TAKE CONTROL

Golden Egg

A practical guide to wealth creation

Abacus
Australian Mutuals

What does 'mutual' mean to me?

Mutual financial institutions are credit unions and building societies that are focused on providing benefits for our members, not shareholders. Profits are returned to members through fairer fees, better rates and better service.

Members are both customers and owners, so you have a real say in how your financial institution is run. Each member gets an equal say – one member, one vote.

Here are some other important facts about mutual financial institutions:

- We are run for the benefit of members with the aim of returning profits to members through fairer fees and better service.
- We are complete financial services providers, offering a full range of products and services.
- Deposits with credit unions and mutual building societies are guaranteed by the Federal Government.
- Our members choose us because they receive excellent, personal service and our customer satisfaction is the highest in the market.
- We are built on community involvement; it is what makes us different. We committed to supporting our communities long before it became fashionable.
- We are committed to educating consumers and improving financial literacy through practical actions.
- Despite our different approach, we are regulated to the same high prudential standards as the banks.

Over 4.5 million Australians across metropolitan and regional Australia are already members, so come and join us now.

Abacus
Australian Mutuals

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CONTENTS

Introduction

People often make the mistake of thinking that investing is only for the rich. But the reality is that the rich usually get that way by investing!

Taking control and creating wealth through investing is available to all of us, no matter how much or how little money you have to start with or how old you are. In fact, you don't need a lot of money to get started and it's never too early, or too late, to begin thinking about your financial future.

Everyone's reasons for investing are different, so it's important to set your own investment goals. What we all have in common is that we want to build wealth over the long-term and ensure our financial security.

Investing is about putting your money to work and there are many different investment products for you to choose from. The right investment choices will depend on your goals, how much time you have to achieve those goals and your willingness to take measured risks with your investments.

Creating wealth takes discipline and persistence, but the key to any successful investment is knowledge.

With a good understanding of investment fundamentals and your goals, you'll be well-equipped when you meet investment experts, such as financial planners. You'll be able to ask them all the right questions to help you make the best investment decisions for you.

The aim of this booklet is to outline the basics of wealth creation so that you can take control and get started on your investment future.

This booklet also covers some simple steps to make a Will and a Power of Attorney so that as you accumulate your wealth you can take control of your assets and decide what happens to them if you die or become incapacitated.

Setting wealth creation goals

Choosing the right investments for your situation is much easier when your goals are clear and understood. So, the first step in creating wealth is to define your goals.

Ask yourself 'what is my purpose for investing?' For example, are you investing to fund your children's education or are you investing to provide a comfortable income for your retirement? By identifying your goals, you will be able to calculate more or less how much you will need to achieve your goals.

Then you need to work out how much time you have to reach your goals. If you want your investment to fund your children's education and your children are already in school, you may have less than 10 years to reach your goal. On the other hand, if you're 25 years old and saving for your retirement, then you have the best part of 40 years to achieve your goals. Generally, the longer you have to achieve your goals, the more measured risks you can afford to take with your investments and the greater rewards you could expect to make.

Setting well-defined goals with a clear timeframe is a vital first step for creating wealth. It will enable you to work out what sort of investment will help you achieve your goals.

The role of budgeting and reducing debt

Budgeting is a fundamental part of good financial management, which unfortunately is often forgotten by many of us. A budget is the best way to work out where your money goes and if you are living within your means. A budget also tells you how much money you can put to work for you.

A well-designed but simple budget helps you keep your expenses under control, manage any unexpected bills or emergencies and lets you use your money for things that give you pleasure.

Budgeting is often thought to be about rigid rules, tightening your belt and going without. In fact, budgeting can be quite the opposite, almost liberating. It's about taking control by knowing how you spend your money, so that you can afford more of the things you like.

Reducing your debts is an important part of the budgeting process. If you have high-interest debts, such as credit cards or in-store credit, it's important to pay off these debts as quickly as you can. The longer you owe money on these types of credit, the more interest you will pay.

Budgeting and investing go hand in hand. Careful budgeting makes saving possible and, by regularly investing your savings, it allows you to plan for the future and build your wealth.

TIP: If you need help budgeting, see your credit union or building society and ask for a copy of *"Dollars & Cents – a practical guide to budgeting & saving"*.

Investment basics

While investment products change from time to time and new products come onto the market, there are a few golden rules about investing that never change.

