INSIDE

OCTOBER 2018

FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Make the most of the Family Home

For the majority of families, their home and superannuation will be the two most valuable investments they will own in their lifetime. Here we discuss how the family home might be utilised to potentially assist in wealth and lifestyle creation

For those that have purchased their family home, a great deal of value is often held within. This value comes in many forms including physical, financial and emotional. Specific wealth strategies can be created around anything of financial value and, once in place should be reviewed throughout various life stages. So what should property owners consider when it comes to utilising, most effectively, the home in which they live?

Accumulating wealth

Your income potential is high in this age group. If you are not already salary sacrificing into superannuation, this is a good period in which to begin. Alternatively, and particularly in order to take advantage of historically low interest rates, increasing mortgage repayments could make a big difference in the time it takes to pay off the house, and the amount the mortgage eventually costs you overall.

Too few people review their home loans, instead allowing the mortgage to take care of itself. A mortgage review may mean you discover a better deal elsewhere. But it might also simply lead to a discussion with a representative from your lender, revealing a better way to manage your account. An offset savings account connected to the mortgage account, for instance, can save a considerable amount of interest over time. And a redraw facility that offers essential funds at mortgage interest rates, rather than personal loan or credit card interest rates, can also make a real difference.

It is very important to ensure your investment is protected and to review your insurance levels on an annual basis.

Paying down the mortgage on the family home as quickly as possible is important as interest on this loan is typically not tax deductible. At the same time, the more you pay down the debt, the more equity is held in the house itself – assuming the value of the house is not decreasing.

Finally, during this period it is very important to ensure that your investment is protected. Has your home and contents insurance kept up with the current value of the property? Have any improvements you have made along the way, or valuable items within the house, been added to your insurance policy? Don't let your most valuable asset go unprotected or under-protected. Review insurance on an annually.

Key points

- Consider salary sacrificing or increasing mortgage repayments or both
- Review your home loan
- Check your insurance levels.

Looking forward to my retirement

The children are older and may have moved out, or are at least paying their own way. You are working on maximising your retirement savings and your income is reaching, or is at, its peak. Then why do you feel cash poor? As a home owner it is important to realise that you are also asset rich. So how do you release some of the value in that asset?

Some decide this is a good time to downsize, which achieves several valuable goals. Firstly, it gives you the freedom and the time to downsize at your own pace and on your own terms, rather than suddenly having to do so when health or other issues force a move. This means you can take your time to plan and choose the lifestyle you desire, rather than having to accept whatever is available in your price range at the time that an urgent move is required.

Now is also the time to put in place a solid estate plan, including Wills and enduring Powers of Attorney.

It also frees up a lot of equity for investment elsewhere, money that was previously locked up in the value of the family home. This allows for diversification and different investment strategies to be put in place, such as a balanced mix of income and growth, instead of growth alone. Additionally, the money that is now available could be used to generate an income. However, as with any investment strategy, you should consider the level of risk you are comfortable with, your goals and the investment timeframe. Your financial planner can assist with completing a risk profile with you to ascertain your risk appetite and investment timeframes.

A family home containing spare bedrooms can itself be utilised to generate additional income. Granny flats can be rented out to long-term tenants or short-term visitors. Other areas of the house can be renovated to create spaces that can also be rented. In the age of property-sharing websites, spare rooms in a house located in a desirable area can provide an impressive income for those that welcome the company of travellers. Such income can continue into the future in order to help fund a retirement.

A third option, if you haven't done so already and if it fits your risk profile, is to borrow against the equity in your house to boost the value of your investment portfolio in a potentially tax-efficient manner.

Be sure to constantly review your insurances, particularly if you make the choice to take in renters, and to evaluate your home loan arrangements to ensure you are receiving the very best deal. Now is also the time to put in place a solid estate plan, including Wills and enduring Powers of Attorney, to make sure the value in the family home is looked after and is distributed in accordance with your wishes - should anything happen to you.

Key points

- Consider guarantor requests very carefully
- Review your estate plan
- Consider lifestyle benefits of downsizing
- Speak with an expert about the family home in relation to benefits.

Retirement

Key points

- Consider downsizing
- Can you create income from your house?
- Borrow against equity to invest
- Review your insurance levels
- Put an estate plan in place.

