



Guidance  
through the  
**maze**

**Ignorance might be bliss in many aspects of life, but when it comes to overall financial wellbeing, 'tis folly to be unwise. Mark Story explains**

**W**hen you're married with a \$1 million-plus mortgage and seven children between you, stability and a steady cash flow are pretty crucial. But sometimes a rude wake-up call is needed to make you realise just how crucial.

Had it not been for a double-whammy reality check - courtesy of ill health and a redundancy - recently-married Melbourne couple Barbara (52) and George (56) Nunn (not their real names) may never have recognised exactly how exposed their finances and lifestyle were to life's unexpected curve-balls.

George's sizeable (\$800,000) redundancy settlement from a multinational construction firm significantly boosted the family's cash reserves to around \$915,000. But the Nunns desperately needed guidance on what to do with it. In addition to servicing a \$1.3-million debt on the family home, George's decision to move into self-employment meant cash flow would initially take a big hit, especially with Barbara no longer working full-time.

#### **THE PREDICAMENT**

Beyond George's personal super savings of around \$350,000, which were declining in value, along with the markets - the couple had no other significant investments. Adding to the Nunns' cash flow problems, they had neither life insurance nor income protection at the time that George was made redundant, and Barbara was being treated for a serious medical condition.

They also required advice on how best to structure George's new business, while creating significant income to fund both mounting private school fees, and final home renovation costs. Adding an extra layer of complexity to any financial planning recommendations was George's dual US/Australian citizenship, which

created tax issues under both jurisdictions.

How George was to be paid needed to be understood from both a US and Australian perspective, which meant the Nunns couldn't take a generic approach to their financial planning strategy. Given that they already had enough on their minds, they sought the assistance of professional planner Peter Wilson, who had helped with Barbara's finances during a former divorce.

"We needed a firm understanding of where and how money would be earned by George as a consultant and where it should be saved, so that the right foundation for future wealth generation could be established," says Wilson.

After further consultation, Wilson discovered that the Nunns' over-arching goal was to retire with annual income of around \$120,000. And given that George's kids from an earlier marriage lived in the US, he wanted an additional \$40,000 in annual travel costs (from 2011). However, their more immediate needs were much more demanding. To meet their lifestyle, home loan, and children's education expenses the Nunns needed \$229,000 annually, and an additional \$125,000 to meet pool and landscaping expenses. If the Nunns were ever going to get close to meeting these objectives, Wilson's key priority was to immediately and significantly reduce their debt.

#### **PLAN OF ACTION**

To help ease financial stress, Wilson instructed the Nunns to transfer the \$915,000 of accumulated cash into a mortgage offset account. This led to an immediate saving of \$54,000 in interest costs. Secondly, subject to cash flow constraints, Wilson suggested that George and Barbara maximise their concessional super contributions. This resulted in an initial annual tax saving of \$13,250, with a view to increasing these contributions/savings as funds allowed over time.

#### **FLEXIBLE STRUCTURES**

Given the Nunns' ages, and the considerable working years ahead of them, Wilson concluded that super would play an important part in their future wealth creation. "After considering Aus-

tralian and US tax implications both now and in the future, superannuation was considered to be the most appropriate investment structure to accumulate their wealth and ultimately fund their retirement," Wilson says.

George's super was rolled into a self-managed super fund (SMSF). And while the amount held within his fund was at the lower end of the scale to warrant an SMSF, Wilson expected these funds to grow rapidly once the right wealth accumulation strategy was firmly in place.

"George was particularly interested in companies and investments and the SMSF approach enabled him to acquire direct shares within this structure," says Wilson.

After further consultation with the necessary third party tax advisers, it was suggested that George structure his business as a family trust. Wilson says this structure gives George additional flexibility to distribute income to eligible beneficiaries in a way that is tax-effective from both an Australian and US perspective.

As a small consultancy group, George's business is unlikely to have a high intrinsic resale value when he finally exits. "But with debt consolidation, an appropriate super structure, the right business structure and a defined contribution plan in place, the Nunns now understand how their pre-retirement wealth accumulation will grow," advises Wilson.

#### **MAXIMUM PROTECTION**

Given Barbara's recent medical history, Wilson also helped implement appropriate levels of insurance to manage the financial outcome of sickness, accident or death. As a result, \$1 million in life and TPD cover, plus income protection cover of \$9000 a month, were implemented for George. The life and TPD insurance covers the liabilities and major expenditure, in the event of death or total and permanent disablement, while the income protection provides security in the event that George is unable to work due to injury or sickness.

