



# Sowing the seeds of life in the third age

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Sometimes a little guidance can go a long way. Kristen Paech reports

Ray and Doreen McNicholl are living a comfortable life in retirement. Ray, 69, is a self-confessed “tool fiend”, who enjoys travelling with his wife and spends much of his time on home improvement. Doreen, 62, takes pleasure in appliqué and quilting, and belongs to a clogging group, which sees her and her husband attend annual conventions around Australia.

But life wasn't always this good. Fourteen years ago, at age 55, a medical condition forced Ray to give up work earlier than he'd planned.

He and Doreen packed up their life in Alice Springs and moved to Bundaberg in southern Queensland, where they planned to use the six rental properties they'd invested in over the years as their retirement nest egg.

However, a lack of guidance saw the McNicholls heavily geared going into retirement and with mortgage repayments and maintenance costs that exceeded the rental income they were receiving from the properties.

Worse still, they had invested \$100,000 in the failed Wattle Group scheme, now considered one of Australia's worst investment frauds involving nearly 3000 people and funds of about \$200 million.

Ray took on part-time work in freight delivery in a bid to generate some income, and one day in 1999, drove past the office of Bull Financial Group, the financial planning firm set up by husband and wife Leanne and Chris Bull.

“I happened to drive past Leanne's office and I thought ‘I like the look of it, there's something about it that appeals to me,’” Ray says.

“So I went in to see Leanne and it was about the best thing I did. She virtually took the burden

off my shoulders. I was pretty downtrodden with the situation that had evolved, and after being with Leanne for a short time it lightened the load on me considerably.”

For Ray and Doreen, finding Bull was serendipity.

“We had several meetings with her, both my wife and I, and I felt that Leanne was the answer to the problems that we were facing at the time,” Ray says.

“I thought I'd have to convince my wife, but as it happened my wife was quite inspired by what Leanne had suggested and it was a case of ‘follow the bouncing ball’ I suppose. It was a very comfortable and unemotional transition.”

The biggest issue the McNicholls faced, according to Bull, was that they had no income and no liquid funds, because the money invested in Wattle had been frozen.

Ray was receiving a Commonwealth Super pension of nearly \$12,000 per year, plus \$67,000 per year in income from the rental properties, which were fully tenanted.

However, the McNicholls had fixed the loan on their rental properties for five years at 10.95 per cent. Their repayments plus rates and insurance totalled \$75,000 annually, leaving them almost no income to meet their living expenses, for which they estimated they needed \$18,000.

With assets of \$1.5 million and debt of \$585,000, their net asset position was about \$1 million.

Ray had set up a self-managed super fund (SMSF) but told Bull he would prefer a super fund that's easy to manage and one where the trustee responsibilities were dealt with by a third party.

“Ray just had too much stress on him, more than anything,” Bull says.

“All he wanted to do was get some income and not end up in a situation where everything was as difficult as what he'd created with the structure they had.”

Bull recommended the McNicholls renegotiate the loan on the rental properties with the bank, locking in the rate on only a portion – since they liked the idea of fixed – and leaving the remainder of the loan variable.

However, to do that would have cost more than \$20,000 – money the McNicholls simply didn't have.

“They were really trapped,” Bull says.

“I couldn't get them any Centrelink entitlements because their asset position was too high; they had income of \$77,000 but required \$75,000 to meet interest and rental property expenses which meant they had no income to meet their personal living expenses; they had frozen investments; they had loans they'd locked into. When they came to me they were in a very difficult set of circumstances and it was also at a time when it was very difficult to sell a property at a reasonable price.

“All I could really do to begin with was draw money out of the super fund. First we had to determine how much of the assets were Ray's and how much were Doreen's. They only had \$94,000 in super and they had a loan-to-self of \$20,000, which they had borrowed to pay off their overdraft.”

Bull decided the best thing to do was to roll the superannuation over to a full-service master trust, to provide them with similar benefits to an SMSF but without the trustee responsibilities.

“Secondly, we withdrew some of the non-

## PORTFOLIO SNAPSHOT

Joint bank account \$2000  
 Ray's Commonwealth Super pension \$16,325 pa

### RAY

**Annuity**  
 Challenger Guaranteed Annuity  
 (15 yr indexed at 3 per cent) \$32,000

### DOREEN

**Bank account**  
 ING Savings Maximiser \$731

**Superannuation**  
 Summit Term Allocated  
 Pension (34 yr term) \$139,662

Summit Personal Super Plan \$191,127

**Total** \$365,520

preserved funds to clear the debt and also took out some of the non-preserved funds to set up a cash management trust (CMT) so they could start drawing an income stream," she says.

