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YOU CAN MAKE A MILLION

Millionaire status is closer than you think – *Money* asked some of Australia's top advisers to show you how you can do it

IT'S TRUE, A MILLION BUCKS isn't what it used to be. According to a survey by Merrill Lynch and Capgemini in 2006, about one in every 130 Australians is a millionaire. But I'm sure you'll agree it's still a goal worth chasing. Australia is creating millionaires faster than any other country. But how are you travelling?

Let *Money* get your fingers rubbing with three inspiring stories of people just like you who, thanks largely to expert help, will become millionaires on or before retirement.

Each adviser has information and tips you can use. A key is to start early, but you can achieve the same results later if you save fast and hard. Sue Ramsey and Norman McGeoch are proof of that (see page 52).

So here's what you should be doing, at different ages, to retire a millionaire:

Age 20

- Don't rely on credit cards; instead get used to running a debit card.
- Set up an emergency fund equal to three months of take-home pay. Stash it in a high-yield online savings account.
- Don't put your own money into your super just yet. Use it to start building your savings.
- Start saving each week. Put \$50 a week into a managed fund at age 20 and by the time you turn 60 you will have around \$1.4 million in the kitty (assuming 10%pa average return).

Age 30

- Borrow to buy a house. Concentrate on pay-

ing off this non-tax-deductible debt as quickly as possible.

- Have adequate life insurance but don't double up. Many superannuation policies already include life insurance and other benefits.
- Start contributing to super and make sure it goes into growth investments such as shares. The right choice could mean a difference of hundreds of thousands in retirement.
- When a partner gives up work to have children, you can lose financial momentum. The best plan is for the working partner to contribute to the spouse's superannuation.

Age 40-50

- Pay off the home.
- As children start their own lives this is your peak time for creating future wealth.
- Put even more into super on top of what the boss is putting in. If you salary sacrifice \$24,000 a year, after 20 years you will have \$101 million (assuming 8%pa average return).

• Use the equity in your home to gear into managed funds, residential and or commercial property, or go directly into shares.

- Each time you get a pay rise, salary sacrifice 50% of the increase into your super.

Age 60+

- Avoiding risk is the biggest risk you can take. We're living longer so our retirement money has to last 20-30 years. So spread the risk and diversify into a number of asset classes.
- If you're still paying tax, see an accountant or financial adviser because in most cases tax can be minimised or even eliminated.

If you start early you'll find it easier to reach the \$1 million target. As you move through life, the investment options for generating significant wealth narrow. And inflation means that the longer you take to reach your target the less it is worth in today's dollars.

(In the following reports, inflation has not been taken into consideration.)

START NOW...

AGE	ACTION	INVESTMENT PERIOD	AVERAGE RETURN ¹	RESULT
16-24	Start with \$100, save \$50pw	40 years	10%pa	\$1.4 million
25-34	Buy \$350,000 house, \$50,000 deposit	20 years	8%pa	\$1.25 million, net
35-45	Salary sacrifice, \$24,000pa to super	20 years	8%pa	\$1.1 million
46-59	Invest \$250,000 in shares, geared at 50%	7 years	12%pa	\$1.1 million, net
60 plus	Invest \$400,000	10 years	10%pa	just over \$1 million

¹Investment returns have not been adjusted for inflation.



GETTY IMAGES

PROFILE. Jade is a production controller with ACP Magazines, publisher *Money*. She's 25 and single. Living at home has helped Jade pay off all her personal debts plus save a cool \$25,000. Her main expenses are commuting to the city each day – travelling four hours a day, spending \$70 a week on fuel and \$40 in train tickets. "My goal is to buy a two-bedroom unit within a reasonable distance of the city, so I can get the First Home Owner Grant," she says. "I'd rent out one of the rooms to help split the bills." She wants to build travel into her plan, vehicle upgrades over the years and a family – one day.

Jade's not contributing to super but she still hopes for an early retirement. Could she achieve \$1 million on her own? More importantly, can she reach this target well before turning 60?

Pippa Elliott, a certified financial planner with Momentum Planning in Western Australia, seems to think this and much more is possible.

A home of her own

Living at her family home in our most expensive city, with no major debts, a thrifty 20-something wonders how she can reach her goals

THE STRATEGY. If Jade follows the planner's checklist she will achieve net wealth of \$1 million by age 42 (17 years from now). By age 47 she could own her own home, plus have \$1.1 million of financial assets (super \$574,000, shares and managed funds \$543,000, plus her home worth \$763,000).

