MST ADVISORS
Financial Business & Tax Advisory Services

Market St. Market Mix

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ABOUT THIS NEWSLETTER

Welcome to the MST Advisors monthly newsletter, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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The effect of rising inflation

The word 'inflation' doesn't only dominate business news headlines, but finds its way into general news reports too. So, what is inflation and how does it affect you? In simple terms, inflation signifies a rise in the price of goods and services, meaning you pay for more for every purchase you make.

Does the US influence Australia's inflation rate?

It is not a surprise that countries in today's world are more connected than ever before. Therefore, a rise in US inflation rates will impact Australian economy too, along with other countries.

However, the degree and timing of its impact will vary. For example, a rise in labour costs in the US may have a limited impact on Australians; however, an increase in the price of iPhones or Nike shoes in the US will reflect in their price in Australia too.

What will be the impact of rising US inflation on Australia's economy?

Interest rate movements made by the US Federal Reserve Bank (the Fed) are closely monitored by central banks worldwide, including the Reserve Bank of Australia (RBA). In recent times, many developed economies, including the US and Australia, have reduced interest rates to boost their economies. With rates nearing all times lows there is an expectation that rates will increase due to the strong performance of those economies. Quite often when the Fed increases its interest rate, Australia is quick to follow suit.

The cost of borrowing funds (home loans, business loans, personal loans etc) will increase, leading to a rise in the inflation rate, making goods and services more expensive. Rising inflation rates can also negatively impact the Australian dollar, where one AUD buys less USD than it may have done previously.

This also affects tourists who may have to convert money before travelling, and can negatively affect individuals' capacity to save money, especially if their incomes do not rise by the same rate as inflation.

What will be the effect on investors?

A rise in inflation affects investment markets negatively due to higher interest rates, volatility in the economy and uncertain share prices.

For mum and dad investors, rising interest rates mean paying more interest on their home loan, which reduces their disposal income and, in turn reduces their capacity to invest. Growth in share prices can be volatile, meaning it will take them longer to build wealth.

For retirees, an increase in the price of goods and services at a time of share market volatility can lead to having to sell more of their investment assets (potentially at a loss or reduced profit). Also, there could be uncertainty in dividend income, which many retirees often rely upon. Retiree investors will have fewer years to recover from a drop in their portfolios compared to younger investors.

How should you prepare for a rise in inflation?

• It is important to first analyse your personal cashflow situation to understand where your money goes.

• Consider fixing at least part your home loan to limit your exposure to rising interest rates.

• Reconsider new personal loans, such as car loans. Do you need to take on new debt when interest rates are likely to increase?

• For the risk-taking investor, it can be tempting to invest more money into shares when prices are falling, but always consider averaging your position to avoid market timing risk.

• For investment purposes, consider having exposure in well established companies "blue chip stocks" vs riskier stock. Investors often find comfort knowing their funds are exposed to good quality companies with strong balance sheets.

If the thought of rising inflation leaves you feeling unsettled, be sure to talk to a professional adviser. Your adviser will review your financial position, your ability to meet your financial obligations, as well as identify strategies to outpace inflation.

Quarterly economic update: January – March 2022

Robust domestic economic growth

Australia is rebounding from the pandemic, with domestic economic growth forecast to reach 3.5 per cent this financial year. Some analysts predict it might be even stronger, possibly reaching as high as 4 per cent.

Driven by Government spending

Much of this is due to the lingering impact of the Federal Government's massive $343 billion health and economic pandemic support packages, as well as further spending in response to recent floods in New South Wales and Queensland.

The Government is also spending some $18 billion on infrastructure, mostly rail and road improvements, in an attempt to boost productivity and efficiencies throughout the economy, particularly in the regions.

Tightening geo-political tensions in Asia and around the world has prompted the Government to earmark as much spending again on strategic defence measures, including a new naval submarine base on the east coast.

Spurred by higher commodity prices

The sudden, and largely unexpected, war in Ukraine has prompted a spike in oil prices as a shadow falls over the continued supply of Russian oil and gas to Western Europe. While prices will ease with the arrival of the Northern summer, they are expected to remain stubbornly high.

