HANMOORE
FINANCIAL SOLUTIONS

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Welcome to our Autumn client newsletter and a great new look. We've been working on this new format and new content to ensure you're up-to-date and well informed on all the latest news.

If you have any questions about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact us on 03 9878 4444

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Tips and traps of credit

Starting out with a HECS debt is bad enough, but abusing a credit card can also mean trouble. Admittedly it's tempting to spend with interest rates at current levels, but most credit cards still have double-digit rates.[1]

Of course a card is useful when you don't have ready cash, but unless you pay off the balance in full each month the interest costs add up.

Credit card statements today must show how long it will take to repay the debt, and how much extra interest you pay if you only make the minimum payment each month. The MoneySmart calculator is also a useful tool to show you how much more you owe on your card.[2]

Running up large credit card debt can result in a poor credit rating that can come back to bite you down the track.

For instance, if you are just five days late in paying your credit card, this fact may be noted on your credit file. If you are 60 days late in paying any form of credit, then you may be issued with a default or other negative listing.[3] That does not sit well when applying for a mortgage.

It is estimated that the average household credit card debt for the 56 per cent of Gen Y's who have credit cards is $6,000.[4] Much of this is lifestyle debt – money spent on clothes, entertainment and holidays rather than appreciable assets like property.

For Gen Y's wanting to get ahead financially, the first step is to pay down a credit card. This will help provide space in a personal budget to think about starting a regular savings plan.

Interest-free store deals

Interest-free store deals can prove lethal, they are not free with both fees and charges attached. If the purchase balance is not paid in full within the interest-free period, you will be charged interest on the outstanding balance at rates that can be close to 30 per cent. In some cases, the interest may revert to when you first made the purchase.[5] Paying huge interest costs on a depreciating asset long past its prime is a wasted effort.

Amalgamating all your debt into the one account and then paying a lower overall interest rate may be an option but this also has a downside as it may mean extending the repayment of what was previously a short-term debt over a longer period, which can cost you more in interest.[6]

There is no doubt credit cards can play an important role in life, but you need to make sure they are working for you and not the other way round. If you are concerned, speak to an adviser about getting a savings plan in place today.

1 http://www.canstar.com.au/credit-cards/compare-credit-card-rates/
2 https://www.moneysmart.gov.au/tools-and-resources/calculators-and-tools/credit-card-calculator
3 http://mycra.com.au/blog/2013/07/16-25-drowning-debt-guide-make-credit-work-you/
4 http://www.genworth.com.au/downloads/4-2-3-Spotlight/spotlight-series-gen-y.pdf
5 https://www.moneysmart.gov.au/life-events-and-you/under-25s/credit-and-debt/types-of-credit Interest-free deals
6 https://www.moneysmart.gov.au/managing-your-money/managing-debts/consolidating-and-refinancing-debts

Beware SMSF property spruikers

Self Managed Superannuation Funds (SMSF) are becoming increasingly popular with Australians who want to take control of their superannuation investments.

But there are growing concerns that SMSF property investments are being pushed by aggressive unlicensed property spruikers who are not acting in their best interests.

The Australian Securities and Investments Commission (ASIC) recently warned real estate agents that they must have an Australian Financial Services Licence (AFSL) before they recommend the use of a SMSF to invest in property.[1] While a financial adviser is licensed under an AFSL, many unsuspecting people don't realise many "property experts" are not licensed and are sometimes incentivised by developers to "promote" property that may not be appropriate as an SMSF investment.

Property investment has been heavily promoted to SMSF trustees since a change in superannuation legislation allowed them to borrow for investment. At present SMSFs hold around 15 per cent of their assets in direct property.[2]

Residential property has been a reliable investment for generations of Australians, but the decision to buy inside or outside super needs to be weighed up carefully. There are benefits and restrictions with each form of ownership.

Property inside super

The main benefit of buying inside a SMSF is that capital gains are tax-free if you sell your property after you retire and have converted to pension phase. If you sell earlier and have held the property for over 12 months, the effective tax rate is 10 per cent. Of course you can't take the proceeds out of super until you retire or start a super pension.

