



In your 40s

- Half way there

They say life begins at 40, perhaps because many people in their 40s feel like they have made it – kids, house, great career, nice car: it's almost like you've got life figured out. Many see this as halfway in life and makes them think. Have I done enough? Should I be doing more? Will I get everything I want out of life?

You have your finances sorted or at least your day to day finances and you want to upgrade things to match your refined tastes – and your wallet can provide for it, on occasion.

It's also time to become wise, not worrying about what others think about you and being your own person.

Five-point checklist:

- ✓ **Keep fit:** It's time to think about exercise and diet. Keeping healthy prevents so many things: starting early is a great plan.
- ✓ **Don't overspend:** If you can afford the commodore you like, but you can't afford the BMW, think about compromising. They'll both get you to the same place, but one will impact your retirement.
- ✓ **Super:** you haven't really concentrated on super before, now's the time to start doing something about it.
- ✓ **Consider investments:** Putting money away in super for retirement sounds great but you also can't access it until around age 65, so what if something happens in the meantime?
- ✓ **Maintain insurance:** Insurance cover is not only to cover your mortgage, it will also replace income if you or your partner can't work.

Where we can help you

- Purchasing a larger home
- Protecting your family's security
- Manage your tax payable
- Effectively use your savings and investments
- Paying off your mortgage
- Education expenses
- Growing your retirement savings

How we can help you

- Implementing the appropriate insurance that suits you and your family
- Implementing effective tax strategies to reduce the amount of tax you are pay
- Investment and Superannuation strategies to help grow your wealth

Case Study

John and Jenny have \$50,000 invested in an Australian Share Fund and would like to look to borrow funds (gear) to create wealth outside of their superannuation savings. Both John and Jenny are on a 37% marginal tax rate plus Medicare levy of 2%. After speaking with their financial planner, they consider the following three options: -

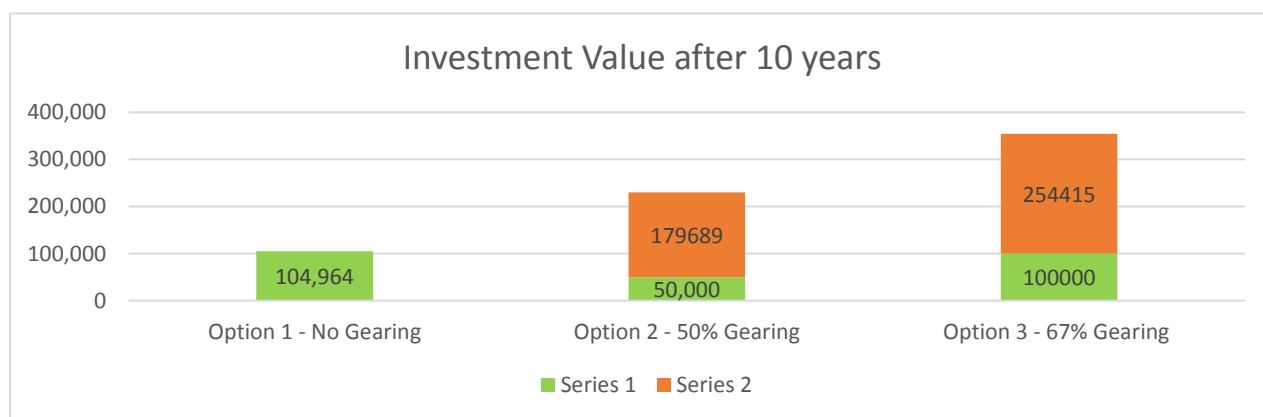
- Maintaining their investment level of \$50,000
- Doubling their investment by borrowing \$50,000 (i.e. a 50% gearing ratio), or
- Increasing their investment by borrowing \$100,000 (i.e. a 67% gearing ratio)

In options 2 and 3, John and Jenny will use an interest-only home equity loan with an interest rate of 5.35% p.a. The following graph illustrates the potential outcome of the three options after 10 years.

Clearly, the higher the gearing ratio, the greater the potential gains. It must be remembered that John and Jenny will still have an outstanding loan in options 2 and 3 of \$50,000 and \$100,000 respectively. If they withdrew funds to repay the outstanding debt and pay capital gains tax (CGT), the value of their investment is shown below:

No Gearing	50% gearing	67% gearing
\$104,964	\$125,907	\$146,850

As you can see, John and Jenny's financial position could improve by using a gearing strategy if the value of their investment rises sufficiently.



Assumptions: Investment return is 8.5% p.a. (split 4% income and 4.5% growth). Investment Income is franked at 75%. Interest on the loan is 5.35%. Jenny and John are on a marginal tax rate of 37% including Medicare levy of 2%. These rates are assumed to remain constant over the investment period. With options 2 and 3, where investment income and tax advantages are insufficient to meet interest payments, a portion of the investment is sold down to cover the shortfall. Otherwise the excess investment income and tax advantages are re-invested.



Phone: 1300 557 144

Email: admin@acaciafp.com.au

Web: acaciafp.com.au

Address: 703 Whitehorse Road, Mitcham Victoria 3156



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ABN 76 006 637 225 | AFSL 246934

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