The war, along with continued supply interruptions due to the pandemic's lingering impact on world trade, means prices for key commodities such as iron ore, coal, and wheat will remain high for the foreseeable future.

For Australia, this is, on balance, good news, meaning the price we are paid for key exports will remain strong, driving both domestic profits and Government tax revenue higher.

Employment is exploding

In line with this strong level of economic growth, domestic unemployment is set to fall to 3.75 per cent in the coming months, its lowest level in some 50 years.

Meanwhile, whole sectors, such as the aged care and child-minding sectors and a number of agricultural sectors, are reporting desperate staff shortages, prompting calls to lift migration levels and allow more temporary workers into the country.

Nonetheless, low wage growth continues to dog the economy. While the Government is forecasting quarterly wage growth of 3.25 per cent by the middle of next year, this is still below the expected inflation rate, meaning most Australians will face little relief from higher living costs.

Which should push the share market higher

Nonetheless, the continued strength of Government spending, combined with prevailing strong terms of trade, should boost profits across the board, leading to higher returns for investors.

Despite some clouds on the horizon

As always, there are clouds on the horizon. The United States was already facing inflationary pressures, and the impact of the Ukraine war on oil prices is likely to push the US inflation rate higher still, possibly touching 7.9 per cent this year.

The US Federal Reserve has started to pull monetary policy back in with a series of interest rate hikes, fanning fears that the US economy may fall into recession later this year.

The US is not alone. The Australian Federal Treasury expects global trade bottlenecks (the war in Ukraine and higher oil and food prices) to prompt an uptick in the local inflation rate above the Reserve Bank's preferred inflation band of 2.5 to 3 per cent.

Rising inflation is, in turn, spurring fears of a domestic interest rate hike, with many analysts expecting the cash rate to increase by one full percentage point, which could cause home loan rates to rise across the country.

The difference between a savings account and a term deposit

Depositing cash in a savings account or a term deposit are the most common ways to invest your money. But, how do you know which is right for you?

First, let us explain their main differences and impact on your money.

What is a savings account?

A savings account is a deposit account held at a bank or other financial institution that earns interest.

Benefits

1. Easy access to your money at any time, while the remaining balance earns interest.

2. You can save more by depositing more at any time.

3. Savings accounts are eligible for the Australian Government's Financial Claims Scheme, which protects against the failure of an authorised deposit-taking institution (ADI) (such as banks or credit unions). The government guarantees deposits of up to $250,000 per account-holder per ADI.

Downsides

1. You may need to link your high-interest saving account with a transaction account to meet certain conditions, such as depositing a minimum amount every month or limiting your withdrawal frequency.

2. As interest rates can vary, your earnings will also fluctuate.

3. You may be tempted to spend more given the easy accessibility of funds.

Fees

Most banks do not charge a savings account fee; however, some may charge an account keeping fee.

Possible Tax outcome

Interest earned is treated as investment income and taxed at your marginal tax rate.

What is a term deposit?

A term deposit is also a type of deposit account held at a bank or financial institution, with money kept for a set period of time at a fixed interest rate.

Benefits

1. The interest rate is guaranteed and does not fluctuate.

2. You can invest in multiple term deposits of different terms and interest rates. For example, you can invest $15,000 in a 6-month term deposit earning 1% p.a. and $5,000 in a 12-month term deposit earning 1.50% p.a.

3. They too are eligible for the Australian Government's Financial Claims Scheme.

Downsides

1. If you want to access your money before the term finishes, you may be required to notify your bank at least 31 days prior, except under special circumstances.

2. If interest rates increase, you cannot benefit as your money is already locked away at a fixed rate.

3. Banks usually have a minimum balance requirement for a term deposit of approximately $1,000 to $5,000. It may be a considerable risk if you do not want to lock away that much of your savings or have just commenced your savings journey.

Fees

Banks usually do not charge any fee on a term deposit. However, if you want early access to your money, there may be an early withdrawal fee and loss of interest for the remaining term.

