than you would feel comfortable with.

Your lender may increase your credit card limit without asking and without checking if you really can repay higher debt.

***TIP:** Do a trial run before you borrow. Try saving an amount equal to your loan repayments each month, or saving the difference between your rent and home loan repayments (include the one-off costs, such as stamp duty and moving house).*

Interest rates could go up, and if you borrow too much even a small rise could get you into trouble.

Could you afford to do that for the full term of the loan, maybe for 20 or 25 years?

You may be overstretching yourself if:

- your home loan repayments cost more than a third of your take home pay, or
- your total loan repayments cost more than half your take home pay.

What's the best loan?

Usually it's the loan with the lowest interest rate. This is often the single most important thing to get right, so shop around. Even small differences in interest rates can make a big difference to the total amount you will pay, especially with long-term loans. Extra features that cost you more in interest rates may just waste money.

Look for the 'comparison rate' which takes fees into account. 'Honeymoon', 'introductory' and 'low start' loans may sound appealing, but once the honeymoon ends, you could end up in a more expensive loan.

Check that your loan allows you to make extra payments, and if there are any fees for doing so.

Loans with fixed rates may:

- not allow extra payments or, if they do, will commonly limit the amount you can repay over the life of the loan
- charge very high extra fees for paying out the loan early.

Where to find loans

The Infochoice (**www.infochoice.com.au**) and RateCity (**www.ratecity.com.au**) websites are an excellent place to start comparing loans.

Magazines and newspaper columns also give a good idea of current rates.

Do consider all types of lenders: Credit unions, building societies, banks and non-bank lenders. Loans with the lowest rates of interest may not be the most heavily advertised.

Mortgage brokers may be able to help you find out about suitable loans but they may not offer all the low interest home loans available.

Do some checking and shopping around yourself. Make sure your broker is finding a competitive loan package or you could end up paying more than you need to. Always:

- *Shop around – talk to at least 2 or 3 brokers*
- *Avoid brokers that charge an upfront fee*

Which loans should you pay off first?

Pay at least the minimum amount due to every lender on time. If you can afford extra payments, start with the loan charging the highest interest. Only put extra into other loans after the most expensive one has been paid off. The lowest-priority loan is one that has tax-deductible interest – for an investment property loan, for instance.

Why pay loans and mortgages off faster?

Paying off your loan faster can save you thousands in interest payments.

One simple way to get ahead is to pay your loan fortnightly instead of monthly. In effect, you make the equivalent of 13 monthly payments a year instead of 12. Fortnightly payments will cut four years off a 20-year home loan of $200,000. And if you can pay an extra $100 per fortnight, you will cut seven years off your loan.

If you have some money to spare, consider reducing your loan balance. Paying $1,000 off a credit card charging you 18.5% interest obviously beats putting the same money into a term deposit earning 5.5%.

Also, remember the effect of tax. Paying $1,000 off a loan charging interest of 6.5%, saves a full $65. Even if you could invest the money somewhere else that earned $65, you would then have to pay tax.

Be careful about claims that refinancing will pay off your loan faster. You can only pay off loans faster by paying more money. Only refinance if you are sure the savings outweigh the costs.

Protecting yourself, your family and your property

Why insurance really matters

Insurance helps cover the costs of unfortunate events, such as losing your living because of illness or disability, or your home in a fire.

It protects the financial safety of you and your family, and your property.

Common risks and how to insure against them

Common risks: Damage or loss to a home building and fixtures

Insurance product: Home building insurance

What can reduce your insurance premiums
Adequate maintenance, smoke detectors, sound electrical wiring

Common risks: Loss of home contents

Insurance product: Home contents insurance

What can reduce your insurance premiums
Window and door locks, burglar alarms, smoke detectors

Common risks: Damage to someone else's vehicle or property

Insurance product: Third party property insurance

What can reduce your insurance premiums
An accident free driving record

Common risks: Loss or damage to your motor vehicle

Insurance product: Comprehensive insurance

What can reduce your insurance premiums
Security devices

Common risks: Death and total and permanent disability

Insurance product: Life insurance and total and permanent disability insurance

What can reduce your insurance premiums
Check if your super fund offers suitable insurance