Your home now, most likely, mortgage-free. But requests may come from your children to act as a guarantor over their mortgage. Try to remove any emotion from such a decision and consider it, as you would any other investment, rationally. As with any agreement it brings with it an amount of risk, perhaps this fits your risk profile, perhaps it does not.

If you have not yet put an estate plan in place, it has now become a necessity. The wealth you have created throughout your working life can be looked after and distributed according to your wishes if Wills and enduring powers of attorney are in place. This is important for everybody at this life stage, but even more important for those that own all or part of a business, or have children from another marriage. Clarity around your final wishes is vital.

Perhaps most important at this stage is the bearing of the family home on matter such as aged care and Age Pension.

Downsizing is a popular decision during this life stage, and for good reason. There is an emotional side to moving out of the family home, but once that original hurdle has been negotiated, most retirees feel a sense of release and relief.

They are no longer responsible for the physical and financial demands of the upkeep of a large home. And a move can bring them closer to friends and family, or to an area offering better infrastructure for the elderly.

Perhaps most important at this stage is the bearing of the family home on matters such as aged care and Age Pension, which can be substantial. The issues around this topic are broad and complex. Be aware that expert advice is highly recommended in order to assist with any major decisions regarding your family home.

LIFE, INTERRUPTED

Those that find themselves starting over in life can face surprisingly difficult financial challenges. Here we investigate five common interruptions that many will have to face throughout their lives.

Relationship breakdown

The breakdown of a relationship can have an extremely damaging effect on a person's financial state. The issue is greatest for women with dependent children who, the Australian Institute of Family Studies (AIFS) states, even six years after a divorce find it difficult to recover their pre-divorce income(1). The same report said the negative effect of divorce on assets and income can last into older age.

Re-partnering can offset the financial effects, but those that remain single often find themselves reliant on Government income support systems, according to AIFS. There is a significant economic advantage associated with living with another person and when this comes to an end, costs increase. Financial planning is vital, as is a thorough understanding of one's legal rights and responsibilities.

Illness

With obesity overtaking smoking as the leading cause of premature death in Australia (2) , mental illness affecting one in seven adults (3) and the number of annual cancer diagnoses is 1 in 2 Australian men and women and the likelihood of one's career being interrupted by illness is very real.

The insurance industry has developed products to help look after a person's financial responsibilities during such an illness, but returning to work after a medical battle can be testing all the same. Research by Macmillan Cancer Support has revealed that some employers fear the expense (5) of changes that may be required when a person returns from illness.

At the same time, returning to work is not only important financially for the individual, but also signals a return to normality. One of the secrets to success, they say, is constant and open communication between the individual and the organisation during the absence, and a gradual transition back to work afterwards.

Redundancy

Being made redundant or let go, especially when the event is unexpected, is a blow both financially and in terms of confidence.

Develop a plan that begins with finding out what support you could be offered. Are there any Centrelink benefits you might qualify for? Could your mortgage repayments be covered by insurance? Can your insurance providers waive costs for the period you're unemployed, or suspend a policy such as Income Protection? Is your ex-employer providing you with all of the redundancy benefits they should be? Are they offering assistance in finding a new role at another organisation? Then move on to applying for new roles, including contacting recruiting agencies. A gap in your CV becomes more difficult to explain the longer it lasts.

Back to work after children

Coming back into the workforce after a period in which childcare has been your main role can be difficult emotionally (leaving the children), technically (do you still have the knowledge?) and socially (getting to know a new group of people).

Experts say it is a good idea to conduct a career evaluation that looks at the past and highlights your specialist knowledge, talents and achievements, then looks forward and selects certain roles in which you would shine. This way you are basing your decision on solid fact, which will boost confidence levels. And don't forget to include in your CV all of the voluntary work you have conducted at your child's school, or the pro-bono marketing consulting you did for a friend who was launching a new business etc.

Finally, network both online and offline. Positions are filled by people that know people, so make sure you're top of mind.

Mortgage difficulties

If a household's income at any stage is unexpectedly lowered, this can lead to mortgage stress. Once a person is facing serious financial hardship as a result of a reasonable and unforeseen issue such as illness or job loss, lenders are obliged to make certain hardship provisions available in order to allow the person an opportunity to find a way out of their situation.

Start by speaking with your financial adviser or a not-for-profit financial counsellor, who will help you to figure out exactly where you are financially, whether you might be able to increase your income and what assets you may be able to sell. Importantly, they will also put deadlines in place so a solution doesn't take so long that the problem compounds.