Spread your risk

You've probably heard the saying "don't put all your eggs in one basket" and the saying is especially true when it comes to investing. The practice of spreading your money across a number of different types of investments is known as diversification.

It is possible for investments to go down in value, so diversifying your investments is a good way of managing this risk. If you have several different types of investments, it's unlikely that they will all perform badly at the same time. Diversification allows you to endure the ups and downs of the investment cycle, which is particularly important given the long-term nature of investing.

Know your risk profile

There is an element of risk in all investment types, from the simplest savings account through to shares traded on the international market.

Different investments pose different risks, and the consequences of these risks can be relatively minor or quite considerable. For example, one risk is that your investment won't return the level of income you expect. This can be disappointing but not as serious as another investment that decreases so much in value that your investment is worth nothing in the long-term.

The general rule is that the higher the risk, the higher the potential returns. The opposite is also usually true - the lower the risk, the lower the potential returns. So, it's important for you to work out how comfortable you are taking risks with your investment choices.

Your risk profile may change as you get older and your circumstances change. For example, the level of risk you find acceptable when you're 25 years old and single may be different to the acceptable level of risk when you are in your late 50s, married with children or approaching retirement.

TIP: A financial planner can help you to determine your risk profile by having you answer a number of questions. Financial planners are, in fact, required to determine your risk profile before recommending investment products to you.

It's important to know your risk profile so that you can maximise your investment returns while still being able to sleep at night and not worry about your investments.

Four major asset classes

Investments can be split into four broad categories, usually referred to as the four major asset classes. Each asset class performs differently, offering different levels of risk and reward.

Generally, the higher the risk the higher your potential rewards. The right asset class for your investment will depend on your goals, your time in the market and your risk profile.

The four major asset classes are:

1. Cash.
2. Fixed-interest.
3. Property.
4. Shares.

The next section examines each asset class in more detail.

Cash

Cash assets include money in savings accounts and cash management trusts, as well as other cash equivalents such as bank bills and treasury notes. Cash investments generally provide a stable rate of return and easy access to your money.

They also offer peace of mind because there is little or no risk that the value of your investment will substantially decrease. But with low risk comes relatively low reward. Cash assets are usually the lowest performing asset class over the long term.

Compound interest

When you put your money into a savings account, interest is paid on your savings. By leaving the interest payment in your savings account, you'll earn interest on the interest. This is called compound interest.

Compound interest gives your savings an extra boost with little effort on your part. All you have to do is resist the temptation to withdraw the interest payments from your savings account.

The effect of compounding interest increases with time, so the earlier you start saving, the more you will benefit from compound interest.

CASE STUDY

Ashley's grandparents put aside $1000 on Ashley's 1st birthday and added the same amount to it each birthday. On her 21st birthday, Ashley received $21,000 from her grandparents. If Ashley's grandparents had invested the money for her, even in a simple savings account earning 5% per annum interest, Ashley's 21st birthday present would have been $37,500 thanks to the power of compound interest.

Fixed interest

Fixed interest investments generally refer to bonds issued by governments and companies in order to raise money for various projects and investments of their own. The risk of the investment is determined by the financial profile of the bond issuer. Government bonds will generally be relatively low risk but care should be taken in assessing the risk attached to investments with non-government entities.

Bonds are most suited as a long-term investment as they have terms of up to 30 years. They provide a stable income stream and a better rate of return than cash investments.

Access to your money is limited during the fixed investment period because you usually have to wait for the bond to mature before your capital is repaid. However, you do have the option of selling your bonds before that time, and you could make a profit or loss depending on the market price at the time.

Property

Property assets refer to all types of real estate investment including residential, commercial and industrial real estate. Investment in property can be made through direct ownership (that is, buying an investment property) or through property trusts and managed funds.

Over the medium to long term, property generally outperforms cash and fixed-interest investments, but there is a higher level of risk associated with property investments. The real estate market does fluctuate, so the value of your investment can increase and decrease with the market.

Buying property directly offers investors the combined benefit of rental income plus capital growth and tax benefits can also apply for some investors. The benefit of investing in property trusts is that a lower initial contribution is required and you can diversify your investment by buying different property types.

It can be relatively difficult to access your money if you invest directly in property, but property trusts and managed funds can usually be cashed in more quickly.

Direct property

Property is an important part of a diversified investment portfolio and many Australians feel comfortable investing directly in bricks and mortar, particularly if they already own their own home.