Common risks and how to insure against them *(cont)*

Common risks: Sickness and temporary disability

Insurance product: Income protection insurance (the premiums are tax deductible); Private hospital medical insurance; Trauma insurance

What can reduce your insurance premiums

Check if your super fund offers suitable insurance

Common risks: Unemployment

Insurance product: Generally you can't insure against unemployment. Cover that is available is very short term with lots of restrictions

What can reduce your insurance premiums

Not applicable

How much cover do you need?

If you make a claim, the maximum an insurer will pay you is the amount of money, or 'sum insured', in your contract. That sum has to cover everything.

Most people underestimate the value of what they own and 'under-insure'. If you under-insure, you won't get enough money to cover the total cost of your loss.

For example, the 'sum insured' for your home must be enough to cover all your costs if your home were destroyed, including rubbish removal, temporary rental accommodation, as well as rebuilding costs. If you want to be sure you have enough cover:

- purchase a total replacement policy – these cover you for all the rebuilding costs.
- use insurers' internet calculators to help you work out how much to insure for. Not all calculators are the same. Use a calculator that asks you lots of questions (up to 30) about your home, because you're much more likely to get a more accurate sum insured.
- check your level of cover when you renew your policy, so that your sum insured keeps up with increases in building costs and any renovations.

Increasing your sum insured won't necessarily cost a lot of money. Shopping around, or choosing a higher excess, could get you more insurance at about the same cost as your current policy.

You also need to consider whether you have enough cover for other types of insurance as well. For example, you may need to increase home contents insurance as you get more household items, or you may need to increase your life insurance to cover new debts (such as when you take out a home loan).

How do you get the best cover?

Shop around and get a few quotes. To give you a quote, the insurer will ask you various questions.

Answer all questions ***fully and honestly***. You must tell them ***all*** the facts that could be relevant, otherwise the insurer may be entitled to refuse or reduce payment on a claim.

You may save on insurance premiums by agreeing to pay an 'excess'.

EXAMPLE: *If you can afford to pay for the first $500 of damage to your home or contents, you may get a reduced premium. Packaging several insurance policies with one insurer may also save money.*

Compare the actual cover offered in each quote. Go through what the policy covers and what it excludes with a fine-tooth comb. Many people only find out too late that something was not covered.

Insurance covers only what's defined in the policy and nothing else. A cheap policy that doesn't cover what you need could be worse than a more expensive policy with unnecessary features. If you have special needs, seek expert advice before you take out insurance cover.

Getting the most from your super

Your super can be a safe, low-cost and tax-effective way of saving for retirement if you make the most of it.

Super's for retirement, not before

To get your super, anyone born after June 1964 must be over age 60 (reducing to age 55 if you were born before July 1960). You can continue working part-time, and use part of your super for extra income.

There are strict conditions for when you can access your super early including cases of severe financial hardship, permanent incapacity, temporary residents leaving Australia permanently or compassionate grounds. Otherwise, early access to your super is illegal.

How much should you contribute?

You will normally need more than just your employer's 9% contribution if you want a comfortable retirement. Employer contributions may only be enough if you join a fund in your early twenties, take no more than a year or two out of the workforce and work until you retire at 65.

In reality, many people may have longer breaks from the workforce, and so employer contributions by themselves may not give you a comfortable retirement.

Contributing a bit more to your super will make a real difference to your retirement savings.

If you contribute extra from your **after-tax** income, you don't have to pay contributions tax on those extra contributions. Also, you are eligible to receive a co-contribution from the government if you earn less than $60,342 each year.

For example (see table opposite), Nat has $20,000 in super at age 35 and a gross salary of around $30,000 so is eligible for the co-contribution.

Nat's thinking about contributing an extra $1,000 after-tax, and here's the difference this could make.

