Home Financing

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Towards the end of last year I decided it was time that I organised a website with some useful general loan information. This website is now up and running thanks to my website designer Steven Doyle of connectdesign.com.au tel 8323 7878. My new website is pwloans.com.au – take a few moments to have a look. I've also got a new email address: paul@pwloans.com.au.

There appears to be a great deal of first home buyer interest at present due largely to the doubling of the grant. I'd speculate it is very likely this grant end date (presently 30 June) is a good chance of being extended, though don't bank on it. On the interest rate front it would not surprise me to see cash rates at 2.5-2.75% by the middle of the year.

With lots of doom and gloom in international banking the big 4 Australian banks have never had it so good on the home lending front. They have record numbers of new loan applications, they have fattened out margins over cash rates, they have government guarantees underpinning deposits, plus they have bought out much of the lending competition (eg. St George, Aussie, Wizard, RAMS & Bankwest). I think lenders like ING, Heritage, Citibank, AMP & other mortgage managers, are critical to ensure broader competition in the finance industry.

I hope you have a great 2009 and I look forward to speaking with you soon.

First Home Owners Boost

The Federal Government has recently announced a $10.4 billion Economic Security Strategy. Part of the package offers increased help for Australians wanting to buy their first home.

The First Home Owners Boost ("FHOB") doubles the existing First Home Owners Grant ("FHOG") on existing homes and triples the existing grant for newly built homes. This is a time limited measure, running until 30 June 2009.

Buying a newly built home

First home buyers who sign contracts to purchase a newly built home between 14 October 2008 and 30 June 2009 will now be eligible for a one off payment of $21,000. This is a tripling of the $7,000 that was previously on offer.

For people purchasing newly built homes, this means entering into a contract to build or buy a house. The house may be built on land that has already been purchased.

The increased amounts for newly built houses will be payable where:

- Building commences within 24 weeks of signing the contract;
- Building is complete within 18 months of the commencement of building.

A newly built home is a home that has never been sold before, nor occupied by any person. This includes:

- Contracts to build a home on land already purchased;
- Homes bought off the plan;
- Purchase of homes that have been built but never sold or occupied.

Buying an existing home

First home buyers who sign contracts to purchase an existing home between 14 October 2008 and 30 June 2009 will now be eligible for a one off payment of $14,000.

First home buyers who exchanged contracts prior to 14 October 2008 will not receive the additional amount, even if they have not yet settled. They will still be able to receive the existing $7,000 First Home Owners Grant.

Criteria

Eligibility criteria remain the same as for the current First Home Owners Grant, which are:

- Must be at least 18 years of age;
- Must be an Australian citizen or permanent resident;
- The applicant (or applicant's spouse) must not have received an earlier grant;
- The applicant (or applicant's spouse) must not have previously owned their own home;
- Must live in the home for at least a continuous period of six months, within 12 months after completion of the eligible transaction.

Administration

The FHOB is administered by State and Territory Governments, just like the existing First Home Owners Grant.

Industry comments

The Housing Industry Association ("HIA"), Australia's largest building association, has welcomed the decision to triple the First Home Owners Grant (FHOG) for purchases of new housing. They believe the measure will stimulate business activity and help address the severe housing shortage. HIA expects the initiative will provide a 15,000 boost in the production of new dwellings.

They said that "The measure will provide a healthy stimulus in activity for the Australian economy and help lift business confidence throughout the sector."

HIA has consistently highlighted the need to boost production of housing by 45,000 new dwellings per annum to meet current underlying demand – this initiative will provide some assistance in achieving this requirement.

More positive outlook

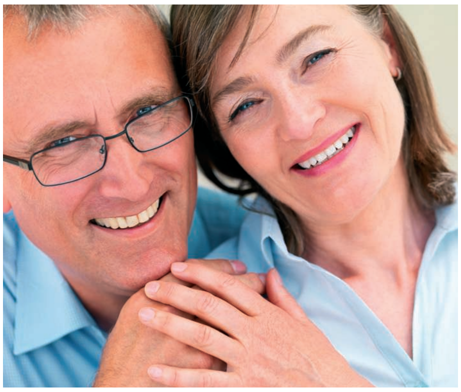
Recent activities in the finance market have had a negative effect on the property market. The introduction of the Government's Economic Security package, including the First Home Owners Boost, will certainly help to restore confidence.

The recent interest rate cuts, led by the cash rate cuts by the RBA, have also made housing loans more affordable.