Jade acknowledges that a \$200,000 purchase price for a unit will not get her a place in the city, but a quick search on www.realestate.com.au did reveal a few two-bedroom units for under \$200,000 just 15 kilometres from the city. This could cut her travel time to two hours a day and reduce her travel costs.

A more expensive property would restrict her lifestyle plans of holidays and car upgrades, so she elected to compromise.

Financial planner Pippa Elliott explains: Cash flow will be the most important area for Jade to manage and the only way she can do this is if there's a structure for her cash to follow. I'd recommend opening four bank accounts – three should be free online high-yield accounts or cash management trusts and the fourth needs easy ATM access.

Jade's salary, income from a boarder, margin-loan income and tax returns are all deposited into the "hub account".

From the hub, she needs to transfer a monthly amount to her bills account, and transfer a monthly amount to an easy-access banking account for regular living costs. For biennial

holidays, Jade will need to transfer \$200 a month to a high-interest savings account.

At the end of every quarter, Jade should apply any surplus accumulated in her hub account to her mortgage.

Protecting her position is also critical, which is the basis for the insurance and estate planning recommendations. The cost of these insurances have been built into her plan.

A fast way to wealth is to gear into a man-

aged fund. I suggest that Jade start a margin lending investment where she invests \$300 a month of her own money and borrows \$300 a month from a margin loan.

Total investment is \$600 a month (\$7200pa) and her investment loan will grow by \$3600pa. Best of all, this debt is tax deductible. By using the income from this investment to help pay off the mortgage, Jade will be able to knock off her non tax-deductible mortgage debt years

WHAT ABOUT YOU? If you're looking for a way to fast-track your wealth and you have the stomach for risk, a geared managed fund is worth a look as an investment for your portfolio.

Basically, a geared fund is just a twist on your stock standard share fund. That is, geared share funds will borrow money, within the fund, to gear the investment exposure.

These funds borrow money to

supplement the investments made by unitholders and the interest on the loan is generally paid out of the income the fund earns. You may not face any margin calls, a distinct possibility if you were to personally borrow to buy shares, but these funds are volatile.

They fly like a rocket when markets are rising and deflate like a popped balloon when markets are sliding. Take Colonial First State Geared

fund (Colonial was the pioneer of these innovative products).

When the market was roaring back in 2004 it delivered a final-year total return of just over 61%. The last year hasn't been as kind – a negative 34.44% according to industry researcher Morningstar.

Because geared funds exaggerate every market move, you will need a long-term investment horizon of seven years or even more.

Jade wants to buy a two-bedroom unit handy to the city. "I'd rent out a room to help split the bills."

FACT FILE

Jade's to-do list

It's all achievable

- Use \$25,000 savings as deposit on \$200,000 property purchase and benefit from \$7000 First Home Owner Grant and nil stamp duty.
- Rent a room out for \$125 a week to help with expenses.
- Insure for income protection.
- Contribute \$100 a month pre-tax to superannuation via salary sacrifice.
- Start a margin lending investment and withdraw the income from this investment as available, to ultimately reduce the home loan – non tax-deductible debt – as soon as possible.
- Complete a will.
- Draw up a budget and a cash flow plan.
- Contribute \$200 a month to a high-interest savings account to save for biennial holidays at \$5000 a holiday.
- Do not acquire a credit card.
- Every six years, or longer if possible, draw down no more than \$10,000 from surplus accumulated in the home loan to upgrade your vehicle.

sooner. The margin lending and salary sacrifice strategies save Jade an estimated \$86,000 in tax over the next 17 years.

Given the current high-interest environment, we have used current rates for the term of the plan, which I feel is conservative.

If rates improve, her cash flow will improve. The approach of margin lending at a 50% loan-to-value ratio via dollar cost averaging – regular small investments each month – was chosen to match Jade's risk tolerance, investment experience and age.

In emergencies, or if interest rates rose considerably, she could temporarily cease the investment and pick it up again when things improved. The same flexibility applies with salary sacrifice to super.

If Jade experiences greater salary increases or career promotions than the plan assumes along the way, we would encourage her to use 50% towards building her financial future and 50% towards additional lifestyle spending.

We considered Jade's goal of marriage and a family in the future and actually showed her the possible impact of meeting a partner with the same income as her, upgrading to a family

home in six years time, taking 18 months off for a child in seven years and another 18 months off for a second child in 10 years.

