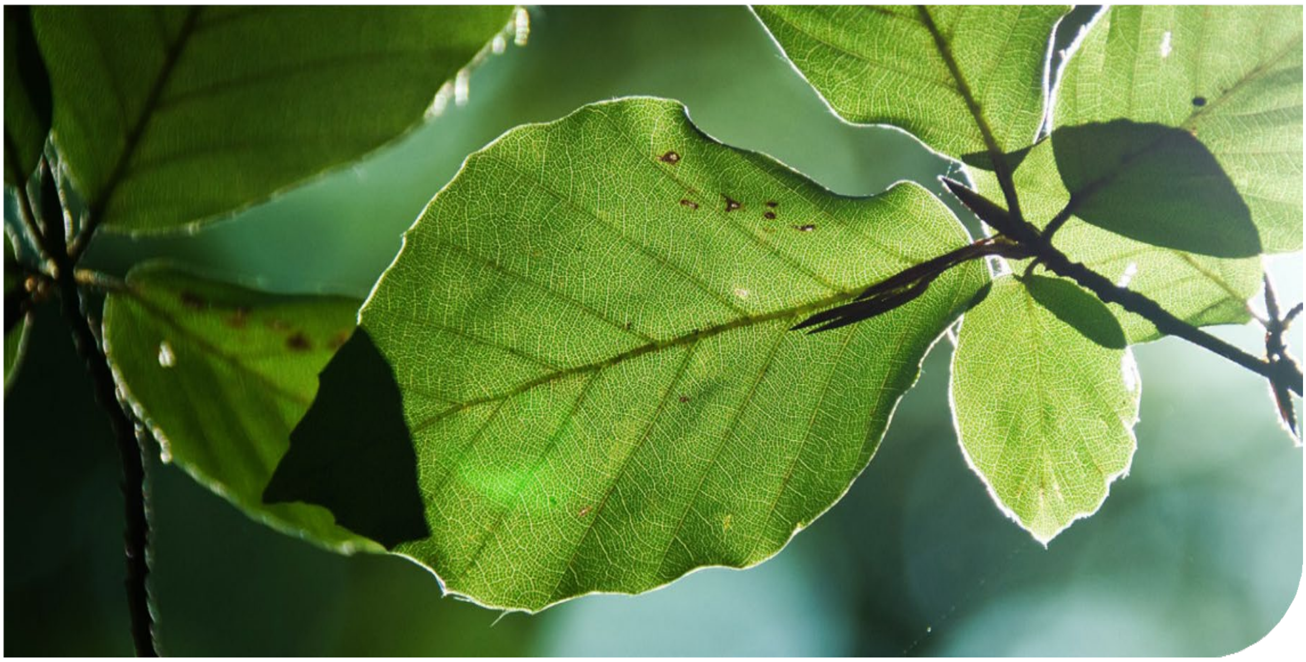
FINANCIAL PLANNING

FOR PROFESSIONAL PILOTS

WealthAdviser

Contents



Before you get started

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- Wealth Today (AFSL 340289)
- Sentry Advice (AFSL 227748)
- Synchron Advice (AFSL 243313)
- Millennium3 (AFSL 244252)

Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this handbook is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions. We would obviously love the opportunity to have that conversation with you, and at the rear of this handbook you will find information about our authorised representative and how to go about booking an appointment.

If ultimately you decide not to meet with us we still encourage you to consult with another suitably licensed and qualified financial adviser.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

Letter from the Wealth Adviser Library

Dear Reader

Welcome to the Wealth Adviser Library

This library was built specifically to facilitate the provision of sound financial information to everyday Australians.

Our mission is to build an accessible, comprehensively supported team of members who share our vision and commitment to providing tailored financial advice and a new foundation of financial understanding and security for everyone.

With a national network of likeminded experts, we have the potential to provide the financial building blocks for future generations.

Knowledge gives you a huge advantage

We believe that knowledge gives you a huge advantage in creating and effectively managing wealth; in planning to reach your goals; and in being prepared for whatever unexpected twists and turns life may present.

That’s why our team of experts has created this series of digital handbooks and manuals that seek to inform you of not only the benefits but also the potential risks and pitfalls of various strategies and investments.

We trust you enjoy this publication and find it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

Take the next step

Wealth Adviser (a division of WT Financial Group Limited) supports more than 400 privately owned and operated advice practices around the country. We invite you to engage with one of our advisers to discuss what it was you were hoping to achieve when you obtained this handbook, and to establish if they can help you achieve your goals and objectives.

At the rear of this handbook you will find details on how to book an appointment.