Possible Tax outcome

Interest earned is treated as investment income and taxed at your marginal tax rate.

Which is better for your needs?

Interest rates, accessibility of funds, and fees are key factors to consider.

If you want a guaranteed income, term deposits are the way to go. However, if you want easy access to your money, use a savings account. Alternatively, you may keep some funds in a savings account for daily expenses or an emergency and invest the rest in a term deposit.

Ultimately, the right decision for you will depend on your budget and financial requirements.

Digital vs Physical Assets

Not a day goes by where we don't hear about bitcoin in the news or from a friend who has a hot tip on a new cryptocurrency. The past few years have seen an increase in the popularity of digital assets such as cryptocurrency and Non Fungible Tokens (NFTs). Direct shares and managed funds are also digital assets.

However, this does not diminish the value of physical assets such as property, gold and cash. There are certain societies in the world that accumulate gold because it is a status symbol. On the other hand, people in countries like Australia love to invest in property.

As taught in Finance 101 courses, diversification is a key aspect of investment and therefore, it is important to look beyond investment properties and consider other asset classes to spread your risk. With easy access to shares, managed funds and crypto, there is now a buffet of investment options to choose from, albeit with caution.

Let us understand the difference between digital vs physical assets.

Digital Assets

Similar to physical assets, they give you ownership in an asset but which is intangible, just like a JPEG image or PDF file. Shares, managed funds and cryptos are owned, stored and recorded in a digital format.

Pros

Transaction costs – Usually, brokerage or commissions on buying and selling digital assets is much lower than on assets like property.

Liquidity – You can buy and sell them instantly on the internet with just a few clicks.

Fractional ownership – You can now buy a fraction of a share or a bitcoin on a trading platform. Common investors now have access to investment opportunities that were previously available only to large institutions.

Cons

Fear Of Missing Out (FOMO) – Given the increase in popularity of crypto and shares along with their easy availability, people are trading on them simply to be a part of the hype rather than conducting with their own research.

Security – Storing and securing digital assets is becoming increasingly important as your account can be hacked into and you can lose your valuable assets. Even though an asset like crypto which is backed by blockchain technology is not hack-proof.

Physical Assets

Owning a physical asset such as property, gold, cash or even collectibles is not a new concept. They are tangible assets that give us a sense of security because we can see, touch and feel them.

Pros

Acceptability – Given the history behind these assets, they are easily accepted as a form of asset in all parts of the world.

Usage – You can live in a property or wear gold jewellery as these assets can be used for enjoyment purposes too.

Cons

High barrier to entry – There are high cost barriers to purchase physical assets such as building a 10%-20% deposit prior to applying for a loan to purchase a home. These assets are limited in nature making them expensive to acquire.

Liquidity – Apart from cash, other physical assets are not very liquid. It can take months to sell a property. Also, you cannot sell only a bathroom of your house if you needed urgent cash.

Next Steps

When deciding where to invest your hard earned money, it is important to consider your life goals, age, current financial situation, risk appetite and the most important thing – something that will make you sleep peacefully at night.

You should consult professionals including a financial adviser to help navigate you through the different investment options that suit your situation.

Demystifying loan jargon

Planning to apply for a loan but confused by the myriad of banking jargon? You're not alone. Many people struggle to understand loan terms and the multitude of acronyms used by bankers and mortgage brokers.

Although you may seek advice from your local bank or mortgage broker, having a basic understanding of these terms will ensure increased confidence before signing on the dotted line.

Loan to Value Ratio (LVR)

Amount of loan you are borrowing compared to the value of the asset, expressed in percentage terms.

For example, if you are borrowing $300,000 on a $500,000 home, your LVR is 60% ($300,000/$500,000).

Lender's Mortgage Insurance (LMI)

Generally, lenders prefer an LVR (Loan to Value Ratio) of up to 80%. If the LVR is above 80%, lenders may ask you to pay Lender's Mortgage Insurance (LMI).

The LMI premium is paid to protect the lender should you default on the loan, and the property sale does not cover its cost of lending you more than the standard 80%.