Bull withdrew \$30,000 to set up the CMT, and repaid the McNicholls' \$20,000 loan, leaving just \$10,000 in the CMT and \$64,000 in the super fund.

"The first stage really only bought us time, to either: a) sell a property, which was a difficult thing to do at that time, or b) for the Wattle scheme to unfreeze the funds; but that did go broke and Ray received for his \$100,000 investment about \$500."

The ability to refinance came up in late 2000, so the McNicholls were able to drop their interest rate from 10.95 per cent down to 7.3 per cent, reducing their repayments by more than \$12,000 per year.

When their loans expired, they fixed half and made the remainder variable, allowing them the flexibility to sell some of the properties when the time was right.

That time came a couple of years later and by 2003, the McNicholls were positively geared with rental income of \$26,000 per year and maintenance and interest expenses of only \$21,000.

Over the years thereafter they were able to sell the remainder of the properties. They used some of the proceeds to buy a Term Allocated Pension, which was only 50 per cent asset-tested, qualifying

Ray for Centrelink.

"By selling some of the properties and by putting the proceeds after we'd paid off the loans into superannuation, they were able to benefit from Centrelink," Bull says.

"The last properties they sold had a large capital gain, so we salary sacrificed into super – at this time they had jobs, they had returned to the work-force. With the capital gain we made concessional contributions to superannuation for both of them, so they didn't have to pay any capital gains tax, and Ray now qualifies for Centrelink (Doreen will, when she reaches age pension age late next year), both have income coming in from a Term Allocated Pension, plus they have superannuation monies that they can draw on at any point in time. It's a totally different set of circumstances now."

Ray, who is also a volunteer with the State Emergency Service, couldn't agree more: "We have a comfortable income where we can have holidays and treat our grandchildren to things we like to treat them to. We travel a lot; we travel a five-hour trip to and from Brisbane to see our family, so we might go down to Brisbane 10 or more times in a year, and we've been doing that since we've felt more comfortable."

Last August they went on a cruise to Canada and Alaska, and Doreen recently bought a new car – things that Ray admits he at one time could not envisage them being able to afford to do.

"We always say that we ask Leanne if we can have some money to go on the holiday," Ray quips.

"We don't see it as our money; we say, 'We'll do it if Leanne says we can', so we've given her a bigger responsibility than she really wants probably."

But when it comes to new toys, Bull is not the only one Ray consults.

"I'm a bit of a tool fiend, so if there's a new tool out I'll put it to the board of directors – that's my wife," he says.

"I don't always get what I want, but we certainly have some discussions on it, and she gets a few things too of course! We bought a quilting machine recently... it's a big device you set up on a bench, and you move your sewing machine along and the material stays still. She loves that; she'll sew to her heart's content." ■

## THE PLANNER Leanne Bull

Director,  
 Bull Financial Group



Leanne Bull has built and operates two boutique financial planning practices: Bull Financial Group, with her husband Chris Bull, and Axiom Financial Services, in partnership with accountant Brad Walker. She began advising at the age of 18 on the Gold Coast with Scottish Amicable, and moved back to Bundaberg in 1986 to join National Mutual (now Axa). Bull started then as a superannuation and life insurance agent and is now a Certified Financial Planner and an authorised representative of Axa Financial Planning. She was awarded a Financial Planning Association Value of Advice Award in 2008.

### Advice structure

Bull's advice to the McNicholls centred on restructuring their superannuation and managing cash flow. When the McNicholls first came to her for help, Bull admits to being a bit perplexed over how to tackle the financial mess they were facing.

"But over time, opportunities have opened up, and as soon as they have, we've been able to pounce on them," she says.

### History

The McNicholls sought Bull's help after a mixture of misfortune and lack of guidance left them without any liquid assets or an income to meet their living expenses. Bull accepted them as clients pro bono initially, charging only \$250 for the first financial plan. She has since increased her charges in line with standard practice rates, which include an ongoing annual percentage fee.

### Strategy

The McNicholls' biggest problem was a lack of income, so Bull's first steps aimed to buy time and free up cash for day-to-day living. She rolled the superannuation into a full-service master trust and withdrew some of the non-preserved funds to set up a cash management trust from which they could begin drawing an income. Bull leapt on opportunities as they arose, over time improving the McNicholls' net asset position and livelihood.