42 Prospect Street, Fortitude Valley, Qld, 4006
p: (07) 3363 5800 f: (07) 3363 5805
www.medicalfinancial.com.au

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Medical Financial Planning,
Sean O'Kane and Neal Durling
Authorised Representatives of
GWM Adviser Services Limited

FINANCIAL TIPS AND TRAPS FOR MEDICAL REGISTRARS

Thank you for taking the time to download this article. If you find it useful please share with your colleagues. Before we get into the detail we do have to provide you with a general advice warning, which is below:

Before acquiring a financial product a person should obtain a Product Disclosure Statement (PDS) relating to that product and consider the contents of the PDS before making a decision about whether to acquire the product.

Past performance is not a reliable guide to future returns as future returns may differ from and be more or less volatile than past returns.

The material contained in this briefing is based on information received in good faith from sources within the market, and on our understanding of legislation and Government press releases at the date of publication, which are believed to be reliable and accurate,

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INSURANCE

If you graduated within the last few years you will have had a number of financial groups that would have been talking about the importance of protecting your most valuable asset, you. Some may have acted on this advice and some may not.

So let's start with what your super fund provides you. As most of the Doctors we speak to are part of Q Super we will look at their default cover. Below is a link to the insurance section on the Q Super website:

http://qsuper.qld.gov.au/members/insurance/

You will see there are two sections:

- Death and Total Permanent Disability
- Income Protection Insurance

So the good news is if you haven't done anything, you do have some cover. The bad news is it's pretty basic. For the full details of the cover click on the link below:

http://qsuper.qld.gov.au/document/pds9.pdf

We have highlighted a few points about each below:

Death and TPD

You get $400,000 of life and TPD cover if you are under 35 (increasing to $500,000 in December 2013) but this reduces quickly from aged 36 onwards. The cover is inexpensive whilst you are young and doesn't require you to complete an application form so these are all good points.

There are some drawbacks; one of the main ones being that the definition is 'any occupation' as defined below (see page 12 of the guide for more information):

'Permanent incapacity, in relation to a member, means ill-health (whether physical or mental), where the trustee is reasonably satisfied that the member is unlikely, because of the ill-health, to engage in gainful employment for which the member is reasonably qualified by education, training or experience'.

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Income Protection

In simple terms if you are temporarily disabled, after sick leave and a 14 day wait, you are entitled to 75% of your basic pay for up to 2 years. This sounds OK but the big problem is outlined on page 6 of the Income Protection Benefit Guide, refer below:

http://qsuper.qld.gov.au/document/IB01.pdf

Benefit ceases when you '*reach the end of you contract'.* As all training Doctors, and now a lot of newly appointed Specialists, work on contracts of no more than 12 months, this clearly is a problem.

What You Should Do

We would recommend that you speak to an adviser to understand your current insurance cover and to decide if it is sufficient for your needs. We have detailed below a checklist of some of the things you should cover with your adviser:

Checklist

- ☐ What are your current types and levels of cover?
- ☐ Is this sufficient for your current situation?
- ☐ Has your cover been underwritten medically and financially?
- ☐ Have you completed beneficiary nomination forms?
- ☐ Is your income protection indemnity or agreed value?
- ☐ Do you have cover for blood borne disease?
- ☐ Is your cover non-cancellable?
- ☐ Are you premiums stepped or level?
- ☐ Have you organised your estate plan?
- ☐ Does your insurance integrate with your estate plan?

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SALARY PACAKGING

We are not going to say much about salary packaging, except most of you should be doing it, as it's just a complicated way to give you tax free pay. It's rare that we find people are not packaging but we often find that if an account has been running for some time and you have had a change in circumstances money is often built up in the account. If this is the case do something about it as it's not earning any interest with Remserv.

The guide to packaging is in the link below:

http://qldgov.remserv.com.au/salaryPackagingGov/?refer=government

If you work for the Mater call SomPak directly on 3163 1790 to receive their information pack.

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SUPERANNUATION

Whilst not always considered a top priority by some Doctors in the first few years of their training, the decisions you take now can have a very big impact on the end result.

So what are the key things?

