


# A BUDGET FOR FINANCIAL INDEPENDENCE

**By Oscar Aguiar**

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### **A Budget for Financial Independence**

The proposed changes in Superannuation Legislation due to take affect in July 2007, has aroused a lot of interest from industry and individuals. Just check out the local papers and you will note a number of seminars / advertisements based solely on the proposed changes in superannuation.

Superannuation and Retirement appear to be intrinsically linked. And yes, we can continue to expect more changes to the super rules in the future. The AGE factor is critical to qualifying to benefit from these rules. There is the age of 55 or is it 58, or is it 60 or 65?

Yes, there is a need to understand these rules and to take maximum advantage of the same as part of ANY financial plan.

But rather than talk about RETIREMENT, why not talk about FINACIAL INDEPENDENCE that is not linked to ANY age bracket but is linked more to YOUR MINDSET?

Why wait till you are 60? What's wrong with being financially independent at age 45 or even earlier and then take the benefits from Super as a bonus when you are entitled to them or when the Government of the day decides that you are entitled to them?

I have attended several seminars over the past few months - all of which talked about superannuation in one form or another. A common question asked at these "information sessions" is: *How much will I need in retirement?* The presenter (or speaker) can only answer this question in broad terms i.e. based on what the "average" person in the street does.

If you do what everybody else does, then, you can expect to get what everybody else gets. At best, you will be average!

Appendix 1 shows a typical response from the Westpac retirement calculator (based on a "**comfortable**" lifestyle for a couple) i.e. \$917/Week or \$47,702 /Year. But is this truly YOUR budget for "Financial Independence" or is it what someone else thinks YOUR budget should be? Will you be living YOUR lifestyle or will you be living an "average" lifestyle dictated by someone else or by some external factors that are beyond YOUR control. What is wrong about taking control of YOUR finances and not leaving it to someone else?

Let's examine some of the results:

***Comfortable*** lifestyle for a couple:

*Able to afford a broad range of leisure and recreational activities, private health insurance, a reasonable car, good clothes, a range of electronic equipment, with domestic and occasionally international travel.*

**Transportation** (e.g. car running costs, public transport): \$103.77 / week or \$5,396 / Year (11.31% of your yearly budget).

Clearly, these are running costs and running costs ONLY! How small or how big is this car? How many km/year does this amount allow for? What if my lifestyle demands that I have two cars? Where is the money I would have to put aside for my next car 5 to 7 years down the track? A simple calculation (\$5,000 X 7 years = \$35,000) will tell you that you would have to put aside some \$5,000 / Year for 7 years if you are to afford a new car some 7 years down the track (ignores proceeds from the sale of a 2<sup>nd</sup> hand car).

**Leisure** (eg books, TV, computer, vacations): \$206.90 / week or \$10,758.80 / Year (22.5% of your yearly budget – the biggest allocation!).

Lets face it, for a couple traveling to Europe (international travel) – one trip alone will cost them around \$15,000 if not more! For one who loves traveling, why should I restrict myself to the “occasional” international trip?

**Health services** (eg health insurance, medical, dental, medicines): \$95.34 / Week or \$4,957.68 / Year (10.39% of your yearly budget).

Retirees and Baby Boomers put the biggest strain on the State’s Health Budget. How long into the future, will the government be able to compensate us for our burgeoning health costs? Will I be sufficiently covered if I fall critically ill some time in the future?

**Financial Independence – Start with the end in mind**

An Engineer undertaking to commence a project will always start with the end in mind. Sorting out your finances is no different. At what age do you want to be financially independent and how much will you require?

Most financial institution web sites will have a basic form to allow you to do a budget review. The “Money” magazine – February 2007 Issue has such a form or download a budget sheet from a web site and input – as best and as accurately as you can – all of your current income and expenses (i.e. in today’s dollars).

