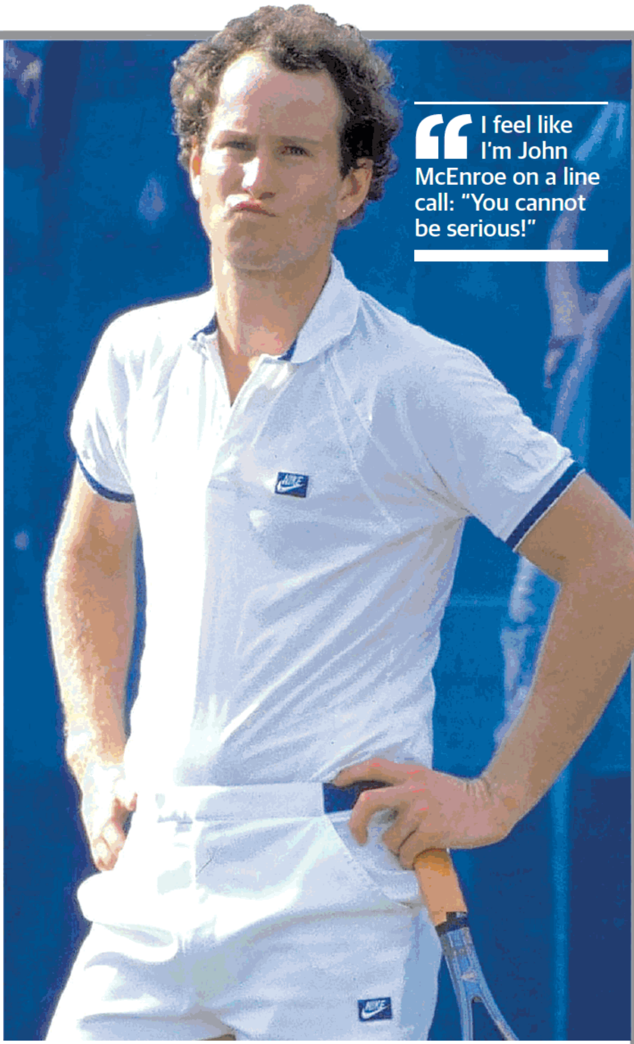

to earn dough. Or, in other words, start following and applying the Barefoot Steps.

Build your Mojo buffer

Mandy writes: Last March I came across your book in a store in New Zealand. Since then, it has completely changed how my husband and I use our money. We have paid off $8000 on a credit card, and this year our loan will get hammered using our Fire Extinguisher account.

But the biggest help was earlier this year. My cousin's two-year-old daughter relapsed with leukaemia, with no more options left for treatment. My cousin and I are very close but he lives far away, in Ireland. With our Mojo, we were able to drop everything and be there for his daughter's final weeks. I was able to support my cousin and his wife through the hardest time of their lives. With tears in my eyes and a huge a hole in my heart, I thank you for giving me that gift.

Barefoot responds: That is a beautifully written, emotional response — and it shows exactly why people should get things together.

None of us know what's going to happen next. And to be in the position where you could do what you did is one of life's great gifts. The events that have already happened this year — fires, floods and pandemics — have taught me that right now is a really good time to have a Mojo buffer. You never know when you'll need it.

The Barefoot Investor for Families: The Only Kids' Money Guide You'll Ever Need
HarperCollins
RRP $29.95

Time flies in saving for retirement

NOEL WHITTAKER

LAST week I wrote about the importance of getting control of your home loan, to pay less interest and to give yourself a safety buffer if you strike a financial challenge.

I pointed out that because of the way compound interest works, once your payments are at a level to pay your mortgage off in 10 years, there is little to be gained by paying it faster. At an interest rate of 3 per cent a year, a 10-year term requires monthly repayments of $970 for each $100,000 borrowed — that's $2910 a month on a loan of $300,000.

A reader asked why they should ease up on the payments when they got to 10 years — surely, they reason, getting the mortgage totally paid off is the best way to go.

I understand the logic, but there is another factor at play: the importance of time in wealth creation.

For example, if you had a loan of $300,000 at 3 per cent and were paying it back over 30 years, the monthly repayments would be $1265. If you bumped those repayments up by $704 a month — to a monthly total of $1969 — you would slash 14 years off the loan and cut the term back to 16 years. But to chop 25 years off it, reducing the term to five years, would require monthly payments of a massive $5391.

Let's think about two couples who are willing and able to set aside such a big amount. The Smiths and the Browns are aged 45, owe $300,000 on their home, and are in the 39 per cent tax bracket including Medicare.