Essentially it showed Jade that she could meet her \$1 million net wealth goal at age 41, despite three years off to raise a family and upgrading to a larger home. The biggest asset Jade has right now is time. Implementing a strategy early will mean that she does not have to take excessive risks or limit her lifestyle to achieve her long-term goals.

Assumptions: Wage of \$50,000pa, growth at 4%pa; super contributions 9% SGC from employer plus \$1200pa salary sacrifice, indexed by 4%pa; growth on super 8.95%pa; growth on margin lending portfolio 11%pa; growth on property 6%pa; interest rate on home loan 8.77%pa; interest rate on margin loan 9.5%pa; living expenses \$26,000 indexed by 2%pa; holidays every two years \$5000 each; car upgrade every six years \$10,000.

• Pippa Elliott is an award-winning certified financial planner with Momentum Planning in Western Australia. Contact via website www.momentumplanning.com.au or call (08) 9221 1955.



Craig and Jonica had a good time overseas and now they're ready to build their future.

Time to improve habits

A couple with a young baby are ready to put their heads down and save for the future

PROFILE. Jonica Bray & Craig Martin are typical of many 30-somethings. They recently returned to Australia after years working overseas. They have a young daughter, Gaja. They both hold good jobs in Sydney, but have very little in savings, and minimal assets. They have had fun over the past couple of years, but it is now time to put heads down and plan for their future. "Our goal is to set ourselves up and learn some good money habits that our daughter can follow," says Jonica. Their combined weekly income is around \$1650. Of this, \$385 goes for child care – after \$900 of other expenses, savings could be \$300. Jonica and Craig are lucky to be able to rent a family member's unit for a discounted rate of \$150 a week. They have a small credit card debt, \$10,000 in the bank, and recently inherited \$35,500 they intend to put towards a house deposit in the near future. They are well placed to build their assets to \$1 million by retirement, if not sooner. It's a matter of following the blueprint set by financial planner Joanna McCreery, founder of Majella Wealth Advisers.

WHAT ABOUT YOU?

Try salary sacrificing! It's not as bad as it sounds and it's a low-risk way to build wealth. You ask your employer to pay part of your pre-tax salary directly into your super account.

This may reduce your income now, but the amount you put into super will be taxed at only 15% instead of your marginal rate. So there's

more money in your super, working hard for you. Just make sure you ask your employer how it will affect your take-home pay and whether it will affect how much your employer contributes.

There are limits on how much you can salary sacrifice to super and still receive the concessional tax rate of 15%.

If you're under 50,

it's currently \$50,000 and if you're over 50 it's \$100,000.

There's some good super news for self-employed people. This financial year for the first time you'll be able to claim a tax deduction for all your super contributions. You'll also be able to benefit from the government's co-contribution scheme on top of your after-tax contributions.

THE STRATEGY. With strategic guidance and a good savings discipline, Jonica and Craig can build up assets of \$1 million in 17 years and \$2.9 million by the time they retire. Financial planner Joanna McCreery explains:

It is critical that Jonica and Craig establish some good money habits, including good debt management and a regular savings plan. For instance, they should only use their credit card if it can be paid off at the end of the month.

Their other major future debt – the home loan – will cost them a lot more than their current rent, so they need to ensure they can afford the loan they take on. Minimum repayments on a \$300,000 loan are \$2400 a month, compared with the \$600 they pay in rent.

We recommend they try to reduce expenses and start a disciplined savings plan to build a bigger deposit. Some easy expenses to cut are credit card interest and mobile phone bills. But, like many working families, their biggest expense is child care, at \$20,000 a year.

They can reduce this expense by \$12,400 a year with the government Child Care Benefit and child care rebate. To claim these benefits, they need to have Gaja immunised.

We recommend home buyers save at least 20% of the amount they intend to borrow. If Craig and Jonica save \$500 a week and earn 8% a year on their savings, they can grow their \$35,000 savings to \$64,000 in a year.

Combined with the First Home Owner Grant (currently \$7000 plus stamp duty concessions), they could have \$71,000 for the purchase of a house in 12 months. If they want to buy a house that costs more than about \$370,000, we recommend that they save for longer.

A home is an investment that should grow in value over time, helping them to build wealth. To increase the equity in this asset, we recommend they repay the home loan faster than the

loan term. We recommend that repayments on a \$300,000 loan be at least \$2600 a month (\$200 a month above the minimum). This can help the Brays repay their home loan eight years faster. After a few years they will have built some equity within their house.