Here is such an example that covers transport costs for one average size car:

<b>Transport (Annualised)</b>	(Per Wk) \$282	(Per Mth) \$1,222	(Per Qtr) \$3,666	(Per Yr) \$14,665	S-Total \$14,665
Car Loan / Lease	175				9,100
Registration				250	250
Comprehensive Insurance		100			1,200
Rego Green Slip (3rd Party)				600	600

## A Budget for Financial Independence – by Oscar Aguiar

Car Pink Slip				35	35
Services (2 per year)				400	400
Petrol	50				2,600
Tyres (1 Tyre per year)				120	120
NRMA Membership		30			360
Car - Other					-

Once you are satisfied with your answers, amend it to reflect the changes if you were to retire today. You may want a second car, a world cruise, a European holiday, or you may simply want to make a difference in people's lives by financially helping those less fortunate than yourself. Have you ever thought about volunteering your services to help build a school in Africa or East Timor for that matter? Whatever your needs may be when you do achieve financial independence, note them down. Look for those line items that may well be obsolete when you become financially independent e.g. rental, car loan, home loan and if the kids are old enough - educational costs for the children etc.

Let's start with the Westpac estimate of \$47,702 /Year in today's dollars.

### ASSUMPTIONS

Current Age	60	Income Req'd in today's \$	\$ 47,702
Retirement Age	60	Inflation	N/A
Years to Retirement	0	Rate of Return	8.00%

### RESULTS

Income Req'd 0 Years from now	\$ 47,702
Capital Req'd 0 Years from now	\$ 596,275

Just how many people of age 60 realize that they would require a Super pay out of some \$600,000 invested to live a COMFORTABLE life style if they were to retire today? Note: a 12% rate of return would require some \$397,517 invested.

Realising that the sum of \$47,702 is in today's dollars, just how will that change if I am 45 years of age and have another 5, 10 or 15 years to retirement?

### ASSUMPTIONS

Current Age	45	Income Req'd in today's \$	\$ 47,702
Retirement Age	60	Inflation	4%
Years to Retirement	15	Rate of Return	8.00%

### RESULTS

Income Req'd 15 Years from now	\$ 85,909
Capital Req'd 15 Years from now	\$ 1,073,858

Now, that is a very different result that could come as a shock to many baby boomers if we are to believe some of the recently published articles which state that the average male baby boomer has a relatively modest \$80,000 in Super and half have less than \$30,700!

**WHAT IF YOU WANT TO BE FINANCIALLY INDEPENDENT AT AGE 55 WITH A MUCH LARGER INCOME?**

**ASSUMPTIONS**

Current Age	45	Income Req'd in today's \$	\$ 70,000
Retirement Age	55	Inflation	4%
Years to Retirement	10	Rate of Return	8.00%

**RESULTS: Refer to Appendix 2 – Financial Independence Calculator**

Instructions: Locate the \$70,000 column (top right corner). Locate the 10 year time frame (row) down the far left column. The intersection of the \$70K column and 10 Year row will give you the capital required to generate a \$70,000 income.

Income required 10 years from now: \$103,617 (not shown but can be calculated)  
Capital Required 10 years from now: \$1,295,214

This is what “Starting with the End in mind” is all about! Now - and this is extremely important – if you have completed a draft budget to establish your financial needs – say in 10 to 15 years from now - you have knowingly or unknowingly set a GOAL – a LONG TERM GOAL. This is only the first half of the equation to WEALTH CREATION. The second half of the equation is an ACTION PLAN. Start by asking yourself: What have I done to get myself to where I am today? One thing is certain. If you keep doing the same things, nothing will change.

One definition of insanity:

***Doing the same thing but expecting a different result.***

If all you need is \$5,000 a month to live a comfortable lifestyle and doing what you want to do, then that’s all you need.

***You are wealthy, if you have the opportunity to make choices.***

It’s not about amassing millions of dollars.