Nat's super account balance in today's dollars*

Super contribution	After 10 years	After 20 years	After 30 years, at age 65
Employer's 9% contributions only	$55,000	$104,000	$172,000
Employer 9% plus an extra $1,000 **after-tax** contributions, with $1,500 co-contribution	$81,000	$162,000	$273,000

* Using MoneySmart's Super calculator (**www.moneysmart.gov.au**), and assuming Nat was earning 8% returns with 0.55% management fees and no other costs. See *Your guide to the MoneySmart Super calculator* for our assumptions and reasons.

For higher income earners, if your employer allows you to contribute extra from your **pre-tax** income, you can also benefit from making extra super contributions.

See our table on the next page.

For example, Sam's colleague Alex, aged 40, earns a gross salary of $70,000 and has $50,000 in super now. Alex's thinking about contributing an extra 5% in **pre-tax** salary, and here's the difference this could make.

Alex's super account balance in today's dollars*

Super contribution	After 10 years	After 20 years	After 25 years, at age 65
Employer's 9% contributions only	$133,000	$249,000	$324,000
Employer 9% plus an extra 5% **pre-tax** salary contributions	$169,000	$334,000	$440,000

* Using MoneySmart's Super calculator (**www.moneysmart.gov.au**), and assuming Alex is earning 8% returns with 0.55% management fees and no other costs. See *Your guide to the MoneySmart Super calculator* for our assumptions and reasons.

Extra money you contribute must stay in your super until you retire, so only contribute extra money that you can set aside until then. Otherwise, consider investing some money outside super.

Why do fees matter?

Every dollar paid in fees, especially in 'ongoing' fees, reduces the final payment you get. If you can, choose the lowest cost fund that meets your needs. In a fund with higher fees, you need a higher return just to come out even.

Suppose Sam's about to change jobs and deciding whether to stay in the current fund or switch to another one.

Sam's current fund charges around 0.55% each year in ongoing fees plus another $52 each year. Another fund charges 2% each year and offers about 80 different investment options and Sam can switch between options daily. Here's how things could work out.

Sam's got $35,000 in super now. Let's assume both funds earn the same return before fees and taxes, so you can just compare the effect of the different fees.

Especially over a long time, even 1% difference in fees can make a big difference. So Sam has to consider carefully if the extra features are worth the cost.

Most industry and corporate super funds will cost you less than retail funds, although retail funds may offer services, choices or other features you may want. Higher fees do not guarantee higher returns. See the effect of fees on Sam's super on the next page.

Sam's super account balance in today's dollars*

Sam's choice of funds	After 10 years	After 20 years	After 30 years, at age 65
Sam's current fund (0.55% of balance plus $52 fee each year adjusted for inflation)	$101,000	$193,000	$321,000
Sam's alternative fund (2% of balance, no $52 charged)	$93,000	$163,000	$251,000
Effect of fees	**$8,000**	**$30,000**	**$70,000**

* Using MoneySmart's Super calculator (**www.moneysmart.gov.au**). See *Your guide to the MoneySmart Super calculator* for our assumptions and reasons.

Which investment strategy?

You may be able to choose how your super is invested.

***TIP:** Before you make a choice, read about the risks and returns for each investment strategy you are offered.*

Consider your personal circumstances. If you are close to retiring age, and plan to draw on your super money as soon as you retire, you might choose a low-risk, low-return fund. If you have much of your working life ahead of you, or you might retire without drawing on all your super, you may accept a greater risk to increase the chances of growth.

Historically it has proved extremely difficult to beat rises in the cost of living (also often called 'inflation') without investing in assets like shares and property.

That means accepting the risk of losses in bad years. Professional advisers would expect most people, even those who have retired, to invest in some riskier assets, as well as in cash and fixed interest.

Even small differences in returns over a long time add up to a lot of money, see the following example.

Rate of return for 20 years, reinvesting all returns	Start with	Finish up with
4% per year	$10,000	$22,000
6% per year	$10,000	$32,000

In this case, compounding an extra 2% over 20 years earned another $10,000.