Wealth Adviser Library

Introduction

As a pilot you have probably long realised that your financial profile and needs differ considerably from that of people doing 'normal' jobs. It is therefore quite likely that you struggle to find value in 'general' financial advice since most of the things that are recommended are simply not applicable to you. The purpose of this ebook is to address this challenge by offering you a resource that was written with you, the professional airline pilot, in mind. We trust that you will find the information beneficial and that it will be a catalyst to help you make the decisions necessary to secure your long term financial future.

We'll begin by discussing some of the typical financial issues faced by pilots. This will be followed by some practical suggestions on how you can make your money work for you now, and when your flying career is over.

Financial challenges faced by pilots

It is very difficult (and somewhat dangerous) to generalise when it comes to personal finances. We are, however, quite certain that you will see at least something of your own financial profile in the following description:

Significant training costs: Becoming a pilot is not cheap! Current estimates set training costs at around $150,000. Getting the right ratings and endorsements in place will add a further $30,000 before a pilot even begins his/her career. These costs mean that most pilots enter the profession with a significant amount of debt to pay off.

Delayed earnings curves: It is true that some pilots earn very large salaries. This is, however, certainly not true of all pilots. Salaries in the airline industry are very dependent on rank with the highest salaries only achieved once a pilot moves into the captain's seat. This status can take some years to achieve which means that pilots will have to deal with significantly lower salaries while they work their way up through the ranks. It is therefore not uncommon for pilots to reach their top earnings potential much later than members of other professions and to do so at times when they have significant other financial commitments (e.g. private school fees, mortgages etc.). The upshot of this is that many pilots find it difficult to save for retirement.

A struggling industry: Airlines are currently experiencing very difficult operating environments, with many airlines having to cut back on flights. This has resulted in widespread layoffs and reductions in working hours and remuneration. Many flight personnel are therefore dealing with significant job insecurity and the possibility of the loss of income.

Vulnerability to negative health outcomes: Health problems that would merely be inconvenient for 'normal' workers (e.g. deteriorating eyesight) could be career stoppers for airline pilots. Add to this the fact that burn-out is increasingly common among airline pilots, and it becomes clear why many pilots have to leave the profession well before official retirement age. It goes without saying that such a move could lead to a significant reduction in income if proper income protection strategies are not in place.

Vulnerability to litigation and loss-of-license: Pilots work in high stress environments where even a small mistake could lead to expensive litigation and even the revoking of a license. Unfortunately many pilots are inadequately protected against the cost and loss of income that could result from adverse events.

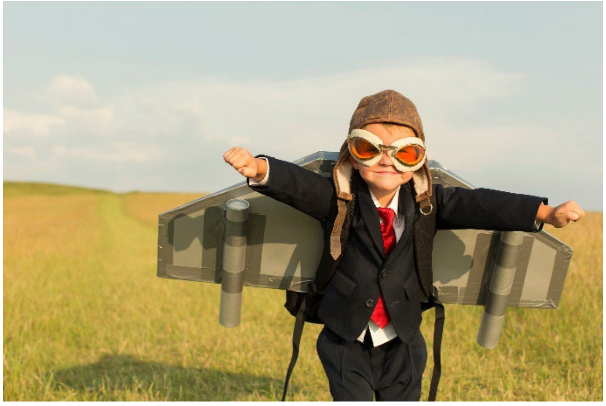
(Often) 'Cash rich, time poor': Pilots at the higher end of the spectrum earn significant incomes based on a significant amount of time in the cockpit. This means that many pilots do not have the time, or the energy, to devote focussed attention to financial planning when they are not flying.

All of the above should make it clear that, although many pilots have access to relatively high incomes, their financial position is certainly not as rock solid as the big pay cheques would suggest.

Budgeting

A very wise person once remarked: "Unless you tell your money what to do it will simply go walkabout!" As a very busy professional you may struggle to find the time to draw up a budget. We want to emphasise that this should be the highest priority. A personal budget is absolutely essential for anyone wanting to secure his/her financial future. It is even more important in cases where your income exceeds your day-to-day needs (which may be the case if you are currently at the top of the profession) as it will serve as a mechanism to keep you from inadvertently spending funds that should last you a lifetime. Some basic principles of budgeting include the following:

- Set spending targets and stick to them: This may seem like a complete no-brainer, but disregarding this rule sits at the heart of most budget related woes. It would perhaps be possible to live beyond your means for a few months or even years, but this kind of lifestyle will exact its toll sooner or later, usually in the form of crushing financial difficulties. The basic function of a budget is to ensure that you do not cross the line into spending money that you do not have.
- Avoid unsecured debt as far as possible: It is totally unrealistic, for most people at least, to go through life without ever taking on any debt. The important thing to remember is that not all debts have been created equal.
- Some kinds of debt (e.g. a mortgage) can have positive effects on long term financial health as it helps to secure capital assets. There are, however, other kinds of debts (e.g. high interest unsecured loans, credit card debts and 'high end' vehicle finance) that are almost guaranteed to keep your personal budget from balancing.
- Make the most of what you have: One of the most common financial mistakes that people who are not in debt make is to simply assume that a lack of debt will automatically translate into a secure financial future. Nothing can be further from the truth! You will still have to take care of your money with long term investment goals in mind. Not doing so is akin to simply leaving your cash in a box under the bed!
- Be prepared for emergencies: Even the best laid plans of mice and men can go awry and there are usually some financial implications when they do! You should do your best to protect yourself against unforeseen circumstances by taking out adequate insurance and the creation of a 'rainy day fund' (We will focus more on this in the next section).



Preparing for emergencies

None of us like to think about the possibility of difficult circumstances coming our way, but thinking about it (and doing our best to prepare) is an essential part of financial planning. Doing this is especially important for pilots, given the severe impact that a career stopping event could have on your income. The following elements should be combined to make sure that you are adequately prepared:

Get excellent income protection cover: We believe that Income Protection should be a key plank in the financial strategy of pilots. However, many pilots have found that 'general' income protection insurance policies do not meet their needs. This is because these policies were not designed to take the pilot-specific factors mentioned above into account. Thankfully the insurance industry is beginning to respond to the insurance needs of pilots by creating specialised pilot (and aircrew) policies. There are currently four policies to choose from:

- AIG: TopCover Aircrew cover
- Tower Disability: Income Insurance for Pilots
- Asteron: Income Protector for Commercial Pilots and Flight Engineers
- Comminsure: Income Care Aviation Cover for Commercial Pilots and Flight Attendants.

We highly recommend that you study the terms, conditions and benefits of each of these policies in order to ensure that you choose one that is the best fit for you and your circumstances. It would be even better if you get impartial, outside advice by having a financial adviser familiar with your circumstances go through the policies on your behalf.

The reason why we recommend extensive research is the fact that the policies differ substantially in the benefits they offer. Some of the questions that you should ask before signing on the dotted line are:

- Will I be covered for 'own occupation' (i.e. will the policy pay out if I cannot work as a pilot)?
- Will I be covered only for base income or full earnings (base income plus allowances and superannuation)?
- What is the waiting period before cover will commence?
- Will I be covered only whilst at work or does the policy extend 24/7 cover?

Make sure that you are comprehensively insured: We believe that income protection insurance is of critical importance for pilots (which is why it was discussed in a separate section). There are also some other areas of insurance to which you should pay close attention. They are:

Personal liability insurance: This will protect you from the impact of lawsuits or compensation claims based on your actions in the cockpit. You may be covered for personal liability by a policy arranged by your airline. It is advisable to find out whether this is in fact the case and whether the level of cover is sufficient.

Loss-of-license insurance: The loss of your flying license, even temporarily, can have a significant negative impact on your income. Loss-of-license insurance policies are often provided by airlines. Again, it would be advisable to make doubly sure that you are indeed covered at sufficient levels.

Life insurance: A good life insurance policy will ensure that your loved ones are financially taken care of, even if tragic circumstances mean that you are no longer there to provide for them.

Some insurance companies market products aimed at pilots that combine some or all of the different types of insurance listed above. Some of these policies represent good value for money while others are nothing more than fancy 'wrappers' for standard policies (Putting 'pilot' on a portfolio of products is no guarantee that it is indeed suited to the needs of pilots!) A competent and independent financial adviser should be able to help you sort the wheat from the chaff.

Establish an emergency fund: Although taking out insurance is very important it should certainly not be the sum total of your 'rainy day preparations'. Increase your preparedness by establishing an emergency fund that can only be accessed under certain predefined circumstances.

Make sure that your will is up to date: Far too many professionals do not have a proper will in place. This is a pitfall you should do your best to avoid for the sake of your loved ones. The necessity of proper estate planning is even more acute if you have a relatively high net worth since ill-defined or 'unprotected' estates can lead to massive tax liabilities and/or to your estate not being distributed in line with your wishes.

Savings and investments

It is our opinion that the key investment focus of pilots should be long term wealth creation. In practice this would mean following a fairly conservative strategy geared toward securing a steady income after your flying days are over. Your investment strategy should also ideally deliver lump sum income to deal with major life events like the kids going to university, major relocations and retirement.