***It’s about having the freedom to do what you want to do, when you want, where you want!***

Don't worry about just HOW you will get to \$1,295,214 in 10 years from now. More to the point ask yourself WHY? "Why" has motivation attached and if the motivational factor is strong enough, you will get there. Many books have been written on "HOW". But will simply reading a book on HOW to create wealth make you wealthy? Let me explain!

My children are old enough to help out with home chores. They certainly know HOW but will they? Week days come and go. Weekends come and go and still not much happens. I then say to them *"I'll give you five dollars for each room that is vacuumed and tidied"*. You can guess what happens next. Yes, they now have a **purpose**, a reason to clean the rooms – they are **motivated!** In addition, keep in mind that the reward only comes at the end – on completion of the task!

There is no substitute for motivation. It's what encourages you to take action. It's what anchors you to your purpose in life. It keeps you focused. It's what keeps up the momentum once you have commenced the journey.

### **Success Is a Choice**

A recent publication that I came across is Michael Yardney's book : *"How to grow a Multi-Million Dollar Property Portfolio"*. Read it by all means, but more than that, move with people that will motivate and encourage you to succeed in whatever you choose to do.

In his book, Michael reminds us that SUCCESS is a choice. I will conclude with a short excerpt from Michael Yardney's book:

*"It doesn't matter where you are today, you can be a success at whatever you want, so long as you have a PURPOSE in life and a plan to get there".*

So decide in how many years you want to be financially independent, be realistic and set milestones along the way. If you really want to be financially independent you need to set **GOALS**, have a **STRATEGY** to achieve them, and then take **ACTION**.

# Appendix

Appendix 1 – Westpac Retirement Living Standard Calculator

Appendix 2 – Financial Independence Calculator



**Westpac/ASFA Retirement Living Standard Calculator (www.westpac.com.au)**  
 ( Go to: HomePage - Investments & Superannuation - Retirement - Calculate)

Appendix 1

Based on your selection, a couple, retiring in, NSW (Sydney) will require **approximately \$917 a week** to maintain a comfortable lifestyle in retirement.

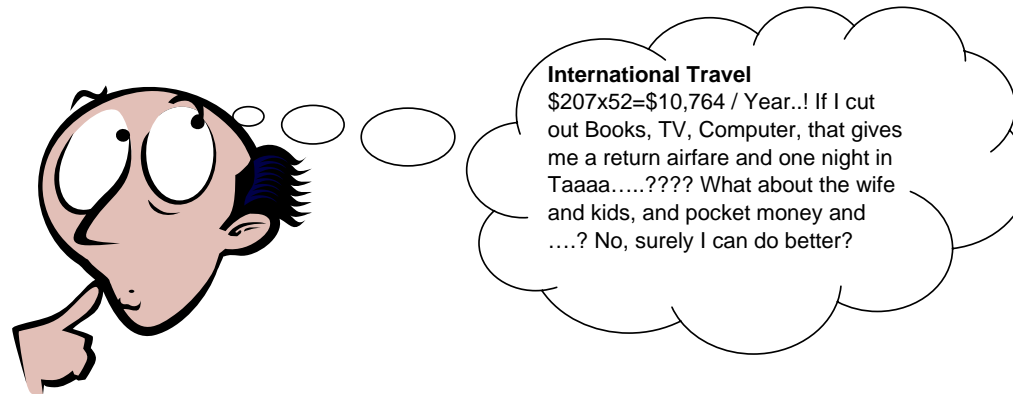
**What type of retirement lifestyle would you like?**