In addition, the tax benefits of negative gearing are smaller inside super where income is taxed at 15 per cent. What's more, banks will generally only lend up to 80 per cent of the purchase price, and will generally charge higher rates of interest than those on offer outside super.[3]

Outside super

If you buy property in your own name you may be able to borrow up to 100 per cent of the purchase price if you already have sufficient property as security. You can also sell your investment and access the cash whenever you like.

Set-up costs are cheaper outside super and tax deductions for interest and other investment-related costs are often greater. This is because they are made at your marginal tax rate rather than the 15 per cent super tax rate.

On the downside, when you sell the property you pay capital gains tax at your marginal tax rate.

The best outcome will depend on your personal financial circumstances and investment strategy. If you would like to discuss any the points raised in this article, please see your financial adviser.

1 ASIC, 6 Nov 2013, http://www.asic.gov.au/asic/asic.nsf/byheadline/13-304MR+ASIC+warns+real+estate+industry+about+recommending+property+investment+through+SMSFs?openDocument#

2 RBA Financial Stability Review, September 2013, http://www.rba.gov.au/publications/fsr/boxes/2013/sep/d.pdf

3 http://www.yourmortgage.com.au/calculators/affordability/

Australia's growing population. Get ready.

There are 5.2 million boomers in Australia born from 1946 to 1964. This compares with six million generation Xers born between 1965 and 1983. Generation Y, born across the 18 years to 2002, is expected to peak at about 7.4 million next decade.[1]

With Australia's population expected to swell by mid-century and the first wave of baby boomers reaching retirement, building up the nest egg has become more important than ever.[2]

Late boomers, generation X and Y have contributed to their superannuation fund for most of their working lives and are expected to be largely self-funded in retirement from the mid-2020s onwards. However, there is a large gap for the baby boomers retiring now between the superannuation they have and the amount they need for retirement. Either generation X and Y will be forced to support them in the form of more taxes, or Australia will need to import more taxpayers to spread the load.[3]

Generational financial strategies

Each generation has its own financial challenges and strategies vary depending on the stage of life people face.

Age 25–35	With a higher disposable income and less family expenses, this is a good time to accumulate assets.
Aged 35–45	Paying down the mortgage and increasing home equity is the focus.
Age 45–55	Now is the time to shift focus to extra contributions to the retirement nest egg. Debt elimination remains a priority.
Age 55–65	Preservation of investment capital becomes more of a priority in addition to accumulation of capital. The last years of work should be devoted to topping up superannuation contributions.

Source: 'Super success achieved in stages;, 28 July, 2013, The Sydney Morning Herald, viewed 15 November <http://www.smh.com.au/money/saving/super-success-achieved-in-stages-20130727-2qrl9.html>

Market conditions

Whether the retirement age should be lifted to 70 along with compulsory superannuation being increased from 9.25% to 12% are among the policies being explored[4] to cope with a "big Australia". The Australian Bureau of Statistics recently projected the population would surge to 38 million by 2051.[5]

The future for Big Australia

A chart that featured in a November 30 article in The Australian by demographer Bernard Salt shows two possible pathways beyond 2012. One assumption puts net overseas migration at 140,000 a year and the other at 240,000 a year. The second chart shows the net addition to the retirement population averaged about 40,000 a year between 1950 and 2010. From 2010, more than 100,000 people annually joined the retirement ranks, with the number tipped to rise to 140,000 a year.

Salt argued net overseas migration of 242,000 people a year in the next 40 years could provide the skills and tax required to support the transition of baby boomers into retirement. Government spending across housing, health, infrastructure and pensions will have to increase further to accommodate greater boomer numbers.

Whatever stage you are at in your life, there is never a better time for you to plan your future. Speak to your adviser to see how they can help.

