

A guide to financial planning

Financial planning is an ongoing process. It helps you establish your financial goals, and then achieve them by making the best use of your financial resources.

How does financial planning work?

Your financial adviser uses a six-step process that helps you take a 'big picture' look at where you are and where you want to be. Using this process they help you work out what you need to do now and in the future to reach your goals.

- Step 1.** Gathering your financial data, such as details on your income, debt level, commitments, etc.
- Step 2.** Identifying your financial goals
- Step 3.** Identifying any financial issues or deficiencies between where you are now financially and where you want to be
- Step 4.** Preparing your financial plan which will identify recommended investments and address your attitude to risk
- Step 5.** Implementing your financial plan
- Step 6.** Reviewing and revising your plan – to ensure it stays up-to-date and relevant.

How can a financial adviser help you?

The best way to manage your financial affairs is to get expert advice. Your financial adviser will work through each stage of the planning process with you and help you manage the trade-off between satisfying your current needs and meeting your long-term financial goals.

Your financial adviser can help you in the following areas:

- growing your wealth
- choosing investments
- investment administration
- super
- borrowing to invest (gearing)
- insurance
- taxation planning
- retirement
- redundancy
- Social Security
- estate planning.

Choosing a financial adviser

When you seek financial advice it's important to know that your adviser has the appropriate skills and experience and that the Australian Financial Services Licensee he or she is associated with is able to deliver the ongoing services you need.

The following questions may help you to assess the merits of a financial adviser:

- 1. Do they have a Financial Services Guide (FSG)?**
All financial advisers are required by law to produce an FSG which gives you an easy-to-understand explanation of their fee structure and the services they offer. The FSG should help you make an informed decision about whether you want to use their services.
- 2. Are they, or their company, licensed by the Australian Securities and Investments Commission (ASIC)?**
An authorised financial adviser must meet the knowledge, skills and integrity standards required by ASIC.
- 3. What are their qualifications and experience?**
Check that the financial adviser has appropriate qualifications, preferably at least a Diploma of Financial Planning. Ask how long they have been a financial adviser and what types of clients they typically work with.
- 4. Are they a member of a professional association?**
We strongly advise that any financial adviser you use is a member of the Australian Financial Planning Association (FPA), the Institute of Chartered Accountants in Australia (ICAA) or a Certified Practising Accountant (CPA).
The FPA is the professional body for financial advisers in Australia, while ICAA and CPA are the professional bodies for Accountants in Australia. Members must abide by Codes of Ethics and strict operating guidelines which protect clients' rights.

5. What services do they offer?

Does the adviser only offer investment advice or do they offer total financial solutions including insurance, tax, estate planning and so on. Do they have formal ongoing review services? Do they offer investment administration services? (The financial adviser's FSG will list the services they provide.)

6. How are they paid for their services?

Find out if they operate on a flat fee, brokerage or commission basis. Ask them to explain all upfront, ongoing and exit fees which you might have to pay (directly or indirectly). (The financial adviser's FSG will include this information.)

Case study 1

Gemma, an executive, accepted a redundancy offer from her company. As she had another job to go to and didn't need her termination payout for income, her well-meaning colleagues suggested that she 'roll over' her golden handshake and super into another super fund. They told Gemma that by doing this she wouldn't be liable for tax on those payouts. Gemma thought this sounded too good to be true and decided to seek professional advice from a financial adviser.

The adviser told Gemma that while her colleagues were right about the tax treatment on 'rolling over' super, under superannuation law you have to meet certain criteria to be able to roll over these payments.

As Gemma doesn't meet the criteria she has no other option but to take her golden handshake and other employment termination payment in cash and pay the lump-sum tax due.

Things you should consider

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.

Case study 2

Although Wayne and Mary were about to retire with a significant super nest egg, they were concerned that it might not last long enough to see them through retirement. They worked out that they would have to seriously reduce their standard of living when they retired to make their money last.

When they spoke to a financial adviser, he confirmed their fears – to help avoid running out of money later on they would need to adopt three specific financial strategies.

The first was to invest their money in such a way that they would pay no income tax for the rest of their lives – a significant saving. This, in part, involved directing more money into their super funds for a tax-free income when they turned 60.

Secondly, they needed to use investments which would allow them to qualify for a reduced Social Security pension plus the benefits associated with it (such as a pensioner concession card).

Finally, after taking into account their attitude to risk, they would need to invest part of their money in growth assets such as shares and property. While this would mean that their portfolio would have fluctuating returns in the short term, it would generate greater returns over the long term.

The financial adviser showed them a computer simulation of how the three strategies work and then developed a detailed financial plan for Wayne and Mary using these strategies. The end result is that Wayne and Mary can confidently expect their capital to last well beyond their life expectations, with no reduction in their desired standard of living.

IMPORTANT INFORMATION

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