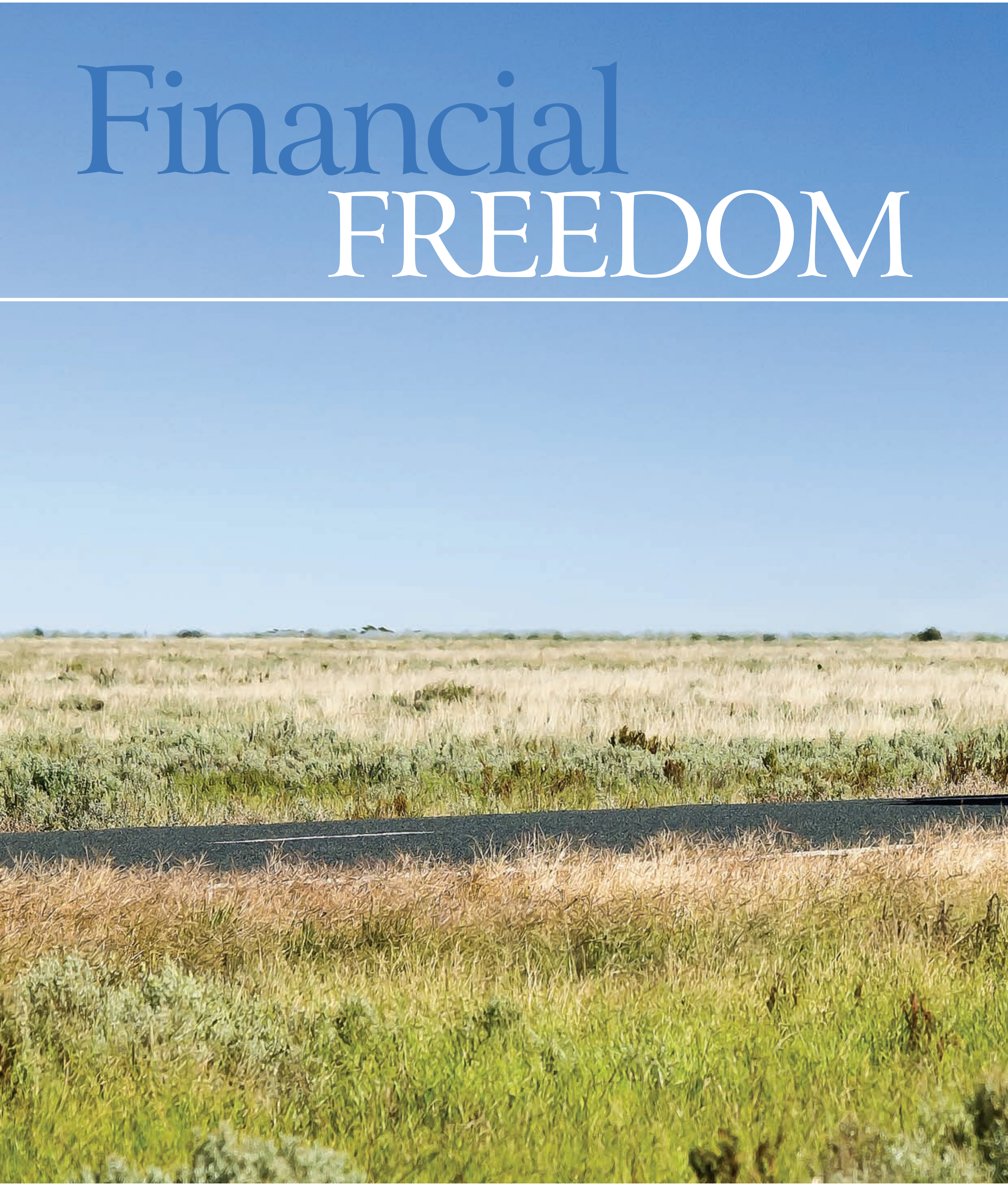
Financial FREEDOM



Sorting out your finances is one of the first steps to living on the road

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YOU MIGHT AS WELL MAKE YOUR MONEY WORK FOR YOU

In the time it takes to read this sentence, about 10 people will arrive on our planet. In Australia, our population increases due to birth and immigration every minute and a half, and because we are living longer, every three minutes or so someone leaves. The discrepancy contributes to our 'ageing' population.