1. The top tax rate in super is 15% which means it will grow much quicker than money outside of super, where for most of you it will be taxed at 38.5%.
2. You should be paying 5% member contributions to ensure that you get the maximum from Q Health of 12.75%. This is a very generous benefit which is not offered in other States.
3. If you are working fulltime it is generally better to have your 5% coming from pre-tax money rather than post-tax. This means you save tax at your marginal rate less 15% contributions tax as the money goes into super.
4. Think about the fund choice, as the default Balanced is not suitable for everyone. Refer to the following link for more information:

http://qsuper.qld.gov.au/members/investments/

There have been a succession of changes with super in the last few years; however one of the most significant was a reduction in the concessional contributions limit to $25,000. This is the amount your employer pays in plus your pre-tax contributions. This was and is bad news as it makes it very difficult to play catch up later on. For this reason it may be worth considering putting additional pre-tax contributions into your super fund to fully use the $25,000 allowance. Obviously how appropriate this is for you is going to depend on your situation so please don't do without advice.

What You Should Do

We would recommend that you speak to an adviser to understand what you are currently doing with superannuation and whether you should make any changes. We have detailed below a checklist of some of the things you should cover with your adviser:

Checklist

- ☐ Do you undertsand your attitude to investment risk?
- ☐ Have you made an appropriate proactive fund choice?
- ☐ Are you paying a 5% member contribution?
- ☐ Are your member contributions post tax or pre-tax?
- ☐ Is maximum funding appropriate?
- ☐ Do you have other super funds that you should roll over?

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PROPERTY PURCHASING AND DEBT

It was not that long ago that it was at the top of a lot of Junior Doctors' lists to purchase their first property. With the stellar run that property enjoyed in the decade before the GFC it's not hard to see why. However since the GFC the market has certainly slowed down, which has caused people to question buying a property as a quick way to make money. Below is one of our blogs with RP Data's view of the residential property market:

http://www.medicalfinancial.com.au/blog/where-to-for-home-values-

So the easy money may have already been made, but you still need somewhere to live. So if you see yourself being somewhere for a reasonable period of time, or perhaps you are at the end of your training and know where you are going to be, you are probably thinking of buying somewhere. So below we have outlined a few tips about the property purchase.

We see there are broadly two options:

1. You outsource the work to an independent buyer's advocate.
2. You do it yourself

Below is a blog about making sure you choose carefully if you decide to go with option 1.

http://www.medicalfinancial.com.au/blog/the-real-cost-of-free-property-advice---when--free--is-anything-but---

Below we have put the steps if you are going to do-it-yourself. A number of these you will still need to do even if you use a buyer's advocate.

Research

There are plenty of free sources of information to research the suburb and the specific property, including:

http://www.myrp.com.au/
http://www.onthehouse.com.au/

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Finance

Work out a realistic budget before you start looking for a property and then get finance pre-approval in place. Interest rates are at historical lows so it's important in any calculations you do to take into account a rise in interest rates. A word of caution here as some banks will be prepared to lend you a lot more than is sensible to borrow and easy to pay back. The Doctors who come to us under most stress are those who have over borrowed.

The Real Estate Agent

Once you have narrowed things down to a specific suburb and property you will have to deal with the Real Estate Agent. The reasons the successful ones drive big European cars is they are master negotiators, so here are a few basic rules:

1. They are not your friend. They are being paid by the seller to get a result for their property;
2. Don't tell them your budget. There will be a variety of reasons why they will tell you they need to know this but it does put you at a big disadvantage as they then know how much you can pay for a property.
3. Get the property independently valued before you sign a contract. That way you know what the true market value is.
4. If you want to make an offer ask the Agent to email you a pre-completed contract with the sellers details that you will forward to your lawyer.

The Lawyer and Contract

Get a lawyer involved before you sign a contract and ensure that they put in the relevant clauses, typically finance, building and pest and due diligence. You can then complete the amount you wish to offer and email the contract back to the Agent.

Building and Pest

Get a reputable firm and if you are able to, attend the inspections. If issues are identified you will need to decide what you wish to do, including:

- Terminate the contract;
- Find out how much it will cost to rectify and then negotiate a price reduction;
- Accept and continue with the purchase.

Which option is the right one will depend very much on the extent of the issue.

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Pre-Completion Inspection

Once all of you contract terms have been met your contract will go unconditional which means you are legally bound to go through with the purchase. One thing very few people do is a pre-completion inspection. Although you are legally bound to purchase the property that does not mean if the property condition or chattels you have agreed are part of the property have materially changed. So two days before settlement is due do a pre-completion inspection and then if you have concerns speak to your lawyer.