While Wilson's analysis identified that a higher level of life, TPD and trauma insurance could have been more beneficial, the Nunns needed to weigh up the costs associated with the

## THE NUNNS' FINANCIAL SITUATION: PRE-WILSON'S INVOLVEMENT

**Net debt:** Home loan - \$1.3 million

**Cash:** \$915,000 held with major bank on term deposit.

### Personal super

George: \$350,000 held with a major provider

Barbara: Minor funds only.

### Other personal investments

Minimal

### Insurances

Minimal

### Income protection

Nil

### Estate Plan

Required major review

### Key priorities

Debt reduction.

Concessional contribution to super.

Leverage wealth accumulation.

Sufficient daily cash flow.

Retirement income of \$160,000 annually.

Establish the right business structure.

Address tax issues under two jurisdictions.

Provide a roadmap for the future.

overall cover provided by the insurance policies.

"This trade-off means the Nunns now have significantly enhanced their financial security while continuing to grow their wealth over coming years," says Wilson.

Estate planning experts were also brought in to appropriately provide for Barbara and George's children from previous marriages.

The estate planning component was particularly complex given the previous marriages and George's US citizenship. Enduring powers of attorney were also implemented to further strengthen this area of the Nunns' personal affairs.

### DEBT RECYCLING

Once cash flow is sufficiently high, Wilson recommends the Nunns use a debt recycling strategy and borrow \$300,000 against their home to invest in a highly diversified portfolio of equities. Given the size of the investment portfolio, he recommends a highly diversified multi-manager approach comprising exposure to Australian and international equity markets.

He expects this gearing strategy to yield tax savings of around \$3900 annually and generate

wealth of around \$250,000 after payout of the loan and tax liabilities over the next 10 years.

Wilson says it's important to have funds outside of super, especially with the concessional contribution limits reducing from \$50,000 to \$25,000 annually.

"A significant part of our work for the Nunns involved customising a comprehensive financial model incorporating numerous scenarios to help them understand the implications of the various strategic options," says Wilson.

"Assessing how the level of income generated over the coming years will impact retirement funding is a key component of our work for most clients."

### ADDED COMFORT AND CERTAINTY

George says that, extending well beyond simple dollar value, Wilson's advice and planning increased their sense of comfort and confidence in their current financial situation. With the needs of any family constantly changing, Wilson says it's also important to revisit the Nunns' needs on a regular basis to ensure the advice remains relevant and sufficiently flexible.

As well as providing a comprehensive solution that addresses myriad financial issues, George says Wilson's range of "high," "low" and "most probable" potential outcomes helped them better understand the risks and rewards associated with each option.

And while the Nunns regarded themselves as reasonably well informed on financial matters, George says they both found themselves out of their depth when it came to identifying, let alone addressing, the full gamut of risks and rewards.

"I'm amazed at how complicated our financial situation was when Peter came on board as our financial planner, and how he went about simplifying it for us," George says. ■

## THE PLANNER

### Peter Wilson

Senior consultant & CEO - Strategic Wealth Management Solutions



Wilson became a financial planner in 2002 after spending 20 years working for multinationals both locally and overseas in numerous senior roles. Acting as an Authorised Representative of Godfrey Pembroke, Wilson has an advanced Diploma of Financial Services and is CFP certified. Specialising in high-net-worth clients, including expatriate executives, SME owners and wealthy retirees - who frequently need more complex financial solutions - Peter was named Godfrey Pembroke Financial Consultant of the Year 2009.

### Advice structure

A fee-for-service model was adopted when Wilson started the business after acquiring the client base from a retiring Godfrey Pembroke adviser in 2004. Only products without trailing commissions are recommended or, where necessary, "hidden fees" are rebated back to clients. The firm engages in open dialogue with clients on what the fees should be. Clients can choose to pay a fee based on a percentage of funds under advice, a combination of a portfolio management fee and a fixed strategic review fee, or a straight fixed ongoing service fee - depending on the complexity of their requirements.

### History

Having provided advice to Barbara before, during a former divorce settlement, Wilson wasn't called upon again for assistance until after she had remarried. Simultaneous life-changing events, experienced by both her Barbara and new husband George, triggered the need for immediate and comprehensive financial assistance.

### Strategy

Uncertainty created by Barbara's unexpected illness, coupled with George's sudden redundancy, were the two life-altering catalysts that prompted myriad financial considerations, encompassing everything from wealth creation and debt reduction to income protection. And as Barbara and George had seven children between them, comprehensive estate planning was also required. Adding extra layers of complexity were the tax implications emanating from George's dual Australian-US citizenship status and his subsequent decision to move into self-employment as an independent consultant. In addition to acting as primary financial planner to the Nunns, Wilson also project-managed the necessary interaction with other professionals, including Australian and US tax advisers and estate planning specialists.