Only if you are satisfied that the 'bases are covered' by using a more conservative wealth creation and preservation strategy should you even begin to consider more aggressive speculate investments. Far too many investors have burnt their fingers at exactly this point. You can avoid getting burnt yourself by:

- Being highly suspicious of 'get rich quickly' schemes. Responsible investment is much more of a 'get rich slowly' affair.
- Diversifying risk. Putting all your financial eggs in one basket is asking for trouble and should therefore be avoided at all costs.

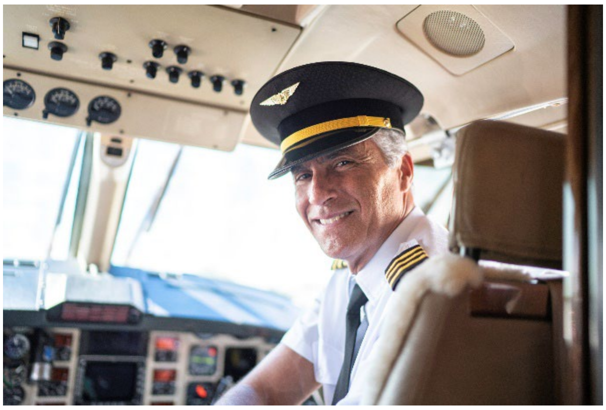
Always making use of the services of an independent and professional financial adviser before making major investment decisions.

Tax issues

Many pilots are unsure about their tax positions and the deductions they might be able to claim. Unfortunately, this uncertainty often translates into under-claiming as a means of taking the easier and simpler route to filling in a tax form. Obviously this approach can cost quite a bit of money over the long term.

The best way you can protect yourself against giving Caesar more than his due is to spend some time listening to what Caesar himself has to say. The Australian Taxation Office (ATO) maintains a web page dedicated to tax issues, deductions and rulings relevant to airline staff.

This page can be found at http://www.ato.gov.au/taxprofessionals/keywordlist.asp?k=airlines and should be your first port of call before you begin to fill in your tax return. If you make use of a tax adviser you should also make sure that he/she is aware of this resource before work begins on your return.



Planning for Retirement

Planning for your retirement should be one of the cornerstones of personal financial management. Therefore, it is imperative that you take the time to do a few projections of the likely state of your finances in retirement. If the results of your projections are less than satisfactory you should obviously do your best to improve the position as much as possible before you actually reach retirement age.

The one area that you should pay particular attention to is the state of your superannuation fund(s). Make sure that you regularly bolster your super by making personal contributions. There are two distinct benefits to doing so: not only will you have more money when you reach retirement age, you will also have grown your fund in a very 'tax friendly' way.

As you count down the years to retirement it is very important that you 'stay on top' with what is happening with your super. Here are a few suggestions for doing so:

- Stay up to date: Make sure that you keep all documents relating to superannuation in one place and that you carefully read all correspondence and statements. This will allow you to have a consistently accurate picture of where your fund is heading.
- Keep your details up to date: The best way to prevent your super from 'getting lost' is to make sure that your fund has your latest contact details.
- Consolidate your funds: If you have worked for a few different employers or airlines it may be that you have small amounts of super in a few different funds. It's worth investigating whether you will not be better off combining these funds into a single super fund. This will make your funds easier to manage and will, in most cases, reduce the fees and charges you are required to pay. The key questions you will need to ask before you consolidate funds are: Are you losing valuable insurance cover by doing so, or if the funds that you belong to charge such high 'exit fees' that moving will not be worth your while.
- Make sure that your super fund has your tax file number (TFN): You may be paying more tax on your super than you have to. Giving your fund access to your TFN will reduce the likelihood of this happening.
- Keep a close eye on your fund: It is very important that you carefully read all correspondence from your fund. This will, among other things, help you understand the investment approach that governs your fund. You should also benchmark the performance of your fund against that of similar funds. If you are unhappy with either the investment approach or performance (or both) it might be a good idea to move to another provider. It is, however, highly recommended that you get professional financial advice before doing so.

Conclusion

It is our sincere hope that the information presented above set you thinking about some of the issues that you will have to pay attention to in planning your financial future. It would be impossible to present a complete guide to all your financial planning needs in a document as brief as this. We urge you to continue your explorations by making use of some of the other resources and eBooks available. We also stand ready to serve you with independent and professional advice, so please do not hesitate to contact us if we can be of further assistance.

Take the next step

We trust you enjoyed this publication and found it informative and professionally presented. Of course, your feedback is always welcome as we strive to continually offer content in a format that is relevant to you.