But it's important to remember that while there are many benefits to direct property investment, there are also some disadvantages that need to be considered:

- Finding the right property can be difficult and time consuming. It should be well-located, attractive to tenants and not have excessive maintenance and body corporate costs (e.g. if it is an apartment).
- To invest in property directly requires a significant financial commitment upfront, either in cash or through an investment property loan. If you take out a loan to fund your investment property purchase, then increases in interest rates can have an effect on the income you receive from your investment.
- There are a number of upfront purchasing costs that also need to be factored into your calculations. For example, stamp duty, insurance and legal fees are all extra costs on top of the purchase price.

- When it comes to selling your investment property, it may take you some time to find a buyer willing to pay a reasonable price, depending on the type of property and market conditions. The real estate agent's commission for selling your property must also be considered.

Property trusts

Property trusts allow you to invest in property indirectly and enable you to start with a much smaller initial investment. There are two main types of property trusts:

Listed property trusts – as the name suggests, listed property trusts are listed on the stock exchange and are traded much the same way as shares. They allow small investors to diversify their investment portfolio over a number of different property types, including commercial and industrial, which they might not normally be able to afford, because they are a pooled investment. They offer dividends and potential for capital growth over the long term.

Unlisted property trusts – your funds are pooled with other investors to purchase different types of real estate directly or through a range of listed trusts. This is particularly useful for smaller investors who don't have enough money to invest in different types of property or property trusts. Unlisted property trusts provide income streams as well as the potential for capital growth in the long term.

TIP: If you are thinking of investing directly in property, see your credit union or building society and ask for a copy of *"Bricks & Mortar – a practical guide to buying property"*. It covers the basics of purchasing property, including choosing the right property, selecting the right loan and the buying process. It also has a section specifically tailored to property investors.

Shares

Shares in publicly listed companies are traded on the Australian Stock Exchange (ASX) and when you buy shares, you are effectively buying part ownership of that company.

As a part-owner, you are entitled to a share of the company's profits, which is also known as a dividend. The total amount you receive is dependent on the number of shares you own as the dividend is calculated as an amount per share.

Shares can be purchased directly through a stockbroker or another popular way of investing in shares is through managed funds. Shares can be traded freely so they offer relatively easy access to your money.

Over the long term, shares normally outperform all other asset classes, offering a combination of high income and high growth. However, shares are known to be volatile in the short term. That is, the value of shares can change quite quickly from day to day, depending on company reports, profit forecasts, changes to the economic environment and international instability.

TIP: Shares can be purchased directly through a stockbroker or Internet share broker. Stockbrokers buy and sell shares on your behalf and actively manage your share portfolio. They can provide a higher level of service, including advice on which shares to buy, for which you pay a premium.

TIP: For most investors, share market investment is a long-term commitment. But as it is very easy to check the value of your share portfolio, you can be tempted to dump shares performing poorly and reinvest in other share types or other asset classes. This may not be a good strategy for the long-term investor as you may sell near the bottom of the market to buy another type of share or asset perhaps near the top of the market. It is generally considered better to do your research carefully before you buy and then maintain your position during a downturn.

Share types

When investing in shares, the importance of diversification (or not putting all your eggs in one basket) is again important. If you have investments in a number of different companies across different industries, your investment is less likely to be damaged by losses in one company or one industry or sector.

Companies listed on the stock exchange in Australia and around the world can be grouped into two broad categories:

- Industrial companies, including sectors such as banking, retail, health, utilities, transportation and food and beverage.
- Resource companies, including companies that explore for and mine iron ore, coal, copper, diamonds and other minerals.

Managed funds

As a popular investment choice for many Australians, managed funds offer a simple way of participating in the share market and many of us have our superannuation invested in them. Managed funds are also known as managed investment schemes, unit trusts or managed trusts.

Managed funds work by pooling your investment with money from other investors to buy assets. As an investor, you receive a certain number of units in the managed fund, depending on how much money you have contributed, and the value of your investment rises or falls in line with the value of the fund's investments.

Managed funds can purchase assets in all four major asset classes. Some funds buy assets in one particular asset class only, such as international shares. Other funds invest in a mixture of assets across all four classes, which are usually referred to as a 'balanced fund' and can be part of an effective diversification strategy.