At this time, we recommend Jonica and Craig consider drawing a small investment loan. The interest on this loan would be tax deductible. The income earned can be used to help repay the home loan, while the expected growth in the investment portfolio would increase their net assets.

Over time, this investment loan can be increased in line with their capacity to borrow. This type of strategy could potentially cut another six years off their home loan term.

With these two strategies the Brays can reduce their home loan term from 30 years to 16 years (assuming interest rates are 9%pa), saving them over \$300,000 in interest costs.

Saving into super is a great way to build retirement savings. We recommend that Jonica and Craig boost their 9%pa SGC contributions by at least 2%pa via salary sacrifice.

Once the home loan is repaid they can significantly boost super savings by redirecting the mortgage payments to their super via salary sacrifice. These contributions, combined with a small annual personal contribution (\$1000 each in 2007-08 and \$650pa between them after this) topped up with the government co-contribution, could give the Brays \$1.6 million in super by the time they retire.

The investment portfolio recommended starts small, but Jonica and Craig could gradually add to it by drawing down on a home equity investment loan. This could be worth a net \$300,000 by the time they retire. (We're assuming here that they stop increasing the loan once the house is repaid and start rein-

FACT FILE

Jonica & Craig's to-do list

Just follow the steps

- Clear the credit card debt (\$3000) with savings.
- Review phone plans (capped-rate plans could save the Brays \$40 a week).
- Re-evaluate not having their daughter immunised – if Gaja is immunised, they can claim the Child Care Benefit and the 50% child care rebate on their day care fees, saving them \$240 a week
- Start saving \$500 a month into a high-interest online savings account
- Transfer inherited funds into a 12-month term deposit (eg 8.1%pa with ING).
- Buy a home within their means (no more than \$300,000); make extra mortgage payments whenever possible.
- Use their home equity to start investing with tax-deductible borrowings.
- Direct the income earned in the investment into paying down the home loan.
- Consolidate super accounts.
- Make small personal contributions (less than \$1000pa in total) into super to access the government's co-contribution.
- Salary sacrifice 2% of your income to super and significantly increase these contributions once the home loan is repaid.

vesting the income.) In total, these strategies are projected to result in \$1.9 million in savings, no debts and a house potentially worth \$1 million. Without the extra house repayments, the investment portfolio and the additional super contributions, we project Craig and Jonica would have a significantly lower level of savings – \$940,000. In today's dollars, that's about \$400,000.

We would review their strategy each year and make adjustments as things change. The main message here is that with goals and a good strategy, you can build wealth faster.

Assumptions: Investment portfolio and super earn 8%pa; home loan interest rate is 9%pa; Jonica and Craig continue to work full time until retirement at 60; current salaries rise by 3%pa; they buy a \$370,000 house in 2009 and it rises in value by 4%pa.

• Joanna McCreery has had over 13 years experience in financial markets. Try www.majellawealth.com.au or call (02) 9018 9114.

How to boost their wealth

A couple of DINKS who missed out on some great investment opportunities need to catch up fast if they are to retire in 15 years

PROFILE. Sue Ramsey & Norman McGeoch have only recently entered the property market. Originally from the UK, they have had several extended works stints both there and in Australia. While this has been great for their careers it's done little to help their wealth.

"We came to Australia in 1992 and we weren't sure how long we'd stay," says freelance subeditor Sue. "We returned to the UK in 1999 and because we thought it was only temporary, about a year, we rented again in London. One year turned into five years so we missed out on the property booms in both Sydney and the UK." But their mortgage is under control. They've paid off nearly \$80,000 in just under four years. "Our goals are to be mortgage free within the next five years and have enough money to travel in retirement," says technician Norman. Well, according to financial planner Neil Kendall, of Tupicoffs in Queensland, if they follow his advice they can have more than \$1 million to spend in retirement.

THE STRATEGY. If Sue and Norman follow the planner's checklist their total net wealth (excluding the family home) at retirement is on track to be about \$1.5 million. "The outlook for Sue and Norman is quite good," says certified financial planner Neil Kendall. "Their goals are achievable if they manage their spending and maximise their after-tax income."

Kendall explains: One of the most flexible and risk-free strategies you can implement is to eliminate non-tax-deductible debt. This provides an after-tax return on funds equivalent to the interest you are paying and is extremely difficult to achieve in another way.