More information? Get ASIC's free booklet, *Super decisions*, from our Infoline (**1300 300 630**) or from our MoneySmart website (**www.moneysmart.gov.au**).

Retiring: How much money will you need?

How much will you need each year?

Look at your current expenses and work out how they would change if you were retired.

For example, if your mortgage will be paid off by the time you retire, you can cancel out this amount. If your children will be independent, you may need less for living expenses.

The table on the following page shows our example of expenses for a family with two children and a mortgage, who want a retirement income of $38,000 a year.

Allow for any continuing or new expenses in retirement. You may need to save more if you:

- plan to retire before 65
- pay rent for your home
- still have debts to pay off
- cannot do any part-time paid work after you retire (for instance, because of ill-health)
- have extra expenses, such as special health care needs
- want to travel
- will have to pay for a car, computer or mobile phone that your employer pays for now.

Expenses for a family with two children and a mortgage, who want a retirement income of $38,000 a year

Expense	Current yearly expenses	Retirement yearly expenses
Mortgage	$16,000	$0
General living	$37,000	$34,000
Insurance	$7,000	$4,000
Education expenses	$10,000	$0
Total	**$70,000**	**$38,000**

How much will you need to save?

The earlier you retire, the longer you will have to live on your savings – you might have to support yourself for more than 30 years. As a rough guide, multiply the annual income you want at age 55 by 19; at age 60, by 17; and at age 65, by 14.

The following table shows our example of the savings needed to get a retirement of $38,000 per year, until age 85.

Savings needed to get a retirement of $38,000 per year, until age 85

If you want an annual income of $38,000 and you are retiring now at	Multiply income by*	Estimated savings needed
Age 55	19	$722,000
Age 60	17	$646,000
Age 65	14	$532,000

* Assuming current market rates for buying a retirement income (an account-based pension), with your retirement savings earning 6% after costs.

What about the age pension?

Many people get some age pension after they reach 65, if they can satisfy means and assets tests. The maximum age pension today is about $14,700 a year for singles and $24,500 a year for a couple. If you want more than this, you will need to rely on your own retirement savings.

Please note that Centrelink revise pension rates in March and September each year, and the figures quoted are based on Centrelink payment rates effective from 1 January 2009. For current figures, go to the Centrelink website (**www.centrelink.gov.au**) or contact Centrelink on **13 23 00**.

Our retirement checklist on the next page will give you some suggestions for working out what you will need in retirement and how to organise it.

TIP: *Do your own retirement checklist. Super, tax and social security benefit rules are complex, and will affect you. Do your homework and get professional advice.*

Your retirement checklist

How much will it cost to maintain your current lifestyle in retirement?

How to find the answers

Prepare a retirement budget.

Include regular living expenses as well as one-off costs, such as a new car, home alterations, and travel.

Plan to clear all debt before or as soon you retire.

What retirement benefits and choices does your super fund offer?

How to find the answers

Ask your fund administrator.

Will you be eligible for government benefits?

How to find the answers

Discuss with a Centrelink Financial Information Service officer, even if you do not expect to claim a pension.

Tax concessions?

How to find the answers

Get Australian Taxation Office publications and talk to your tax adviser.

What financial products and services would suit you in retirement?

How to find the answers

Your super administrator may have information.

Your tax adviser might be able to help.

Centrelink's Financial Information Service can also tell you about products and services in the market, though they can't recommend products.

Consider seeing a licensed financial adviser if you have more than $100,000 in super and personal investments.

Don't access your super until you know what you want to do with it. Consider how you want to get your money. It's possible to take your super as a lump sum but there are significant tax benefits in converting your super into a retirement income stream.

More information? Get the Department of Families, Housing, Community Services and Indigenous Affairs's booklet, *Investing for Your Retirement*, by phoning Centrelink on **13 23 00**. Get ASIC's free booklet, *Getting advice*, on how to get personal financial advice from our Infoline (**1300 300 630**) or from our MoneySmart website (**www.moneysmart.gov.au**).