A professional investment manager handles the portfolio of assets in a managed fund. This is particularly convenient for people who don't have a good knowledge of the share market or particular industries they want to invest in. But, you do have to pay a fee for management of the fund and this can vary significantly between providers. By selecting an appropriate managed fund, you can choose the types of assets you want to invest in, but you can't control the exact assets that your funds invest in.

Typically, managed funds are a long-term investment because of their exposure to the stock market. They can offer good potential for capital growth and a good income stream over the long term.

TIP: Depending on the managed fund you choose, you can start out with as little as $1000. You can add to your investment on a regular basis, such as each month, or on an ad-hoc basis. By putting more money in, you are simply buying more units in your managed fund.

Derivatives

A derivative is another type of financial product and is named as such because the value of a derivative is 'derived' from the price of the underlying financial product. The underlying financial product can be a stock, currency or fixed interest product.

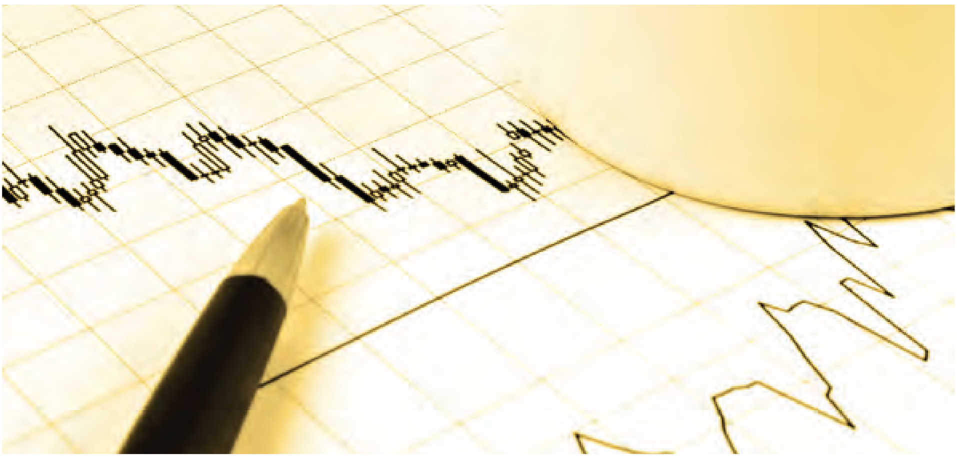
Derivatives are contracts to buy or sell the underlying asset at a future time, but the price, quantity and other specifications are defined today. That means they are contracts that call for money to change hands at a future date with the amount of the transaction determined by the share price, exchange rate or other reference item.

The most commonly known types of derivatives are warrants, futures and options. Derivatives such as warrants and options are also traded on the Australian Stock Exchange and futures are traded on the Sydney Futures Exchange.

Used by professionals and individual investors, derivatives can be a risk management tool, allowing investors to protect themselves from the risk that market prices will fall. But derivatives are a speculative investment option.

TIP: If you want to speculate with derivatives you should only do so with money you can afford to lose.

Derivatives are a sophisticated investment strategy. If you are interested in learning more about derivatives, speak to your financial adviser.



Superannuation

Every Australian worker has an investment in superannuation. That's because the Federal Government has made it compulsory for your employer to make superannuation contributions on your behalf, regardless of your age, occupation or your salary.

Superannuation is a long-term, tax-effective investment, which is intended to provide money for your retirement. As the average age of Australia's population grows older, it is anticipated that access to the aged pension will become harder. So having an adequate superannuation nest egg is becoming increasingly important.

Choice of fund

There are four basic types of superannuation funds:

- Retail funds – available to any member of the public.
- Industry funds – for those working in a particular industry or under a particular industrial award. Although some industry funds allow anyone to join.
- Employer funds – for people working for a particular company.
- Self-managed funds – open only to you and up to three other people. These do-it-yourself (DIY) super funds are generally only worthwhile for high-income earners or investors with substantial assets.

When you start out in the workforce, your employer often chooses your superannuation fund for you. But, you may choose another fund if you prefer.

Superannuation funds can differ quite greatly, so you should choose a fund that meets your needs. Factors to consider include the fund's performance, its investment strategies, any fees charged and any additional death and disability benefits included.

Ensure you transfer any money from your old super account to your new super account when you open it. Not only will you save money in fees but also in pooling your money you will generally be able to get a better return.