Fixed and variable interest rate

A fixed interest rate is set for a specified period. In contrast, a variable interest rate may move up or down according to current economic conditions.

Guarantor

A Guarantor is a third party (usually an immediate family member) providing security to the bank against your loan. If you default, the bank can recover any outstanding amount from them.

Generally, if you have a guarantor, the bank may waive any LMI cost.

Principal and interest repayments

With these types of repayments, you are repaying both the interest and the principal component (borrowed amount) of the loan.

Interest only repayments

With these types of repayments, you are paying only the interest component for a certain period.

Offset account

This type of account is a transaction account linked to your loan. The balance in this account offsets your loaned amount, reducing the interest component.

For example, if your outstanding loan is $500,000 and you have $20,000 in this account, you will pay interest on $480,000.

Redraw facility

With this facility, any extra repayments you make on your loan can be accessed at a later date.

For example, if your minimum monthly repayments are $2,000 but you repay $3,000, you can access (redraw) the $1,000 if you need it.

Pre-approval or conditional approval

Before applying for a formal loan, you can apply for pre-approval.

The lender will state how much they are willing to lend you, pending certain conditions (such as the bank's property valuation or taking out home insurance). Pre-approval also lets the vendor know that you are serious about buying their property.

The importance of understanding basic banking terms cannot be understated.

For example, you sign an offer document on your dream home, thinking that your loan is approved. However, you later realise that you only have conditional approval, with a clause that you must first repay your credit card debt.

The bank then rejects or delays your loan approval until that condition has been met. As a consequence, the seller rejects your offer, and you lose out on your dream home! Devastating!

When meeting with your bank or mortgage broker, along with asking about your borrowing power, be sure to also ask how some of the above terms impact your situation, i.e., would an offset account or a redraw facility fit your situation?

You will come across so many terms and acronyms in your journey loan application journey. So, keep a curious mindset and most importantly, keep learning.

Should you invest your house deposit?

It's never been easy to save the deposit for a home, but low interest rates make it even more difficult. For starters low rates drive up house prices, forcing homebuyers to come up with bigger deposit amounts. Then those low rates rob buyers of the ability to earn a decent, low risk return on their hard-earned savings. When the traditional savings vehicles of homebuyers – savings accounts and term deposits – offer only token rates of interest, aspiring homebuyers start to ask themselves what can they do to build their deposit more quickly?

This is the situation that Simon and Heather find themselves in. They've made a solid start on saving a deposit, but calculate it will still be several years before they'll be able to start bidding on a home.

They've explored the obvious options of course – spending less and saving more of their income, but there are only so many smashed avos on sourdough that can be foregone or extra jobs that can be worked. So what else can they do? Looking at the depressingly low rate they are earning on their existing savings, they wonder if those savings can be made to work harder by investing them in assets that have the potential to deliver higher returns.

The first thing that Simon and Heather need to recognise is that any attempt to earn more than the cash rate comes with increased risk. Most people are aware, for example, that shares can fluctuate significantly in value, even from day to day. On the positive side, over the long term – five years and longer – a well-diversified share portfolio is likely to produce significantly better returns than cash. This doesn't mean Heather and Simon should invest all of their current and ongoing savings into shares. Far from it. But these statistics make a good case for investing a portion of their savings in a broad mix of higher yielding assets. In addition to shares this may include property and various forms of fixed interest. However, with protecting their fortune a high priority.

Heather and Simon should avoid speculative and many so-called 'alternative' investments. And they should avoid long-term illiquid investments, such as some unlisted property trusts. They may end up wanting to access their money at short notice.

They also need to be aware of how their investment income will be taxed both annually (share dividends, rental income) and on the ultimate sale of their investments (capital gains tax). Some tax treatments are positive, potentially including franking credits on share dividends, and a discount on capital gains tax.

Saving a home deposit requires great discipline, and exposing a portion of savings to even modest risk entails even greater discipline. Heather and Simon will need to avoid the temptation to invest larger sums when markets are up, or to want to bolt to cash at the first downturn in the market.