Australia is the lucky country. Not because we have boundless piles of valuable dirt or because our island status has both allowed uniqueness and given us natural immunity from many pests and diseases, but for reasons most of us take for granted such as minimal poverty, affordable health and education and freedom from tyranny.

Australia gives natural and emigrated citizens the opportunity to build wealth and make their own decisions, and by age 65, more than 95% of people have fully paid off any debt associated with their primary residence (Australian Bureau of Statistics).

There are key moments in your life when you agree to pay someone thousands of dollars. That time comes for many families when purchasing somewhere to raise rug-rats. Other instances include new automobiles, share portfolios, investment property and surprisingly, lifestyle changes.

Maybe you are in the market for a pace less frantic; maybe you believe in the SKI generation and are determined to spend the sum of your working life – whatever the case, major purchases take careful consideration, planning and good advice.

MONEY AIN'T MONEY

There are many types of money. I don't mean notes, coins and monopoly, but money that looks like a house, has a label on it, or is temporary. Some may belong to you, some to others, and some may only exist in a promise of the future.

They say bricks and mortar equals security. Property is a reliable investment as values rarely drop, but the downside is it's very hard to spend a few bricks or cash in the lawn. As a result, your money may be locked up in an asset. This is called equity. In the past 18 years, the value of equity held in the average Australian household rose 62% to just below $300,000 (Australian Bureau of Statistics).

Come retirement age, many people have a big, itchy lump of money in the bank representing years of sacrifice. Superannuation is intended to reduce dependency on the Government age pension and be your regular income once you don't work anymore, but the temptation to spend it on those things you did without can be overwhelming. More people face this decision than ever, as the proportion of people in Australia with Super has increased from 28% to 71% since 1974 (ABS).

Whenever something seems like a good idea (eg, taking off in an RV), someone will probably lend you money to make it happen. This is working money, or capital; rented out by the real owners to you. In turn, you can also make it work or let it waste away. Capital is a strange beast that can be allowed to go up, down or just stand still. Best keep it on a leash.

Of course, there is also good, old-fashioned cash in the bank. It might be a little tied up in long-term deposits, semi-available in managed funds or shares, or simply 'liquid' – money just waiting to be spent.

If you're unsure, talk to a financial advisore before any big decisions

WHAT'S THE DIFFERENCE?

Recognising what type of money you have, want and need is the first step to getting your eggs in the right baskets. You shouldn't cook your breeding eggs, and there's no point incubating a rotten one.

To draw from the analogy, breeding eggs produce offspring, or interest. This includes super, good shares (paying dividends) and managed funds. Much of the interest produced does little more than maintain the value of the original sum, so a rate above CPI is required to draw on that interest or the principal will de-value. Regular scheduled 'income' withdrawals from super are not taxed if you are retired and over 60. Supplementing a pension they can maintain or achieve lifestyle, but beware of spending it now only to suffer later.

Equity is very different in that it doesn't earn interest per se, and can be difficult to liquidate. While the property value may be going up, real estate can still represent a very long-term investment. Finance products exist that can 'release' equity and give you cash to spend. This can be a good option for people who have paid off their mortgage and wish to enjoy retirement, but don't want to sell their house. Alternatively, equity can be freed up by downsizing. Once the kids have gone and the house seems too big, it may be time to find a smaller dwelling or a cheaper suburb. This can leave you with a sum of cash waiting to be utilised.

Most of us take on a loan at some time, but you may not be aware how many different ways banks have to play the game. Regular 'pay back gradually with interest' loans may not suit people with little or no income. Instead, it could suit you to get an interest-only loan with smaller, affordable payments, and the original money repaid later either from the sale of the investment or in a will agreement.

Another option that exists is to get a line of credit. A lending institution lets you spend their money on major purchases and pay back only what you use, in instalments. These products usually require regular income as security. Effectively a fancy credit card, they are best approached with caution.

WHICH ONE CAN I SPEND?

Getting back to the eggs, how hungry are you? Will you be hungry later? If you binge on chocolate cake now, will you have nothing but rice tomorrow? Assuming there is enough, the first call is the pantry. Liquid cash is not your friend; it sits there depreciating while interest accumulates at the rate continents drift. If you have it to use, this is the first thing to blow.

Equity is nice for building a property portfolio, but does little good when you're sitting in a big house reading Caravan & Motorhome magazine wishing you were touring. Sale of the family home (your primary residence) does not attract Capital Gains Tax – that dreaded chunk the government takes from the sale of expensive assets – and it is exempt from the Centrelink income threshold for typically 12 months, sometimes longer. During this time, it would be feasible to purchase an RV and a smaller house, but be aware the caravan or motorhome will count on the Centrelink assets test.

