The incentive to succeed

It's not what you earn but what you do with it that matters. John Collett reports.

Many of Australia's wealthiest people started out with nothing more than a will to succeed. Despite humble beginnings they used their limited financial resources to great effect and built empires. Yet there are many people on high salaries who have little to show for it after a lifetime of work.

The BRW rich lists are littered with the names of hard-working migrants who have struck it rich. Con Makris, the Adelaide shopping mogul, rose from modest beginnings as a Greek migrant and worked several jobs to save enough to buy a fish and chip shop. Then there's apartment king Harry Triguboff, who has been wary of taking on too much debt ever since he almost crashed in the credit squeeze of the early 1970s. David Barro, the founder of Victorian building supplies and transport company Barro Group, who died in June this year, came from Italy in 1936. After working in the construction industry, he started his own cement and paving business in the backyard of his family's home.

These stories demonstrate that it's not what you earn but what you do with the money that matters.

Building wealth, even on a small scale, demands discipline and direction, starting with saving and investing. Most people leave it too late and their approach is often haphazard and ill-defined.

Apart from iron determination, the empire builders were quick to recognise the value of good advice.

Yet depending on which survey is used, only between 22 per cent and 34 per cent of Australians access financial advice.

And the need has never been greater. Our financial lives are much more complex than our parents' and grandparents'.

Past generations may have retired without the superannuation benefits those in their 40s and 50s will have but the older generation would have had some savings and their mortgage paid off by the time they retired. Those close to retirement now are more likely to be carrying large mortgage debts into retirement.

Of households with a main resident aged 55 or over, the proportion still holding a mortgage against their home rose from 10 per cent to 16 per cent between 2001 and 2008, according to Australian Bureau of Statistics data.

With higher house prices, bigger mortgages and more people using their mortgage as a line-of-credit to fund lifestyle, more people need help managing debt.

PLANNING

"I have no problem with debt over an investment unit as long as we are convinced that the property is going to go up in value and there is an exit plan," says financial planner Peter Nicholson of Peak Financial Planning, which is licensed through Count Wealth Accountants. "But I have a problem with personal debt in retirement.

"I would not be comfortable to see any of my clients in that situation. I would have planned well before retirement not to have personal debt as I would have advised them to save more and reduce their debt."

Another area of increasing complexity, where a planner can really help is estate planning. With more marriages ending in divorce and more blended families, planners are spending a lot more time with clients on estate planning.

"Good financial planning helps people plan and manage their financial situation, helping to build wealth and achieve financial security," says Andrew Heaven, an AMP financial planner with WealthPartners Financial Solutions.

"A financial planner can work with people to review their financial situation and help them set short- and long-term financial goals." And superannuation is at the top of the list for planners.

"Studies have shown that over a working life of 40 years, the 9 per cent compulsory superannuation is not enough to fund a comfortable retirement," Heaven says. The total contributions into super should be about 15 per cent, he says. Planning advice is needed earlier than most people think because the new, lower limits on how much can be salary sacrificed into super mean people have to start topping up their super earlier than in the past, when they could leave it until a few years before retirement.

Most people seek advice because of a trigger point, says Laura Menschik, a financial planner and director of WLM Financial Services.

Changing jobs, redundancy, an inheritance or planning for retirement can all prompt people to seek advice.

Sometimes it is mostly about a reality check for the client, Menschik says. "A good planner should be able to add some focus for the client, establish realistic expectations and take a disciplined approach," she says. But the plan will most likely have to change as life's circumstances change.

"Clients tell me they are getting married and not planning on having kids and six months later they are pregnant and then I get the call to say it is twins," Menschik says. "What you did with them six months ago goes out of the window and we have to re-adjust for their new situation."

But she says that a few goals should apply to just about everyone. For most people a very good strategy is to pay off "bad debt" first: that which funds consumption, not investment. This is where the interest is not tax deductible, such as credit card debt and personal loans. The debt with the higher interest rate taking priority.

Menschik says that for most people home ownership is a good financial and lifestyle goal. The principal place of residence is free of capital gains tax and the equity in the house can be used, down the track, to help generate further wealth with a redraw facility.

The family home is also exempt from the age pension assets test. Estate planning, income protection insurance and life insurance are also important to protect the family and the children's inheritance, she says.

Financial planner Wayne Leggett, a principal of Paramount Wealth Management, which is licensed through Sentry Financial Services WA, says earning capacity and the standard of living in retirement are not always related. He says it has more to do with having good savings and investment discipline. "I have seen some very heavy hitters get to the end of their working lives without a lot to show for it," Leggett says. "I have also seen people of modest income make a fairly seamless transition into retirement." He says the biggest ally to getting ahead is time. "The sooner you start saving the better and that is just because the returns on anything compounds," he says.

Ross and Lisa Jackson,with daughter Kirra. Photo: Edwina Pickles
Photo: Edwina Pickles

FOCUS

The better financial advisers tend to be choosy about who they see.

That is because most of their clients come to them through word-of-mouth and their client list is usually almost always full, so they can afford to be choosy. But it is also because they require their clients to show commitment to the process.

Nicholson insists that potential clients do their homework, as he calls it, first.

"If I were to dish up a plan for them, it is my plan and not theirs," he says. By "homework", he means drawing a detailed balance sheet of all assets and liabilities.

"It is surprising how many people won't proceed on that basis," he says.

A good adviser will make recommendations based on the person's individual circumstances, taking into account that person's appetite for risk and what they want to achieve.

A planner's advice, once agreed upon, forms a person's financial plan. This is the foundation document for any comprehensive financial planning relationship. The plan will help people determine what they have, where they are now and where they want to be in the future.

Then it's a matter of putting the plan into action and reviewing it on a regular basis to ensure it keeps up with any changes in a person's situation and financial markets.

"No matter how little or how much money a person has, they will benefit by taking a more structured approach to their finances," Heaven says. "Even just getting a handle on how they spend their money can make a big difference to a person's finances," he says.

POTHOLES

Financial planning has been in the headlines for the wrong reasons over the past few years. But there are changes under way to better protect consumers, with government and parliamentary inquiries into aspects of planning after too many investors lost their life savings from bad or reckless advice.

A lack of attention to a client's individual circumstances should ring alarm bells with those seeking financial advice.

That was something missing with Storm Financial, whose advisers had a one-size-fits-all plan for almost everyone.

That was to double-gear them into the sharemarket, using their houses as collateral for the loans. As a result of the sharemarket crash, many Storm clients now stand to lose their homes and, rather than being self-sufficient in retirement, have to rely on the age pension.

Yet Storm Financial was licensed by the Australian Securities and Investments Commission and a princi-