If the idea of investing a portion of your house deposit appeals to you talk to a professional adviser. They will be able to help you understand the risks involved and how to manage them, recommend appropriate investment options that balance out those risks and potential returns, and help to keep you concentrated on your main goal.

How much do you know about mortgages?

A dream for most Australians is to own their own home. Not only is there a measure of security in bricks and mortar as an investment, but there's a sense of stability, of permanency. Then there's the emotional pull; the joy of raising children and creating memories of family and friends, celebrations and life events. According to the Australian Institute of Health and Welfare, 35% of Australians currently have mortgages over their home. How much do you really know about mortgages? **Take our quiz and find out!**

Q1: How much deposit do you need to avoid lenders mortgage insurance?
a) About $250,000.
b) 10%.
c) 20%
d) 5%
e) 25%
f) Depends on your relationship with your lender.

Q2: What is a mortgage stress test?
a) A test to determine your resilience to fluctuations in property values.
b) A test lenders use to assess your financial position and the potential impact of interest rate rises.
c) A pre-approval medical check-up used to determine life expectancy and calculate the term of the mortgage.

Q3: What is a DTI?
a) Date to Invest refers to the date the purchaser takes possession of their new home.
b) Delay Transfer Implementation happens when either the vendor or purchaser wishes to delay property settlement.
c) Debt to Income is a ratio comparing your level of debt and income.

Q4: When applying for a mortgage, does it matter how many credit cards you have?
a) Yes, because lenders may consider the sum of all your credit limits.
b) It's good if you have a lot of cards – it shows lenders trust you.
c) No because credit cards are unsecured loans.

Q5: What is a re-draw facility?
a) A facility that enables you to increase the loan amount without further application provided you've made regular repayments for at least one year.
b) A savings facility linked as a sub-account on your loan that helps reduce your interest payments.
c) A facility that enables you to make extra loan repayments that you can withdraw as required.

Q6: What is meant by property equity?
a) The difference between the property's purchase price and the price you later sold it for.
b) The difference between the property's market value and the amount owed on the mortgage.
c) The value of the fixtures that remain behind if you sold the property, e.g. carpet, light fittings etc.

Q7: What is an interest-only loan?
a) A loan where only the interest is repaid to reduce the repayment amount.
b) A loan provided by non-bank institutions as they're not interested in providing savings accounts.
c) A way to avoid Lenders Mortgage Insurance as you're only required to repay the interest.

Q8: When would you use a bridging loan?
a) They're used in conjunction with business loans for buying stock and equipment.
b) To help 'bridge-the-gap' between pay-days.
c) To cover the time between purchasing a new property and selling your existing one.

ANSWERS

Q1: How much deposit do you need to avoid lenders mortgage insurance? c. 20%

Lenders mortgage insurance (LMI) is designed to protect the lender in the event that you lose your job, or for any other reason, are unable to meet your mortgage repayments. While the amount of deposit needed to avoid LMI may vary between lenders, you should aim to have at least 20% of the property's value saved. Generally speaking, the more deposit you have saved, the better, as you also need to cover stamp duty and other costs.

Q2: What is a mortgage stress test? b) A test lenders use to assess your financial position and the potential impact of interest rate rises.

A mortgage stress test is a test lenders use to assess your financial position. It looks at a number of financial factors, but focusses on your ability to service a loan if interest rates were to rise.

All lenders test against rate rises of a specific percentage based on their own lending criteria, however the Australian Prudential Regulation Authority (APRA) sets a minimum percentage, which, as of 1 November 2021 is 3%.

Q3: What is DTI? c) Debt to Income is a ratio comparing your level of debt and income.

A DTI ratio is a calculation that looks at all debt such as credit cards, personal loans, investment loans etc. and compares that amount against your overall income.

If you're thinking of applying for a mortgage, it's often helpful to work out your own DTI ratio to get an idea of how much you're likely to be able to borrow.

Many lenders have their own way of calculating your DTI ratio, but you can get a rough figure by adding up all your liabilities (L) and all forms of income (I).

Then calculate: L divided by I.