The Smiths are of a nervous disposition, so they decide to pay their mortgage off in just five years to provide security. This requires monthly payments of $5391.

The Browns are also willing to pay $5391 a month towards their future prosperity, but they are happy to adopt my 10-year strategy and pay their mortgage back at $2910 a month. This leaves them with $2776 of after-tax dollars to invest. Note that the equivalent in pre-tax dollars is $4553.

In addition to their mortgage, the Browns take out a $300,000 home equity loan for an Australian index fund, which requires tax-deductible interest-only payments of $1000 month.

A home equity loan means no margin calls, and an index fund cannot go broke.

They also salary sacrifice $1250 a month each into superannuation. Notice that this choice uses pre-tax dollars, increasing their total investment by $724 a month. This could increase their combined superannuation balance by $1.2 million at age 65. At age 55 the Browns have paid off their home loan – they then can decide where to invest the $2910 a month house payments. They decide to pay off the home equity loan so they will be debt free when they retire in 10 years.

When they turn 65, their managed funds may be worth $1.1 million, if earnings average 7 per cent, and they have extra superannuation of $1.2 million. In this case, they would have achieved a total joint portfolio of $2.3 million in addition to their employer super.

Now let's return to the Smiths. They were debt-free at age 50, but had just 15 years left to invest. Remember time is one of the biggest factors in wealth creation. Because they had five years less time for compound interest to work its magic, building a portfolio of $2.3 million is virtually impossible. And it is made even harder by their risk profile and lack of investment experience.

Noel Whittaker is the author of Making Money Made Simple and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

ASK THE EXPERT

Send your questions to Noel Whittaker noelwhit@gmail.com or tweet @NoelWhittaker

Q I'm 60 and my husband is 57. We own our home ($550,000), and have a holiday home ($280,000) on which we owe $125,000. My husband works full time and will for at least five more years. I work part time. I have a super balance of $82,000. We may move into the holiday house, which needs updating, when my husband retires. Should we pay off the loan or borrow $150,000 to update it, keep the money in super and I keep working part time?

A You are well placed for retirement and should get the renovations done at today's prices. Continuing part-time work is a good idea — you may find your income will be enough for repayments on the present loan plus the new one. You don't have to pay the loan out on retirement day — you could make a tax-free withdrawal from your husband's super to liquidate the remaining balance.

Powerful lessons from lives in lockdown

WORKPLACE MATTERS
GARY MARTIN

ONE of the most powerful lessons we have learnt from COVID-19 is that things can change rapidly and with little warning.

Look at us today, locked down in our homes and with events and activity calendars wiped clean.

But COVID-19 is delivering other powerful lessons.

Many of us are learning we are much stronger than we thought, while free stuff like love, kindness and being together is more important than anything else.

Feats we once thought impossible, like working from home at the same time as home-schooling our children, can be achieved with a good dose of patience and resilience.

Giving up is not an option and, where we once whinged about heading into the office every day, today we miss it, particularly if we've lost our job.

We have found that a simple act of gratitude can deliver health benefits. It helps to build our relationships, shows we appreciate everyday acts of kindness, increases positive emotions and reduces negativity.

We have finally recognised that frontline workers are unsung heroes because they courageously continue to deliver essential services, from medical support, policing and teaching, to keeping supermarket shelves stacked.

Perhaps they deserve more thanks, better working conditions and greater rewards. Time will tell if we truly honour those in the workplace who have served us so well.

COVID-19 has also made us realise that we tend to be far too critical of our political leaders. The reality is we struggle to describe what we expect from them. However, as sure as the sun rises, we recognise a great political leader when we see one in action, and we are seeing several in action right now.

We have also learnt that self-care is critical if we are to support our families, friends and work colleagues.

The reality is, we rarely appreciate the value of good health until something threatens to take it away.

We don't wash our hands anywhere near enough, we touch our faces too often and we should social distance more regularly, particularly when we are at work.

We know we can all survive without expensive holidays, lavish meals and other indulgences — but being content is a luxury we can all afford.

But the most important learning is our newly found appreciation that a pandemic like COVID-19 does not discriminate. Money, power or a highly paid job will not guarantee survival, but strong relationships with family, work colleagues and friends will help you get through.

And while working at home you will have discovered you have far more in your freezer than expected, including items way past their frozen best before dates.

Being in lockdown has taught many of us to reflect, evolve and change to be able to face the threats posed by this pandemic. You, too, should put aside time to discover your lockdown learnings — you may be amazed at how much you have taught yourself so far.

Professor Gary Martin is chief executive at the Australian Institute of Management WA