Extract from Westpac web site as on: 8th Feb 2007

Weekly breakdown of expenditure	Comfortable		Modest	
Housing (eg contents, insurance, rates, repairs)	\$84.17	9.18%	\$63.89	12.90%
Energy (eg electricity, gas)	\$14.59	1.59%	\$13.52	2.73%
Food	\$184.08	20.07%	\$138.53	27.98%
Personal care (eg hairdressing, makeup, personal care)	\$38.16	4.16%	\$38.16	7.71%
Household goods and services (eg furniture, household items, cleaning, tools)	\$91.50	9.97%	\$51.54	10.41%
Clothing and footwear (eg clothing, underwear, footwear)	\$55.85	6.09%	\$25.02	5.05%
Transport (eg car running costs, public transport)	\$103.77	11.31%	\$68.25	13.78%
Health services (eg health insurance, medical, dental, medicines)	\$95.34	10.39%	\$21.69	4.38%
Leisure (eg books, TV, computer, vacations)	\$206.90	22.55%	\$74.58	15.06%
Gifts and/or alcohol or tobacco	\$43.01	4.69%	\$0.00	0.00%
<b>Total per week:</b>	<b>\$917.36</b>		<b>\$495.18</b>	
<b>Total per year:</b>	<b>\$47,702.49</b>		<b>\$25,749.36</b>	

**Modest**  
 Better than just surviving on the age pension but still only being able to afford fairly basic activities

**Comfortable**  
 Able to afford a broad range of leisure and recreational activities, private health insurance, a reasonable car, good clothes, a range of electronic equipment, with domestic and occasionally international travel.