TIP: There are almost three superannuation accounts for each Australian worker. This is often due to workers changing jobs and beginning a new relationship with a new fund at the same time. This means you might be paying unnecessary fees on your superannuation investments, which drastically reduces your potential investment.

Superannuation contributions

There are a number of ways your superannuation account can grow:

TIP: While your employer is only required to pay contributions to your superannuation account on a quarterly basis, they may be willing to make payments monthly. It pays to ask because your investment will earn more if the contributions are added more frequently.

Employer contributions – these are payments made into your superannuation account by your employer, on top of your regular wage or salary. Each year, your employer must make contributions equal to at least 9% of your gross pay and some employers may contribute more.

Salary sacrifice – another way of adding to your superannuation is by taking less salary upfront and having your employer contribute the 'sacrificed' amount to your super. This can be very tax-effective, particularly for high income earners, because the rate of tax paid on the superannuation contribution is generally lower than the marginal tax rate you'd normally have to pay on that amount.

Personal contributions – you also have the choice of adding to your superannuation account by making personal contributions from your after-tax income. Depending on your income, the government may also match your contribution. It is also possible for you to make contributions to your spouse or partner's superannuation.

Your risk profile

Your risk profile plays an important role in the types of investments you choose for your superannuation funds. Funds are usually categorised according to the expected level of return and the underlying risk associated with the investment. The four main categories are:

TIP: There are many rules relating to superannuation contributions and they change from time to time. Before making any decisions about your super, talk to your professional financial advisor.

- **Growth** – funds that invest mostly in shares or property. They generally have the highest returns over the long term, but are exposed to large losses in bad years. A growth fund is most suited to investors with at least 7-10 years left before retirement. Over this time period, the gains will normally be greater than the losses.
- **Balanced** – funds that invest in shares and property, as well as some investment in less risky asset classes, such as cash and fixed-interest. Many balanced funds also offer a strong return, but less so than growth funds as the fund manager aims to minimise losses in the bad years.
- **Capital stable** – funds that invest in low risk asset classes, such as fixed-interest and cash, only. Very low risk but consequently low returns are expected. This is a suitable investment style for your superannuation if you are in the market for less than 3 years.
- **Capital guaranteed** – funds that invest only in cash and they are required to invest only with authorised deposit-taking institutions in Australia, such as credit unions, building societies and banks, or in investments in a capital-guaranteed life insurance policy. These funds have minimal risk, very low returns and are suited to investors who want to park their superannuation somewhere for 1 – 2 years maximum.

Like managed funds, you may not be able to control the exact assets your superannuation fund invests in, but you may be able to select the types of assets you want to invest in.

How much will I need?

The amount of superannuation you will need on retirement varies from person to person. It will generally depend on the level of income you want each year for your retirement and the number of years you will need your superannuation to last.

TIP: Many superannuation funds have online calculators that estimate the level of superannuation savings you'll need when you retire from the workforce to fund your retirement income.

As a general rule, financial planners suggest that your retirement income should be approximately 60% - 70% of your pre-retirement income to maintain your existing lifestyle. You need to ensure that you have sufficient superannuation savings to provide this amount for the remainder of your life. Employer contributions alone may not be enough to cover this, so you may need to consider topping up your superannuation through salary sacrificing and personal contributions.

Accessing your superannuation

Generally, you cannot access your superannuation savings until you retire from the workforce and reach your 'preservation age'. If you are born after June 1964, your preservation age is 60, but for people born before that date, the preservation age is younger.

In some cases of severe financial hardship or permanent disability, you may be allowed to access your superannuation before you reach your preservation age.

It is possible for you to work part-time after you have reached the preservation age and draw down some of the savings from your superannuation fund. This allows you to supplement your part-time wage with your superannuation savings so that you don't have to leave the workforce altogether.

When you retire, your superannuation will be paid to you in either a lump sum, a pension or as a combination of both, depending on what you choose.

TIP: Before you make a final decision about how to access your superannuation savings, ensure you speak to a qualified financial advisor, who will check that you make the most of any applicable tax benefits and government assistance.

Borrowing to invest

Margin lending means borrowing to invest, typically secured against your cash or investments. Investing a combination of your own savings and your borrowings gives you more to invest and therefore the potential for increased returns.

Provided that you can contribute about 20% of an investment through your own savings, you may be able to borrow the remainder to buy shares or managed funds using margin lending. A simple analogy is buying a home – you pay a deposit of about 20% and borrow the rest of the money to buy the property.