Sue and Norman repay \$1330 a fortnight on their \$221,000 home loan. If they up their fortnightly repayments by \$535, which their budget allows, they will take just over seven years to clear the debt.

As soon as funds are no longer required to service this debt, they can be directed to other forms of asset accumulation.

Sue and Norman have around \$3000 in direct shares. As they are not actively investing in shares we believe it would be a more appropriate strategy to use the capital to

reduce the principal on their home loan. This will help them pay off their home loan in record time.

While many people may direct surplus funds to, say, an investment property, we do not believe a rental property would be an appropriate investment for them at this time.

"If we could find a residential property where the rent repays the mortgage we would love to buy an investment property to help build our wealth," says Sue.

Unfortunately, in the current market of high interest rates on low rental returns, they would find it virtually impossible to find a residential property that would be neutrally geared.

Interest rates are currently at around 9%pa with expected rental returns (net of management fees and other costs) about 3%pa. Sue and Norman would therefore be out of pocket by around 6%pa of their property's value.

On a property value of \$400,000 this would cost them approximately \$24,000 a year.

They don't have this cash flow to support an additional loan to purchase a property, and the extra pressure is not needed to meet

FACT FILE

Sue & Norman's to-do list

You'll be glad you did it

- Clear the home loan in just over seven years by throwing all surplus cash into the mortgage offset account.
- Sell shares and pay into the home loan.
- When the home loan is repaid, start salary sacrificing. With the transition to retirement strategy at 55+ this will boost pension balances at age 65 by \$259,622.
- Protect your wealth. Take out income cover outside of super as you will get the tax deductions in your names personally.
- Make a will.
- Continue to invest in a balanced super fund as it is in line with your risk profile.
- Do not invest in a rental property. To build wealth, reduce your home loan and then contribute to your super.



Sue & Norman worked in Australia and overseas and now are ready to follow a solid plan for retirement.

their goals. Sue and Norman would be better off contributing to their super to build wealth for their retirement, as the tax concessions make this one of the best possible avenues for growing wealth.

We recommend once the house is paid off they start salary sacrificing. Sue is self-employed so she will not be salary sacrificing; rather she will make self-employed deductible super contributions. As they contribute funds to super each year their pension balance will increase and their pension payments will increase their ability to contribute more money to super in the following years.

Correctly structured, employer contributions to super can result in lower income tax (as cash salary reduces); lower overall tax, when tax on superannuation contributions is less than an individual's marginal tax rate; no fringe benefits tax on the amount sacrificed; full tax deductibility on the contribution to the employer; and lowering of the salary base on which employer overheads may be based.

By utilising this strategy, we estimate that Sue would have around \$690,000 at age 65 in her pension account and Norman would have around \$770,000. At age 55 we recommend that both Sue and Norman take advantage of a transition to retirement strategy.

We have recommended a balanced portfolio within their existing AustralianSuper industry fund. This will help keep costs low

and ensure more of their money is working for them and, with a five-year average return of 12.15%pa, is very competitive. They are not active investors and this portfolio allows them to leave it to AustralianSuper.

We recommend income protection so ill health will not leave them unable to reach their target. All they will need to focus on is disciplined spending and saving and being protected if either of them is sick or injured.

Assumptions: Sue and Norman stay in their

current home and their income and expenses increase in line with inflation at 3%pa; investments in a balanced portfolio earning an average of 8.2%pa; Sue and Norman follow our recommendations and make the additional payments on their house and then into their superannuation funds, and start pre-retirement pensions when they turn 55.

*Neil Kendall is an award-winning certified financial planner. Contact via website www.tupicoffs.com.au or call (07) 3221 3066.

WHAT ABOUT YOU?

Consider taking advantage of the government's transition to retirement strategy when you reach age 55.

This initiative was designed to allow workers flexibility to move from full-time to part-time employment prior to retirement by allowing access to superannuation benefits in the form of an income stream to top up income needs.

The thinking behind this was to increase the time that pensions could provide income for individuals, and reduce the dependency on the Age Pension.

These rules allow you to receive an income from your super monies via the account-based pension system. This allows you to take the tax benefits offered to retirement income streams and contribute to super

at the same time. The account-based pension environment is tax free whereas super funds pay 15% tax on earnings. Pensioners over 60 pay no tax on the pension income. Ideally more would be going into superannuation than going out of the account-based pension, allowing the overall retirement funds to grow and providing some tax relief at the same time.