Starting your personal investing

You can invest your personal savings in many ways, and you may not want to put all your spare cash into super. Here are some tips about a large and complex subject.

It can also be worth getting initial advice even if you intend to start small. Centrelink's Financial Information Service can give you information about investments face-to-face, though they can't recommend particular financial products. See 'To find out more' on page 54.

***TIP:** Before you invest, read more on ASIC's consumer website MoneySmart (**www.moneysmart.gov.au**), in personal finance columns and investment magazines, and in books by licensed Australian advisers.*

When do you start?

Start now, no matter how small the amount you have. The longer your investment has to grow, the better the results. Even if you can't afford to invest a large amount, you may be able to start a small but regular investing program.

Below are two examples showing how Nat and Sam hope to invest, compared with their friend Greg who can afford to invest a lump sum now.

Investors	What they plan	What they hope to achieve in 10 years*
Nat and Sam	$500 at the start and $150 each month. (Total investment $18,350)	About $25,500
Greg	$10,000 at the start and nothing more	About $17,000

* Based on earning 6% each year after fees and taxes, and reinvesting their investment earnings.

What do you invest in?

That depends on:

- how long you can invest the money for, and
- how comfortable you feel about different investments.

Investments are usually divided into two main types: income and growth.

Income investments like cash management trusts and government bonds give you an income from earning interest, but usually little or no capital growth – your original investment doesn’t increase in value.

Growth investments like shares or property may give you capital growth over the long term, so that, as well as earning income, your original investment may increase in value.

Investment time frames and appropriate investment choices

How long can you spare the money?	Common investment choices
6 months to 2 years	Aim to earn interest with little risk, for example in term deposits and cash management accounts
2 to 5 years	Aim to earn mainly interest, possibly adding some growth assets, such as property and shares
5 years or more	Aim for capital growth as well as income by including more shares and property

How can you invest?

You can make your own investments directly, which gives you control of all the decisions.

That means working out your own investment strategy, and keeping up to date with your investments and what’s happening in the market through company annual reports and the financial media.

You can also invest indirectly through managed funds. Your money is pooled with money from other investors, and a professional manager makes the decisions for all the investors.

You don’t have to worry about day-to-day investment decisions, but you do pay fees for the manager’s services. Do still read your fund’s annual report.

Either way, you might still seek advice from a licensed advisory business.

***TIP:** Reduce risk by investing small amounts regularly and spreading your investments.*

How can you manage risk?

All investment involves some risk, but you can reduce it by:

- investing small amounts regularly to reduce the risk of investing everything just before the market drops
- spreading your money across different kinds of investment choices (such as shares, property and cash) to reduce the risk of being in the wrong market at the wrong time
- spreading your money among shares in different companies, different properties and different industries to reduce the risk of losing heavily on a single investment. (Some managed funds can do this more easily than trying to do it yourself.)
- dividing your money between two or three fund managers to reduce the risk of picking just one that's about to perform poorly.

How can you cut costs?

Fees, especially ongoing fees charged as a percentage of your investment, can make a big difference to what you earn.

Always make sure you know what fees are charged before you make an investment. (Some investment arrangements, such as 'master trusts' and 'wrap accounts', may offer extra features and services, but make sure you will actually use them, otherwise you could pay extra fees for nothing.)

See our comments on fees in 'Getting the most from your super' on page 33.

What returns are realistic?

For a general idea, compare any investment with investments of the same type in the overall market.

Returns vary considerably from year to year, so look at performance over as long a period as possible. Over 5–7 years, it may be realistic to expect returns that average about 7% to 9% a year from growth assets such as property and shares. Income investments may keep pace or do very slightly better than inflation, say about 4–6% a year, depending on the risk involved.

If you are offered returns even 1–2% above current market rates, you are likely to be taking a much higher risk in investing. Anything above 15% would be very high risk indeed, possibly even a scam.

And although 'high returns means high risk' is a familiar rule of thumb, as with all rules, there are exceptions to look out for. Some investments, that appear to offer very modest returns, can be extremely risky. That's why it's important to consider more than just the returns when investing in something.