Managed funds and shares are best judged on their own merits: profitability, interest earned compared to loan rates, exit and brokerage fees. Long-term deposit rates are currently around 4% for five years, so the money may be better spent on something now rather than getting finance.

If you have a steady income stream without working and think a loan might be your best option, there are still advantages and pitfalls to consider. Variable-rate loans give you the flexibility of making extra payments without cost, and to take some back again if you need it. But, the rate may fluctuate, meaning higher repayments. A fixed-rate loan protects you from interest rate rises and allows you to budget accurately.

Quality of life for senior Australians is partly determined by their levels of income and wealth, so you should consider what best suits your situation and talk to your financial advisor.

INVESTMENT TIPS FOR RECREATIONAL VEHICLES

While most workers predict retirement at 64, the actual average is only 59 with financial security and health the biggest reasons why. Super can be accessible from the age of 55, but it may attract tax like regular income. The average lifespan is about 82 – will yours last 23 years of spending?

If the allure of life on the road is too great, you might as well get the most out of it and make your money work while you gallivant about. After six months, it is possible for an RV to be classed as your new primary residence and some expenses such as site fees may be claimable from Centrelink under rental assistance, or if you are working part-time while you travel, planning ahead can see some expenses claimable against tax.

Once a decision to buy has been made, there are still good and bad moves to make. Research your vehicle as much as possible. Establish values of similar models, anticipated depreciation, and the quality level best suited to your needs. Manufacturer reputation, maintenance, layout – all can make a big difference to the resale value of your asset.

Before signing up for any finance, be sure to shop around for the best deal. Consider the provider's reputation and the details of the contract as well as rates and costs. Consulting your solicitor or financial advisor is always a good idea. If you are unsatisfied with your loan contract, voice your concern with the loan provider who must (by law) have a formal complaint procedure. This is then provided to the State Ombudsman, who will assess the fairness of the situation.

Unlike a holiday that lives on only in memory and photographs, a caravan or motorhome is potentially an investment and lifestyle change in one rolling package. Smart use of your resources could see you driving into the sunset before you can say 'How much is that RV in the window?'.

FINANCE TIPS FROM THE EXPERTS

With in excess of 35 years combined experience in the Banking and Finance industry, Fortified Finance have the knowledge and expertise to offer important and accurate financing advice to suit your needs. These are their top tips when it comes to financing your dream van.

1. If financing your RV, consider the best option for your situation. Some people are attracted to adding their RV purchase to their home loan because the interest rate may appear attractive by comparison. By financing on an RV loan, it forces you to pay off your loan over a short term (up to 5 yrs). By putting your van purchase on your home loan, you can become complacent and end up not paying off your loan quickly. This can result in you paying more interest to the bank.

2. Typically as you are approaching retirement, your financial advisor will have investment strategies in place that may involve using your property equity. The more equity you have available for investment, the stronger your retirement nest-egg will be. By financing a depreciating item with property you, this will significantly erode your retirement nest-egg capabilities. The old saying, Never Eat Your Chickens, Only Their Eggs, has merit!

3. When financing your RV, ideally try and do so whilst your still employed, that way when you retire, your RV will be fully paid off and one less thing to worry about when you're travelling around Oz.

4. Always shop around for the best deal for you. Onsite finance offers are not always the best. Often, they may have fewer finance avenues. Use a reputable independent financial professional, they should typically have multiple finance options and can take advantage of rate specials as they arrive from time to time. Just like major retailers stock more than one product line, so should an independent finance professional.

5. Lastly, if you are self-employed, there maybe tax advantages of funding a RV through your business. Naturally you have to have a legitimate case for using it for business purposes, but if you can, there are significant tax advantages worth considering. It also opens up access to further lenders and cheaper rates for some. As always, please check with your Accountant or tax professional and Finance Professional before embarking down this avenue.

OF COURSE THERE IS ALSO GOOD OLD-FASHIONED CASH IN THE BANK


Do your research before making the commitment to buy

Methods of finance:

- Liquid cash
- Equity-release products
- Managed funds
- Sale of assets (stocks, etc)
- Personal loan
- Line of credit

SPECIAL NOTE:
No one method is ideal for everyone. All decisions should be made in consideration of current circumstances and after discussion with your financial advisor. C&M