1 'We are at a population tipping point', 6 December, 2013, The Australian Financial Review, viewed 15 November, 2013 <http://www.afr.com/p/opinion/we_are_at_population_tipping_point_UgHzGKQHcuJs2ihM9QR9kl>

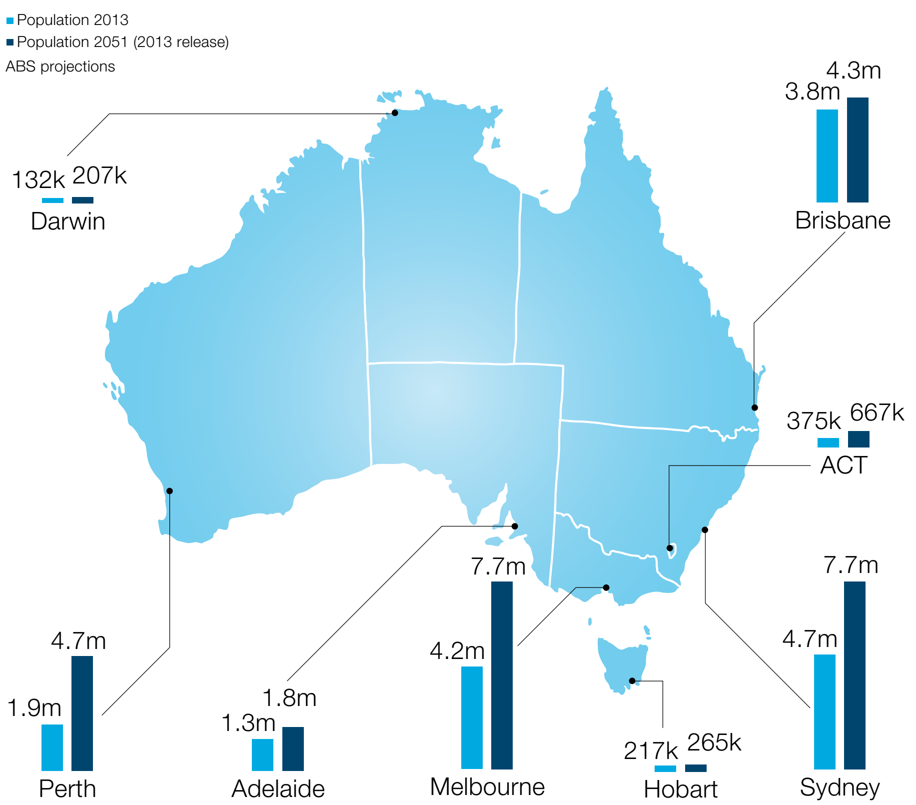
2 ibid

3 ibid

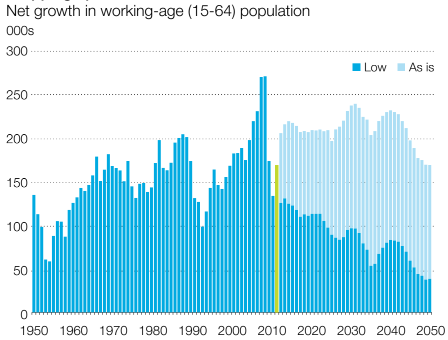
4 Commonwealth Government – Department of Treasury

5 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3222.0main+features52012%20%28base%29%20to%202101

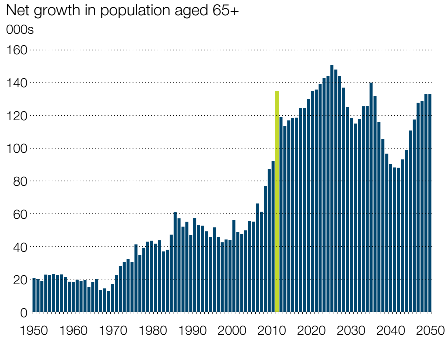
Pathways to a Big Australia



Propping up the worker base
Net growth in working-age (15-64) population



The Retirement Tsunami
Net growth in population aged 65+



Source: ABS; KPMG. Moment to find our bearings on the road to bigger things', 30 November, 2013, The Australian, viewed 15 November 2013 http://www.theaustralian.com.au/business/opinion/moment-to-find-our-bearings-on-the-road-to-bigger-things/story-e6frg9jx-1226771686987#