Go to MoneySmart (**www.moneysmart.gov.au**) to compare investments on the Risk and return calculator. ASIC's free booklet *Investing in Debentures?*, a particular type of investment, also has general tips on investing.

***REMEMBER:** If it sounds too good to be true, it's probably a lie.*

What if the market falls?

The market value of investments rises and falls. Falls occur regularly and may present good opportunities for bargain buying.

Markets generally recover, but this can take time. It's important to set your goals and your time frames and stick with them, rather than worry about every change in the market.

How do you avoid big mistakes?

Do what's right for you, and don't let others pressure you into something that makes you feel uneasy.

Steer clear of 'all or nothing' gambles, 'get rich quick' schemes and high-priced financial gurus with the 'secrets of unbelievable wealth'.

Most are a waste of money or outright frauds.

More information? Use MoneySmart's Managed fund fee calculator (**www.moneysmart.gov.au**), get a free copy of ASIC's *Getting advice* from our Infoline (**1300 300 630**).

Read about different products on various fund managers' websites.

Should you borrow to invest?

Once you get your budget, insurance and super savings in place, you might consider borrowing to invest.

Borrowing to invest increases the amount of money you have to invest. That means either increasing your gains or your losses.

It is a more risky strategy, so weigh up if you'll feel comfortable and consider your own financial strengths and weaknesses:

- Will you be able to manage the debt even if your investments perform poorly?
- Do you have a reliable income with a safety net of cash and insurance?
- Is your savings history and financial position strong?
- Could you handle increased interest rates or market downturns?
- Have you invested in this sort of asset before and understand its risks?

To find out more

See how these organisations can help you gather information and make the right decision. We have listed websites because they are a quick and easy way to get information.

If you don't have an internet connection at home, you can usually get access at your local library. Otherwise, you can phone for information.

Australian Securities and Investments Commission (ASIC)

Our consumer website, MoneySmart, offers financial tips and safety checks on all financial products and services.

Free searches on ASIC licence holders and bannings.

Free booklets on super (*Super decisions*), on getting personal financial advice (*Getting advice*) and making a complaint (*You can complain*).

Enforces laws against fraud and misconduct.

Website: **www.moneysmart.gov.au**
Phone: **1300 300 630**

Australian Taxation Office (ATO)

Tax information

Information about super guarantee contributions, lost super accounts and self-managed super funds.

Website: **www.ato.gov.au** Phone: **13 10 20**

National Information Centre on Retirement Investments Inc (NICRI)

Independent, free information about all kinds of investments used by many retired people.

Website: **www.nicri.org.au** Phone: **1800 020 110**

Centrelink

The Financial Information Service (FIS) educates a wide range of people through seminars, phone and face to face interviews.

Website: **www.centrelink.gov.au** Phone: **13 23 00**

Seminar bookings Phone: **13 63 57**

CHOICE

Free and some pay-to-view website information on money issues affecting consumers.

CHOICE magazine by subscription, and books for sale.

Website: **www.choice.com.au** Phone: **1800 069 552**

Financial counselling services

Free help to manage a short-term crisis and plan to prevent a future one.

See MoneySmart (**www.moneysmart.gov.au**) for an up to date list, or call ASIC's Infoline on **1300 300 630**.

www.moneysmart.gov.au
or phone ASIC's Infoline on
1300 300 630

The Australian Securities and Investments Commission's website for consumers and investors, **MoneySmart**, offers you financial tips and safety checks.

Stay in touch with a monthly email newsletter from MoneySmart. You can subscribe at **www.moneysmart.gov.au** or by phoning **1300 300 630**.

EMAS
VERIFIED
ENVIRONMENTAL
MANAGEMENT

Emaster
PAPER WITH A CLEAR CONSCIENCE

Emaster is manufactured by
M-Real Paper, Äänekoski,Finland.
Mill registration number FIN-000042.

© Australian Securities and Investments Commission, October 2010

ISBN 978-0-9805021-8-3