Generally speaking, if you have a low DTI ratio, a lender is more likely to approve your application as it is considered you have both the income and the ability to support the repayments.

Q4: When applying for a mortgage, does it matter how many credit cards you have? a) Yes, because lenders may consider the sum of all your credit limits.

Lending institutions will include your credit cards when calculating the amount of your debt. In fact, the number of cards, whether you use them or not, is very important as in many cases, the debt amount considered is not the balance you owe on the cards, but the total of each card's credit limit – even if you owe nothing on the cards.

Unfair as this may seem, it's because you could potentially spend up to that amount, thus incurring the debt. It is the lender's way of protecting itself against you being unable to make future loan repayments.

This is why, when assessing your mortgage application, a lender may suggest you cancel any cards you don't need or use.

Q5: What is a re-draw facility? c) A facility that enables you to make extra loan repayments that you can withdraw as required.

A redraw facility enables you to make additional payments on your mortgage then,

in the case of an unexpected expense, you are able to draw down on that money.

While similar, a savings facility linked as a sub-account to your loan to reduce interest payments is called an offset account. When the interest is calculated on your loan, the loan balance is reduced by the amount you have in the offset account. Both offset accounts and redraw facilities are a great way to pay off your mortgage sooner.

Q6: What is meant by property equity? b) The difference between the property's market value and the amount owed on the mortgage.

The equity in a property is the difference between the market value of the property (what you could reasonably sell it for), and how much is still owing on the mortgage.

For example, if your property has a market value of $650,000 and you owe $225,000 on your mortgage, then the property's equity is $425,000. In other words, it's the value of what you actually own in the property.

Q7: What is an interest-only loan? a) A loan where only the interest is repaid to reduce the loan repayments.

Interest-only loans enable you to make only interest payments for a set period of say, three years. This is a way of reducing your repayments in the event of an unexpected expense of a period where you find yourself between jobs.

It works like this: Ordinarily, each time you make a loan repayment, the amount you pay is made up of both capital (the amount borrowed) and interest. When making interest-only payments, you're only paying the interest portion of the repayment. This means you're not reducing the capital debt which is why most lenders will offer interest-only arrangements for a set period.

The exception to this is if your loan was used to purchase an investment property. For tax purposes, it may benefit the investor to make interest-only repayments over a longer term, which is why mortgages over investment properties are a different kind of mortgage and are subject to different terms and conditions. You can't use an investment loan to purchase a home you plan to live in.

Q8: When would you use a bridging loan? c) To cover the time between purchasing a new property and selling your existing.

Bridging finance is used by people wishing to purchase a new property before settling on the sale of their existing one.

Essentially, it means servicing an additional mortgage while awaiting the sale of an existing property. Because of the associated risks, e.g., it may take longer than expected to sell the existing home, bridging loans generally attract a higher interest rate and higher fees and charges. Additionally, they're usually only for a short term – around 12 months or so.

On the plus side though, a bridging loan may be the difference between purchasing, or missing out on, your dream home.

So, how did you go?

Most of us, at some point in our lives, will have a mortgage, and while they are essentially a simple concept: money is borrowed and repaid, with interest, over a set period of time, the features and facilities available can vary greatly and add a layer of complexity.

Lending institutions, particularly banks and building societies, recognise that when a borrower can't afford to meet their repayments, nobody wins. Which is why there are so many features geared around helping you to more quickly pay down your loan. Simple arrangements like making fortnightly repayments instead of monthly can make a big difference over the term of a mortgage.

We've looked at some other features and facilities – redraw, offset, interest-only, and so on – but there is much more.

It certainly pays to shop around, and for borrowers with good credit histories, and a low debt-to-income ratio, it's possible to negotiate a better deal.

If you're after more tailored assistance about what you can afford to borrow and debt reduction strategies, chat with your financial adviser.

The Risk of Losing your Home

As house prices spiral ever higher and interest rates test record lows, it has never been easier for anyone to borrow too much when buying a home and then suddenly find themselves struggling to meet the repayments.