What You Should Do

Decide whether you are going to outsource to an independent property buyers advocate or do it yourself. We have detailed below a checklist for both scenarios.

Checklist – Buyers Advocate

- ☐ Work out a realistic budget
- ☐ Get finance approval in place
- ☐ Select a buyer's advocate and ask the following questions:
    - Do they work on a fee for service basis rather than conjuncting commission with the sellers agent?
    - Are they a licensed valuer?
    - How long have they been operating and how many properties have they bought?
    - What examples of recent purchases can they provide?

The buyers advocate should help with the rest.

Checklist – DIY

- ☐ Work out a realistic budget
- ☐ Get finance approval in place
- ☐ Do your research.
- ☐ Find a property and have it valued.
- ☐ Appoint a lawyer.
- ☐ Negotiate the contract.
- ☐ Organise a building and pest inspection.
- ☐ Carry out pre-completion inspection.

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INVESTMENT

One question we are often asked is when should I start investing? This is going to depend on a number of factors which are beyond the scope of this briefing paper. The short answer however is the longer your timeframe the better, due to the nature of compounding returns. Albert Einstein came up with the theory of 72. Divide 72 by the percentage return you'd expect to receive and it will tell you how long it takes for your money to double. For example let's assume an 8% return and $50,000 invested for 27 years:

- 72 ÷ 8% = 9 years

Therefore:

- $50,000 to $100,000 in 9 years
- $100,000 to $200,000 in 18 years
- $200,000 to $400,000 in 27 years

One word of caution is that it's hard to make money as a DIY investor and that's because emotion gets in the way. There have been many behavioural finance studies showing that without advice investors will consistently make mistakes which cause them to perform poorly. The March 2011 Quantitative Analysis of Investor Behaviour (QAIB) report produced by Dalbar shows that equity investors in the US, over the 20 year period ending 2010, received an annualised return of 3.83% compared with the S & P 500 market return of 9.14%. Why is this? Research finds investors are driven to do the wrong thing by the psychological factors that overtake rational decision- making. This includes, but is not limited to, chasing the hot sectors and / or funds and buying high and selling low.

If you are interested in reading the full QAIB report or other reports on this subject please let us know so we can provide these. Below is a cartoon showing the emotions an investor goes through during a typical market cycle:

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What You Should Do

We would recommend that you speak to an adviser and take advice as to whether now is an appropriate time for you to invest and if so how best to go about it.

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ADVISER CHECKLIST

If you are thinking of taking advice following are some questions to ask when choosing a financial adviser that could best help you through the process.

- ☐ Does the financial adviser intimately **understand the medical profession and the issues faced by Registrars**?
- ☐ Does the financial adviser understand the outcomes you want to achieve and provide you with **clarity and certainty** in achieving these?
- ☐ Does the financial adviser **co-ordinate and liaise with other professional advisers** such as investment advisers, private bankers, insurance brokers, and lawyers?
- ☐ Does the financial adviser specialise in **providing outcomes-based solutions designed for your needs** not product-based solutions from their list of investment products?
- ☐ Does the financial adviser offer a **transparent fee for service**, rather than commission-based advice?

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ABOUT THE AUTHORS

This paper was prepared by Neal Durling and Sean O'Kane, Financial Planning Partners at Medical Financial Group.

Neal is from the UK and has 20 years wealth management experience in the UK and Australia. Neal's previous roles include head of wealth management distribution for an Australian bank and practice development manager providing business and strategy advice to financial planning business owners.

Neal holds an Honours degree from the London Business School majoring in corporate strategy, is an Associate of the Institute of Financial Services, and is a qualified financial adviser.

Also originally from the UK, Sean founded Medical Financial Group in 2008 with co-director Matt Connor. He established the business after working for nine years as a financial adviser in the UK where he had extensive experience working with medical practitioners. Sean has an Honours degree in Business Studies and is a qualified financial adviser.

Medical Financial Group provides medical practitioners with holistic financial and management advice.

The partnership is built around four core principles:

- Offering conflict-free, fee-for-service advice;
- Acting as trusted advisors, involved in every major financial decision that clients make;
- Providing financial management and advice that grows with clients' unique needs; and
- Maximising the probability of clients achieving their financial objectives.

For more information, please contact

Neal Durling or Sean O'Kane on 07 3363 5800, info@medicalfinancial.com.au or www.medicalfinancial.com.au