Tips to stay on track

- Always set deadlines for each goal you set. Without deadlines, many plans never come to fruition.
- Break down your plans into achievable pieces and put each onto a timeline, so you can track your progress.
- Develop a very clear picture of your finances including debt, income, savings, super and other incomings and outgoings.
- Be creative about increasing your income. If there is an adult child living with you, perhaps it is time for them to help cover their costs.
- Seek advice on benefits that may be available to you as you re-build.

1 'The financial impact of divorce', The Australian Institute of Family Studies (AFIS), 24 July 2012.
2 'Facts and figures: Obesity in Australia', Monash Obesity and Diabetes Institute (modi), Monash University.
3 'Stats and facts', Beyond Blue, June 2016
4 'All cancers in Australia', Cancer Australia statistics.
5 'Returning to work after an illness: What support do employees need?', The Guardian, 30 May 2013.

MARKET UPDATE

An economic update from Colonial First State Global Asset Management.

1. United States

The Federal Reserve tightened monetary policy again in September, raising official US interest rates by 0.25 percentage points, to between 2.00% and 2.25%. This was the eighth time borrowing costs have been raised in the past two years.

US interest rates are now at their highest level in more than a decade, but most observers suggest they will go higher still. Consensus expectations suggest the Fed Funds rate will be raised by a further 0.25 percentage points before the end of 2018 and by at least a further 0.75 percentage points in 2019.

The ongoing improvement in economic conditions is being reflected in the labour market; more than 200,000 new jobs were added in August. At 3.9%, unemployment is close to its lowest level since the early 1970s.

At the very end of the month, the US, Canada and Mexico agreed on a trade accord that will replace the former North American Free Trade Agreement.

The new trade pact was well-received by financial markets, which had been concerned about a potential slowdown in activity – particularly in the US – if a new deal was not agreed.

2. Europe

Ongoing Brexit-related headlines continued to attract a fair amount of scrutiny. UK and European lawmakers are still yet to reach agreement on the UK's proposed withdrawal from the European Union.

The UK's ruling Conservative Party and opposition Labour Party held their annual conferences during September, which helped keep Brexit and political considerations in the spotlight.

In economic news, strong UK retail sales data brought forward expectations of the next increase in borrowing costs. For now, official interest rates are 0.75%, but consensus expectations suggest they will be raised again in mid-2019.

UK inflation has come off the boil over the past few months, reducing the need for the Bank of England to consider more significant policy tightening.

The European Central Bank remains committed to withdrawing its Quantitative Easing program at the end of 2018. From there, investors will be keeping a close eye on inflation to gauge the likely timing of interest rate increases. For now, no movement is anticipated until the second half of 2019, at the earliest.
led by David Cameron was also re-elected in what was a surprise, given pre-election opinion polls.

In Europe, the Consumer Price Index (CPI) was estimated to be flat for the month of April, and 0.6% per year, which was steady on March 2015. The unemployment rate across the Eurozone remains at 11.3% for the month of March, steady for the last three months, but still well below its March 2013 peak of 12.1%.

3. Asia

News flow in China continued to be dominated by trade; specifically how the introduction of import tariffs by the US might affect demand for exports and, in turn, the global supply chain.

In September, the US introduced new tariffs on a broader range of goods imported from China – albeit at a rate of only 10%, versus the 25% feared. Semiconductors, chemicals, plastics and motorbikes are among cargoes that now face tariffs. China was also measured in its retaliation when imposing tariffs on goods such as steel and medical equipment imported from the US.

In Japan, there was an unexpectedly sharp increase in inflation. Headline CPI quickened to an annual pace of 1.3% in August, driven by increases in food and transport prices. More persistent inflation might be required for the Bank of Japan to withdraw its stimulus program and consider raising interest rates above zero.

Concerns about emerging markets receded in September, following extreme caution and widening credit spreads that had been seen in August.

4. Australia

Favourable Australian economic data releases enabled the currency to arrest recent declines against the US dollar.

The Australian dollar gained 0.5% again the 'greenback', after falling in value by more than 10% between the end of January and the end of August.

We are always available to discuss any questions or concerns you may have.

Robert Stark
Address: 37 Blythe Avenue, Yokine WA 6060
Phone: 08 9344 2833
Mobile: 0426 624 496

SMRS
Self Managed Retirement Systems