The main benefit of margin lending is you can increase your potential gains because you have invested more. Of course, the opposite is also true. That is, the downside of borrowing money to invest is that it increases your losses if your investments decrease in value.

The interest incurred on margin loans is generally tax-deductible, so gearing can be an effective way of minimising tax.

Margin calls

Share values increase and decrease on a daily basis, depending on the market. Lenders like to ensure that the value of your investment is always greater than the amount of your loan and they regularly monitor your portfolio to ensure there is a sufficient buffer. If the value of your investment falls, your lender may make a 'margin call'.

If a margin call is made, you are required to top up your loan account with cash to reduce the amount of the borrowings. Alternatively, you can use your savings to buy more shares to increase the value of your portfolio. Either way, the difference between the value of the portfolio and the borrowed amount is re-established.

If you are unable to meet a margin call, (that is, you don't have sufficient cash to put on your loan) or you are not willing to meet the margin call, the lender will sell some of your shares and use that cash to lower the loan amount. This is not a good outcome for the investor as the shares may be sold when the value is low.

To reduce the risks of a margin call, it helps to have a diversified portfolio across a number of different sectors. Also, borrow conservatively, so only very significant falls in your portfolio value trigger a margin call.

Margin loans are generally suited to investors with relatively high cash reserves, a secure income and a good understanding of the stock market. They are best used for medium to long term investments and for investors whose risk profile tends to be higher.

Tax for investors

There are a number of legitimate tax-minimisation strategies available to investors, which enable you to make the most of your investments. On the other hand, there are also some unique taxes applicable to investments that you should be aware of, so that you can factor these into your investment calculations and decisions.

Capital gains tax

Capital Gains Tax (CGT) is paid when your capital gains are higher than your capital losses in any one financial year. A capital gain is made when you sell an asset for more than what you paid for it. A capital loss is made when you sell an asset for less than what you paid for it.

This tax only arises if you make a capital gain from an asset that you purchased after 19 September 1985. If you purchased your asset prior to that date, then it is generally free from CGT. CGT applies to all investments, including property, shares and managed funds. But, it does not apply to your home, where it is your primary residence.

On the surface, it may seem that CGT is a negative for investors, but it can actually be used to minimise your tax. If you build an investment portfolio where the returns come mainly from capital gains, rather than income, you will pay less tax due to the fact that CGT is lower than income tax.

Negative gearing

Negative gearing occurs when an investor borrows money for an income-producing asset (such as a property or shares) and the asset produces less income than the cost of borrowing. That is, the interest payments on the loan are higher than the income you receive from the asset.

Again, this may seem like a negative for investors, but in fact, it can actually offer you positive consequences. The losses can be claimed against your other taxable income, such as wages.

The long-term benefit from negative gearing is that the taxation benefits help you to pay off your investment, while your investment increases in value.

There are some risks to negative gearing, particularly in times of rapid interest rate rises that aren't matched by rises in rental income. The strategy of negative gearing is usually beneficial where the capital growth of the assets outweighs the effect of the shortfall.

Franking credits

All Australian companies must pay tax on their earnings. After tax has been paid, the company's profits are distributed to shareholders by way of dividends. Shareholders are also required to pay tax on the income they receive from the dividends.

So that tax is not paid twice, by the company and the shareholder, the shareholder receives a franking credit. The franking credit, also known as an imputation credit, represents the tax already paid by the company. It is used as a rebate for the tax already paid by the company and reduces the amount of tax you pay on your income.

It is important to note that not all companies pay the full corporate tax rate. In these cases, any dividends paid to shareholders are only partly-franked, meaning the tax benefit to you is reduced.

Making a Will

Investors can build a sizeable investment portfolio over their lifetime and it's important to ensure that, on your death, your assets are distributed as you wish. Having a Will is the only way that you can make certain that your assets will go to your beneficiaries according to your instructions.

What happens if I die without a Will?

'Intestate' is the term given when someone dies without a legally binding Will. In this case, what happens to your assets and how they are distributed is determined by legislation.

Your assets are usually distributed according to a standard formula, but this can take much longer and be more expensive than if you had a valid Will at your death. It can also mean your assets are distributed in a way that is inconsistent with your preferences.