And the number of Australians in this situation is growing. Research by the University of NSW suggests the proportion of households in financial stress has surged to 42% this year, up sharply on the start of 2020, when less than a third of households were in financial stress.

In addition, calculations by the fintech company, Digital Finance Analytics, suggest just a 0.5 per rise in home loan interest rates could push another 220,000 Australian households into financial difficulties.

While these figures are daunting, there are some simple effective steps you can take if you are fearful your financial position is not as good as it should be. As always, start with drafting a budget and finding out where all your money goes.

If you've tried and failed to create a meaningful budget, speak with your accountant or tax agent as there are some very simple, cheap and clever software programs that can help you finally get one in place. Look for costs you can reduce, or better still, do without entirely.

Getting by with just one car in the family rather than two, for example, is estimated to save most families between $2,000 to $5,000 a year in related costs – savings that could be re-directed to help pay off your mortgage.

Then review your actual mortgage. Speak with a mortgage broker to determine whether there are better and cheaper home loans on the market that you can take advantage of. Remember every dollar of interest you save, means an extra dollar reducing the total size of your mortgage if you leave your payments unchanged.

If interest rates do increase and you can no longer meet your monthly repayments, be pro-active and speak to your bank or home loan provider as soon as you become aware that there is a problem and ask for their help to find a way forward.

There may be some simple steps you can take such as consolidating any expensive credit card debts or personal loans into your low-cost home loan to reduce your overall repayments or consider selling that boat or caravan you no longer use and use those funds to reduce your debts.

If once you've reviewed the family budget closely, you realise you have simply borrowed more than you feel you can repay, don't wait in the hope that things will somehow get better. The sooner you take steps to resolve the situation, the better.

It maybe that you will need to sell the property that is ultimately causing your financial difficulties and while this can be disappointing, it is important to remember that it is not the end of the world. That it is possible to sell and move to a smaller home or a cheaper suburb.

The most important thing to keep in mind is to not wait until you've fallen behind on your mortgage repayments. You will always be better off financially if you take control of the situation rather than wait until the bank steps in and sorts the situation for you.

Is it time to update your Will?

Estate planning ensures that when we die, our assets can be passed promptly and tax-effectively to the people we love or the charities we support.

Have you experienced any of these events recently?

- Marriage or entering a de-facto relationship
- Divorce
- Changes in the family such as births and deaths
- Adult children entering or leaving marriages or de-facto arrangements
- Death of a person who plays a key part in your estate plan such as the executor

As life changes, your Will should be updated to reflect those changes.

Is it time to update your Will?

Are you sacrificing your retirement for your adult children?

According to Finder.com, 44% of Australian parents feel the urge to subsidise their adult children's lifestyles.

Besides helping with expenses such as university fees, utilities bills, etc., as home ownership moves beyond many young peoples' reach, parents provide a leg-up into the housing market.

It's natural to want to ensure your children's financial security, regardless of their age, but is it possible to do so without sacrificing your retirement situation?

We say yes, but consider these points first:

Retirement savings

Already retired? Withdrawing a lump sum can potentially reduce your pension payments, or erode your savings all together. With life expectancy rising we face the reality of outliving our savings. What then?

Approaching retirement? There's limited opportunity left for accumulating superannuation savings so any deviation from your retirement strategy could have dire consequences. To understand how that pans out, re-read the paragraph above.

Gifting and loaning

Gifting cash to family carries no tax implications, however when gifting assets like property or shares the Australian Tax Office (ATO) considers it the same as you selling the asset which could attract capital gains tax.

If gifting money or assets while receiving government benefits, the gift may still count towards your income and assets tests leaving you worse off if the amount of your benefit includes assets you no longer own.

Consider lending the money rather than gifting it for the following reasons:

- It's not poor parenting to consider your own needs too!
- Children may become dependent on the additional money; there's a difference between supporting your child's lifestyle and enabling it.
- Some kids come to expect handouts from the Bank of Mum and Dad. Certainly give them a helping hand, but ensure you teach them independence. A loan should be a once-off thing, perhaps with interest.
- If you have more than one child, lending money and agreeing on a repayment plan removes the risk being seen to favour one over the other.