We now invite you to take the next step and meet with an adviser to discuss what it was you were hoping to achieve when you downloaded this handbook and to establish if we can help you achieve your goals and objectives.

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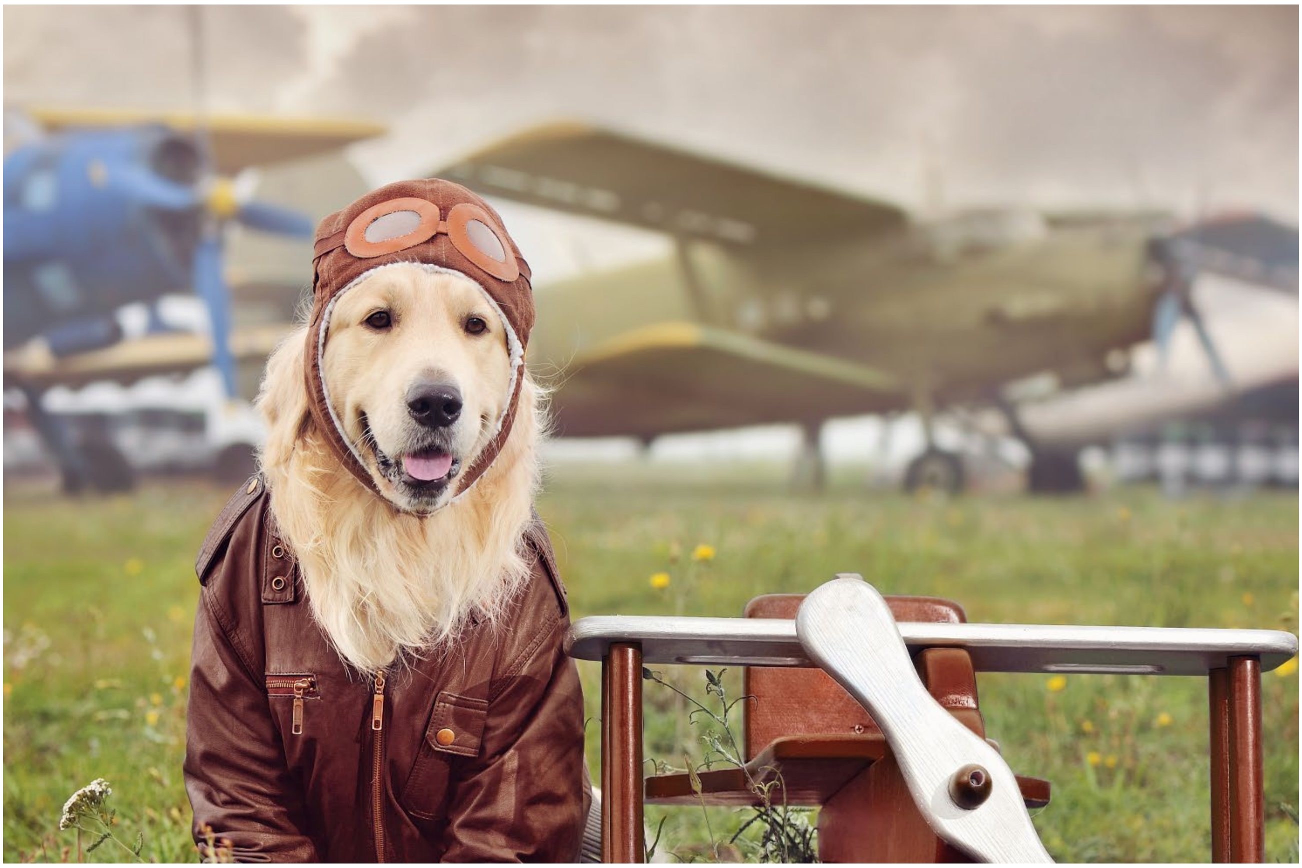
We look forward to meeting you soon.



Appointment booking request form

About the Adviser

Our services

Contact details

Please complete the Appointment Booking Request below and scan and email to:

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Appointments are available Monday-to-Friday.

Please nominate your preferred day, date and time to meet with us. One of our client services representatives will call you to confirm your appointment.

Preferred appointment day and time

Day ______________________________

Date ______________________________

Time ______________ am/pm ________

If you would like us to contact you via email to confirm your appointment or to answer any questions you have, please provide a valid email address for our records.

Email ______________________________

Your Details

Title ______________________________

First name ______________________________

Last name ______________________________

Mobile ______________________________

Reader Notes

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Wealth Adviser

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