The standard formula varies between the States and Territories, but in general your surviving spouse or partner and then your children are taken care of first. If there are no children, your partner inherits the entire estate. If there is no partner, your children inherit everything equally.

If you do not have a spouse, partner or any children then a search is made for next of kin, and usually your parents, if they survive you, receive before your siblings. If no next of kin can be found, and no other eligible person makes a claim, then your entire estate may go to the state, subject to the right of redemption if the next of kin makes a legitimate claim.

TIP: It can be important to clearly identify and describe what you wish to give to a particular person. If you have a sentimental or valuable item that you wish to bequeath, then naming it specifically is critical. However, if your intention is to give a person an asset for their benefit, such as a car, then naming it by make and model can create a problem if you change cars before you die. In that situation, the specific car is no longer yours and the gift may not be effective. So to avoid having to change your Will or having to add a codicil every time you update your car, it would be better to simply refer to your car (but not the make or model), which means whatever car you own when you die.

What must be included in my Will?

For your Will to be valid, it must contain a number of key elements:

- A formal statement including your name and address.
- A statement revoking any previous Wills made by you.
- The appointment of an Executor to carry out the instructions in your Will.
- A detailed description of what assets you are giving to each beneficiary and what happens to the remainder of the estate.

The Will must be dated and must include a formal ending, where you and two witnesses sign the Will. The witnesses to your signature should not be beneficiaries in your Will; otherwise they may not be entitled to receive their share of your estate.

Choosing an Executor

The Executor is the person you nominate to carry out your instructions according to your Will. The role of the Executor is to deal with third parties, such as governments and insurance companies, to ensure that your affairs are handled as you wish. The Executor will gather your assets and pay off any remaining debts before distributing your assets to your beneficiaries and preparing your final tax return.

In choosing an Executor (or joint Executors) for your estate, you should consider choosing someone likely to survive you and who will have sufficient time, care and skills required to take care of your affairs. It is also important to tell the person you would like them to be your Executor and to tell them where your Will is stored.

TIP: In the age of prompt desktop publishing, it may be quicker, simpler and clearer to simply create a new Will (and revoke all previous Wills) rather than seek to make additional codicils over time.

Time to change your Will

As time passes and your assets and personal circumstances change, it's important to review and update your Will.

While this doesn't have to be done too regularly, there are some key life events that should prompt you to consider reviewing your Will, such as:

- If you get married or divorced, or enter a new relationship. A divorce usually invalidates your current Will in relation to your former spouse.
- If there are new members to your family or new dependents.
- Tax laws change.

Your Will may be changed in two ways.

- You can prepare a new Will, which automatically revokes any previous Wills.
- You can make a codicil to your existing Will, which is a legal addition to your Will. Codicils must be signed and witnessed in the same way as a Will. They can also be complicated, so it's best to get legal advice before making additions.

How do I make a Will?

The most common way of making a Will is to seek legal advice from a solicitor, who will prepare a valid Will for you. Contrary to what you may think, having your solicitor prepare your Will is not too expensive and may be well worth it in the long run.

Your solicitor can assist by talking through different options and different outcomes so that your Will truly reflects your wishes. A professionally prepared Will may also relieve your loved ones of stress and anxiety after your death.

As an alternative, you can write your own Will. You can obtain a Will Kit from a newsagency or stationery supplier, which outlines the wording required to make a valid Will. This is a cheap and easy alternative and may suffice if you have a very straightforward Will.

TIP: Wills are equally important for younger people as they are for older people. A young person may die in tragic circumstances and they may not have time to get their affairs in order before they die. It's important to keep your Will up to date. It may seem morbid, but it will save your family considerable heartache and stress if the unlikely does happen.

Powers of Attorney

A power of attorney is a legal document enabling another person to act for you, including being able to sign legally binding documents on your behalf.

Depending on the power of attorney you make, your attorney can make financial, health and/or lifestyle decisions for you.

In certain circumstances, a power of attorney can be a practical solution that gives you peace of mind and minimises stress for your relatives. Some situations where a power of attorney may be useful include:

- If you are travelling overseas, you may want to appoint someone to take care of your financial matters while you are away.
- If you are about to have an operation and there is a risk that you may be unable to make decisions for yourself after the operation, you may decide to appoint a power of attorney to make financial and/or medical decisions for you.

Types of power of attorney

There are two main types of power of attorney - General and Enduring (as outlined below). Power of attorney may cover a broad or restricted range of matters.