The legals

When lending money to children, it's important to document the details and have all parties in agreement.

You may trust your kids, but so did retirees Dave and Lucy.

Their son Ty, and daughter-in-law Ashley, found their dream home for $780,000 but only had $25,000 in deposit. To make up the required 20%, Dave and Lucy withdrew $131,000 from their super expecting it would be repaid over time.

A few years later, Ty and Ashley divorced. The house, a joint asset, was sold for $840,000 with a balance of $610,000 owed to the bank. They were left with $230,000 to be divided between them.

Dave and Lucy requested their $131,000 back as they were worried about the lack of working capital in their pension fund.

The divorcing couple claimed that the money had been a gift as they had neither signed a loan agreement nor made loan repayments.

Dave and Lucy had no way to recover their money. By asking their solicitor to draft a simple loan agreement at the outset, they could have avoided the resulting disagreement. Not only did the pair lose their money, but their relationship with Ty suffered.

It's natural to want to assist the kids, and it's true: you'll always feel responsible for their wellbeing. But think of yourself too – you've earnt your retirement!

By discussing your needs with your financial adviser, you can set realistic retirement goals that include helping your children, if necessary.

Nobody wins if you outlive your money, so plan today for what you'll need in the future. You'll stay on top of your retirement finances and live your best life – whatever that means for you.

2022-23 Federal Budget Highlights

The Federal Government has delivered a big-spending 2022 budget, taking immediate steps to reduce cost of living pressures for working Australians while implementing a range of massive infrastructure and defence spending measures.

The Government will slash the fuel excise by half, effective immediately, as well as provide a one-off cash hand out of $250 to a range of social security recipients, and a $450 additional tax offset for low- and middle-income earners, in what is clearly a ballot-box friendly budget.

Productivity will be boosted across the nation by enhanced training incentives, dramatic tax measures to drive greater digital adoption and improve computer-based efficiencies as well as steps to boost the nation's overall level of self-sufficiency.

Concerns about the growing budget deficit, which has now reached $78 billion, have been largely put on the back burner with confidence placed in the fact that as the economy grows, this will naturally reduce.

A bounding economy

And the Australian economy has posted astonishing growth. It has come roaring out of two years of pandemic induced lockdowns, to post strong growth across the nation, spurred on by higher prices for coal, iron ore and wheat.

Gross domestic product is expected to expand by a massive 4.2% this year while wages are expected to grow by 2.75% and surge by 3.25 % in the following year. Unemployment is currently 4%, but this is expected to drop to 3.75 % over the next six months - its lowest level since 1974.

An extra 100,000 Australians have found work compared to employment numbers recorded when the pandemic first hit in March 2020. This in turn is expected to help slash welfare payments by $11 billion across the next four years.

A focus on increased productivity

Training and improved productivity remains a key focus with the Government implementing a $365 million extension to the existing apprentice wage subsidy scheme in an attempt to further boost apprenticeship training.

The Federal Government is continuing its focus on boosting business productivity allowing a $120 tax deduction for every $100 spent on digital adoption technology, such as portable payment systems, cyber security measures and subscriptions to cloud based services.

A similar tax measure will be introduced for businesses providing external training courses to staff whether online or in-person, to increase productivity throughout the economy.

This will be supported by a raft of Government driven efficiencies such as digitalising trust income reporting, improved PAYG systems and the automatic reporting of taxable payments.

And a more efficient economy

The 2022-23 budget also includes a raft of infrastructure projects that will drive greater efficiencies and economic growth across Australia in the decade ahead. These projects include:

- $18 billion in priority road and rail infrastructure
- $7.1 billion to develop regional economies
- $6.9 billion in significant new water infrastructure
- $10 billion on the new East Coast submarine base
- $4.3 billion upgrade to the Henderson naval shipyard
- $2 billion for a Moderna mRNA vaccine plant in Victoria

In addition, the Government has announced steps to develop a circular waste economy, support low emission technologies including hydrogen, extended gas pipeline infrastructure and more efficient environment approval strategies.