# FINANCIAL INDEPENDENCE CALCULATOR

Capital Required to Provide Desired "Financial INDEPENDENCE" Income

Rate of Inflation 4.00%  
Rate of Return 8.00%

		Desired Financial INDEPENDENCE Income Per Annum in Today's Dollars												
		\$10,000	\$15,000	\$20,000	\$25,000	\$30,000	\$35,000	\$40,000	\$45,000	\$50,000	\$55,000	\$60,000	\$65,000	\$70,000
Years to Retirement		Capital	Capital	Capital	Capital	Capital	Capital	Capital	Capital	Capital	Capital	Capital	Capital	Capital
Baby Boomers 45 to 60	1	\$130,000	\$195,000	\$260,000	\$325,000	\$390,000	\$455,000	\$520,000	\$585,000	\$650,000	\$715,000	\$780,000	\$845,000	\$910,000
	2	\$135,200	\$202,800	\$270,400	\$338,000	\$405,600	\$473,200	\$540,800	\$608,400	\$676,000	\$743,600	\$811,200	\$878,800	\$946,400
	3	\$140,608	\$210,912	\$281,216	\$351,520	\$421,824	\$492,128	\$562,432	\$632,736	\$703,040	\$773,344	\$843,648	\$913,952	\$984,256
	4	\$146,232	\$219,348	\$292,465	\$365,581	\$438,697	\$511,813	\$584,929	\$658,045	\$731,162	\$804,278	\$877,394	\$950,510	\$1,023,626
	5	\$152,082	\$228,122	\$304,163	\$380,204	\$456,245	\$532,286	\$608,326	\$684,367	\$760,408	\$836,449	\$912,490	\$988,530	\$1,064,571
	6	\$158,165	\$237,247	\$316,330	\$395,412	\$474,495	\$553,577	\$632,660	\$711,742	\$790,824	\$869,907	\$948,989	\$1,028,072	\$1,107,154
	7	\$164,491	\$246,737	\$328,983	\$411,229	\$493,474	\$575,720	\$657,966	\$740,212	\$822,457	\$904,703	\$986,949	\$1,069,195	\$1,151,440
	8	\$171,071	\$256,607	\$342,142	\$427,678	\$513,213	\$598,749	\$684,285	\$769,820	\$855,356	\$940,891	\$1,026,427	\$1,111,962	\$1,197,498
	9	\$177,914	\$266,871	\$355,828	\$444,785	\$533,742	\$622,699	\$711,656	\$800,613	\$889,570	\$978,527	\$1,067,484	\$1,156,441	\$1,245,398
	10	\$185,031	\$277,546	\$370,061	\$462,576	\$555,092	\$647,607	\$740,122	\$832,637	\$925,153	\$1,017,668	\$1,110,183	\$1,202,698	\$1,295,214
	11	\$192,432	\$288,648	\$384,864	\$481,079	\$577,295	\$673,511	\$769,727	\$865,943	\$962,159	\$1,058,375	\$1,154,591	\$1,250,806	\$1,347,022
	12	\$200,129	\$300,194	\$400,258	\$500,323	\$600,387	\$700,452	\$800,516	\$900,581	\$1,000,645	\$1,100,710	\$1,200,774	\$1,300,839	\$1,400,903
	13	\$208,134	\$312,201	\$416,268	\$520,335	\$624,403	\$728,470	\$832,537	\$936,604	\$1,040,671	\$1,144,738	\$1,248,805	\$1,352,872	\$1,456,939
	14	\$216,460	\$324,689	\$432,919	\$541,149	\$649,379	\$757,608	\$865,838	\$974,068	\$1,082,298	\$1,190,528	\$1,298,757	\$1,406,987	\$1,515,217
	15	\$225,118	\$337,677	\$450,236	\$562,795	\$675,354	\$787,913	\$900,472	\$1,013,031	\$1,125,590	\$1,238,149	\$1,350,708	\$1,463,267	\$1,575,826
Generation X	16	\$234,123	\$351,184	\$468,245	\$585,307	\$702,368	\$819,429	\$936,491	\$1,053,552	\$1,170,613	\$1,287,675	\$1,404,736	\$1,521,797	\$1,638,859
	17	\$243,488	\$365,231	\$486,975	\$608,719	\$730,463	\$852,206	\$973,950	\$1,095,694	\$1,217,438	\$1,339,182	\$1,460,925	\$1,582,669	\$1,704,413
	18	\$253,227	\$379,841	\$506,454	\$633,068	\$759,681	\$886,295	\$1,012,908	\$1,139,522	\$1,266,135	\$1,392,749	\$1,519,362	\$1,645,976	\$1,772,589
	19	\$263,356	\$395,034	\$526,712	\$658,390	\$790,068	\$921,747	\$1,053,425	\$1,185,103	\$1,316,781	\$1,448,459	\$1,580,137	\$1,711,815	\$1,843,493
	20	\$273,890	\$410,836	\$547,781	\$684,726	\$821,671	\$958,616	\$1,095,562	\$1,232,507	\$1,369,452	\$1,506,397	\$1,643,342	\$1,780,288	\$1,917,233
	21	\$284,846	\$427,269	\$569,692	\$712,115	\$854,538	\$996,961	\$1,139,384	\$1,281,807	\$1,424,230	\$1,566,653	\$1,709,076	\$1,851,499	\$1,993,922
	22	\$296,240	\$444,360	\$592,480	\$740,600	\$888,720	\$1,036,839	\$1,184,959	\$1,333,079	\$1,481,199	\$1,629,319	\$1,777,439	\$1,925,559	\$2,073,679
	23	\$308,089	\$462,134	\$616,179	\$770,224	\$924,268	\$1,078,313	\$1,232,358	\$1,386,402	\$1,540,447	\$1,694,492	\$1,848,537	\$2,002,581	\$2,156,626
	24	\$320,413	\$480,620	\$640,826	\$801,033	\$961,239	\$1,121,446	\$1,281,652	\$1,441,859	\$1,602,065	\$1,762,272	\$1,922,478	\$2,082,685	\$2,242,891
	25	\$333,230	\$499,844	\$666,459	\$833,074	\$999,689	\$1,166,303	\$1,332,918	\$1,499,533	\$1,666,148	\$1,832,762	\$1,999,377	\$2,165,992	\$2,332,607

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INSTRUCTIONS: Select a row from the left most column that reflects the number of years to retirement and the desired income in the top column. The point of intersection of the selected column and row gives you the "capital required" to generate the "desired income".

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