You decide the scope of the power - for example, is it financial, specific for a purpose or medical following an operation? You also decide the timeframe for the operation of the power - for example, does it begin on execution and expire in six months or is it an ongoing power?

It is important to chose the correct format of power of attorney so that your wishes will be carried out as you instruct and for that power to be valid.

- **General** – this power operates only when you are legally capable to make decisions for yourself. This type of power is used mostly for commercial or more immediate purposes, like settling a property you are purchasing while you are overseas, where specific decisions need to be made and you are not available to make them. General powers of attorney can be limited by including conditions that specify exactly which decisions can be made. This power expires on your death or loss of mental capacity.
- **Enduring** – this power operates from the time specified for its operation and remains valid even when you can no longer make decisions for yourself. The main advantage of an enduring power of attorney is that, while you have capacity, it allows you to plan for the future and you can specify whether the power covers financial, medical or lifestyle decisions or all of these areas.

A financial power of attorney is used for making financial and legal decisions, including:

- Doing your banking.
- Signing legal documents.
- Transferring assets and investing income.
- Collecting or paying rent.

Medical and lifestyle powers of attorney are used for making health and lifestyle decisions, including:

- Consenting to medical treatment.
- Deciding where you will live and with whom.
- Approving a care or management plan.

Different laws apply to different powers you may wish to grant your attorney and these can vary between States and Territories. For example, if you wish to grant your attorney power about your lifestyle and accommodation, laws coving guardianship may govern this. Another example is a power about medical treatment, medication or medial procedures may be governed by various laws. So it is important that you follow the process, procedures and forms of each of these laws to ensure your grant of power is valid and your wishes can be followed.

Choosing an attorney

The person you choose to be your attorney must be legally competent. This means they must understand the nature and effect of the power of attorney, including what they can do, when they can make decisions and the effects of their decisions. In most States and Territories, an attorney must also be at least 18 years of age; although a minor can be an attorney subject to the limits placed on minors by the law.

It's vital that you trust the person you appoint as your attorney and that the person has a clear understanding of the decisions you would be likely to make in certain circumstances. It's also a good idea to check that the person you choose is happy to act as your attorney and is likely to be available when needed.

How do I make a power of attorney

Making a power of attorney is a relatively straightforward process, but there are some rules that need to be followed, such as witnesses to sign the document.

The safest way of making a power of attorney is to have it prepared by your solicitor. They will ensure you fully understand the implications and that the document is prepared correctly and is generally an inexpensive exercise.

Another option is to prepare your own power of attorney document. You can buy a power of attorney form or kit from a newsagent or stationery supplier. Power of attorney forms may also be available on the Internet. But a word of caution if you plan to do it yourself, ensure you understand the form and how it must be completed. If the form is not completed, signed and witnessed correctly, it may not be valid or it could confer a power you did not intend.

Practical guidance

Your credit union or building society can give you practical guidance to help you take control and build your wealth.

Credit unions and building societies offer numerous financial products that can assist you to create and manage your wealth. They may also have partnerships with specialised, expert financial advisers who may also be able to help.

As your long-term financial services partner, credit unions and building societies will help you to find the right financial products to meet your needs and make it easier for you to take control and build your financial worth.

More information

For more information about financial planning and the importance of good advice, contact:

Financial Planning Association of Australia (FPA)
www.goodadvice.com.au
1800 626 393

For more information about financial investments and licensed investment providers, visit:

www.asic.gov.au

For more information about investing in shares on the stock market, contact:

Australian Stock Exchange
www.asx.com.au

For more information about superannuation, visit:

www.understandingmoney.gov.au

For more information about making a will or power of attorney, consider the Attorney Generals or Department of Justice in each State or Territory or for links to qualified professionals and online kits, contact:

The Law Consumers Association
www.lawconsumers.org

Legal Wills Made Easy
www.legalwills.com.au

NOTE

This booklet has been written to assist Australians to improve their financial literacy. Information within the booklet is generic in nature, not intended as advice and was compiled without taking into account any individual circumstances of the reader. It is recommended that you consult with appropriately qualified professionals, such as accountants, solicitors and financial planners, before making major financial decisions.

While all published information has been checked and was correct at time of publication, you should not rely on the contents without first making your own inquiries, and/or obtaining professional advice tailored to your specific personal circumstances.

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