These changes all point to a more positive outlook for the property market in 2009.

Not Such a Super Time

Many Superannuation funds have been taking a tumble in recent months, reflecting share market falls. This is leading some people to look more closely at their options for their retirement investments.



Australian and international shares have declined sharply in value over recent months. This is unwelcome news for the 90% of working Australians with their retirement savings in superannuation funds, as these funds are heavily invested in the Australian and overseas share markets.

In such a volatile environment, people are asking how much super they'll need for a comfortable retirement and will they make it.

Super is not an investment

Superannuation is not actually an investment, but rather is a tax-effective way (or vehicle) to invest. In other words, superannuation is a way to invest in the same things as you'd invest in outside super, while paying less tax.

The government puts limits on how much you can contribute at the lower tax rates. To find out more about tax and superannuation, go to the **Australian Taxation Office** website www.ato.gov.au.

Asset Classes

The main asset classes that you can invest in, ranked from low to high risk (and expected return), are:

- Cash
- Fixed interest
- Property
- Shares

Super funds normally offer a choice of different mixes of these asset classes, ranging from very conservative to very aggressive in terms of the risks and potential returns. When making your decision, it's important to find a match between your investment timeframe, the returns you expect and your attitude to risk. Can you tolerate short-term market fluctuations in the expectation of better average returns over the long term, for example?

Over 90% of super fund members are invested in their fund's default option. These default funds have on average about 60% of their money in shares, 20% in fixed interest, 10% in property and 10% in cash – although these percentages can vary widely from fund to fund.

How much do I need?

The **Association of Superannuation Funds of Australia (ASFA)** produces a regular report estimating the weekly and annual household expenditure for an adequate and a comfortable retirement. There are regional differences, and perceptions of a 'modest' or 'comfortable' lifestyle vary, but the figures give an idea of what you need to spend each year. The estimates are that:

- For a 'modest' lifestyle, a single person retiring now would need $363 per week ($18,900 per year), whilst a couple would need $509 per week, or $26,500 per year.
- For a 'comfortable' lifestyle, a single retiree would need $702 per week ($36,600 per year), whilst a couple would need $939 per week ($48,900 per year).

Of course, these are averages and individual needs vary. Financial planners often use the guideline that you'll need 60–70% of your pre-retirement income, each year, in order to be comfortable in retirement.

Others think even this isn't enough, and that a mistake people make is thinking that their cost of living will dramatically reduce when they retire. On this basis you could aim for a retirement income that's equal to the after-tax income you earned before retirement. For example, a couple with salaries of $50,000 and $75,000 will take home about $98,000 after tax, so that's roughly the income they should aim for. It's a tall order though – a lump sum of about $2 million would be needed to generate that income!

Age Pension

The maximum Age Pension rate, including the pharmaceutical benefit, is $552.60 per fortnight ($276.30 per week) for singles and $919.40 per fortnight ($457.80 per week) for couples. However, your income and assets need to be below certain thresholds to qualify.

Also, even the maximum age pension payments fall short of the income needed for what the Association of Superannuation Funds of Australia define as a comfortable or even modest retirement, so super is generally the way to cover the shortfall.

Making super go further

1. Salary sacrifice

If your employer allows it, making additional contributions from your pre-tax salary is an effective way to boost your super and pay less tax

2. Free money from the government

Under the co-contribution scheme, people who earn less than $58,980 per year as employees, and who make an after-tax super contribution, can get an additional contribution of up to $1500 per year.

3. Make a contribution on your spouse's behalf

Tax offsets can be claimed (up to a limit) on super you pay on behalf of your spouse if they have a low income, or no income at all.

4. Make after-tax contributions

They are taxed at lower levels, but there are annual limits for different age groups.

5. Road test your fund

How does your fund compare to others not only in terms of gross returns, but also net returns after fees and commissions.

6. Don't retire!

You don't have to withdraw your super when you retire – it can continue in the system, accumulating in value and providing you with an income for decades. Many people continue to work after normal retirement age, albeit on a reduced hours basis, so are often not withdrawing much from their superannuation funds until they are much older.

Conclusion

Regardless of what other investments we may have (eg investment property) we should all take an interest in our super performance.

However, as we've seen, super can be a complex area with investment decisions, taxation implications and long term estimates of value and needs. If you don't feel that you have a good understanding of where you stand and where you're heading, then you should seek some licensed financial advice.