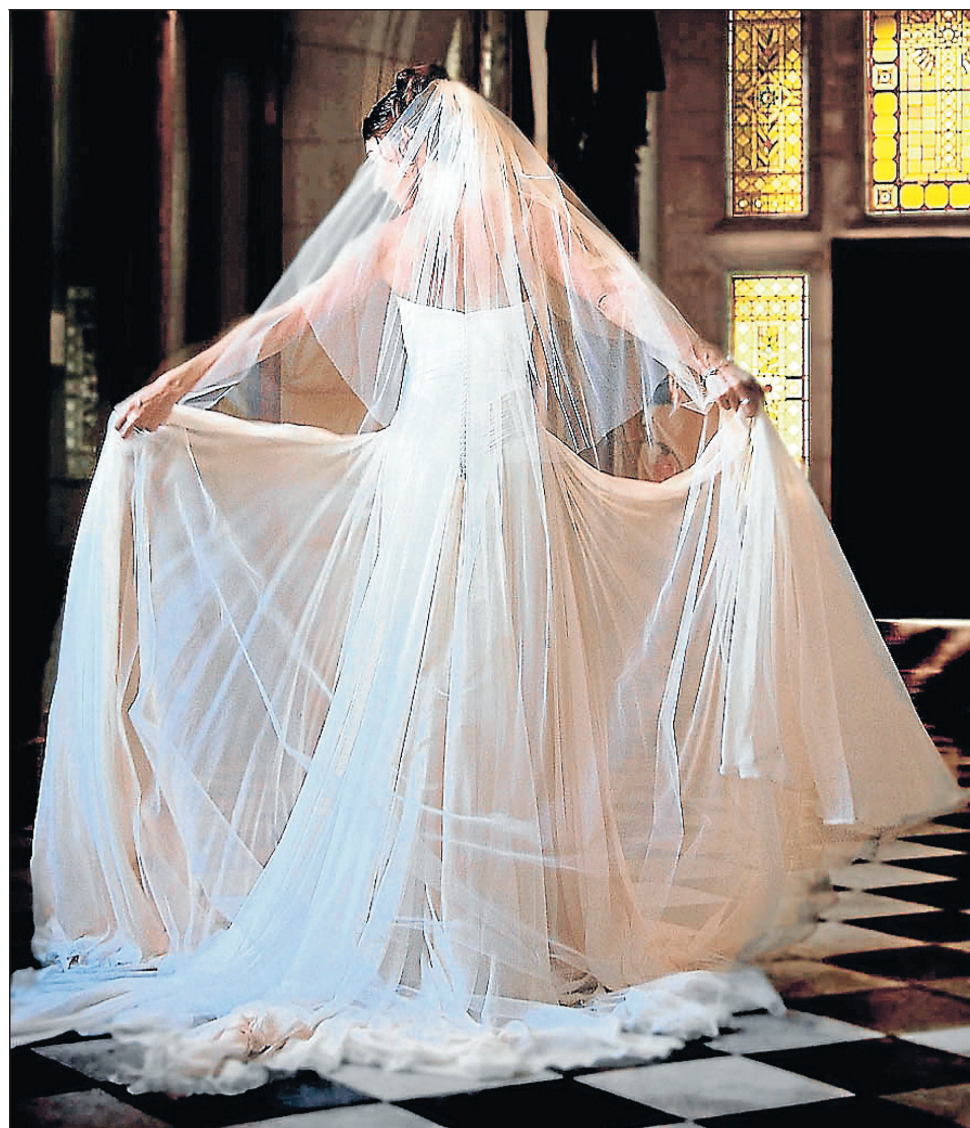
Save on frills and bank on dream home

Noel Whittaker

Real estate prices may be daunting but couples who stick to a solid savings plan can soon build a secure future.



WORRYING TREND: The average cost of a wedding has risen to $35,000.

TWO recent articles caught my eye. Even though they appear unrelated they point to a worrying trend in young people's attitude to finance.

The first was the revelation that the average cost of a wedding had risen to $35,000. The other was the REST Industry Super White Paper, which concluded that home-ownership rates for the under-35s had fallen dramatically – apparently, this is because many young people feel that buying a home is something they can't afford to do any more.

For most, this is a false assumption, which is why the purpose of today's column is to convince young people that home ownership is not just desirable, it is also possible.

First, get rid of the idea that home ownership is restricted to high-income earners.

Right now across Australia there are people who are doing it tough and there are people whose finances are in good shape. Guess what? Their financial position has got nothing to do with their income – it's how they manage their money.

Managing your money gets back to choices. You can choose to take your lunch to work or buy it, you can choose to buy a new car or make do with your old one, or you can choose to spend $35,000 on a wedding or $35,000 on a house deposit.

I am not going to go into a long list of money-saving strategies here – there are hundreds of websites and books that can do that.

But it is important to stress that it is the choices you make, not your income, that will determine how well off you are financially.

If you decide to divert some of your income to investment, your net worth will grow.

If you decide to spend it all on consumption, you will be forever battling the debt treadmill.

Once you have got your finances under control, the next step is to set yourself the goal of buying a home.

You need to want to do this, which can come by thinking about what will happen if you choose one action over another.

If you decide to rent, all your life you will be at the mercy of the landlord – if you decide to buy a home you will be acquiring an asset that will grow over time and, when paid off, will give you free rent for the rest of your life.

After you retire, you could even take out a reverse mortgage and live off it.

You also need to keep in mind the unique benefits of home ownership.

Australia's population is predicted to increase by more than 10 million people in the next 20 years, which will create a strong demand for well-located properties. Furthermore, the recent slump in prices means that many homes are now selling below their replacement cost. Given that scenario, it is hard to see anybody losing money over the long term if they buy a well-located property.

Now that you are managing your finances well, and you have convinced yourself that home ownership is a worthy goal, the next step is to set a specific plan to make that goal a reality.

The secret is to focus so hard on the goal that everything else becomes immaterial.

Start looking at homes in locations you like, then hang photos of them on the wall where you will see them every day.

Talk to lenders to find out how much deposit you will need and then make a sub-goal to save that within a specified time.

If you were a couple each earning $850 a week after tax you could decide to live on one income and bank the other $850 a week into a savings account.

In just 12 months you would have $45,000, which would be an adequate deposit for most properties. As your savings grow the success pattern you are forming will be reinforced.

Mark my words – you'll be more than adequately rewarded for your persistence.

Noel Whittaker is a director of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is noelwhit@gmail.com.

Q My husband and I are both aged 60. We are self-employed but at times work only a few days a year. Some years we may have no income from work at all because of travelling. Is there anything to prevent us taking out a transition to retirement pension until age 65? As we would prefer to delay the sale of some of our assets until we are 65 and would then like to contribute the funds to super before converting to an allocated pension, the transition to retirement pension seems very attractive.
Are there any other considerations we should be aware of?

A If you are aged between 60 and 65, the only action needed to access your superannuation in full is to resign from any job – it needn't be your main job and once you resign you are free to work at any other jobs. Obviously you should be taking advice, but on the information supplied it would seem you are eligible to take your superannuation in full when you wish and so can start a normal account-based pension which does not have the restrictions of the transition to retirement pension.

Q My wife (48) and I (52) are thinking of moving from the city to the country and living off our investments if possible.
We are debt free and own our home ($600,000), and an investment unit ($400,000) which we have had for six years returning $14,500 a year. We have $200,000 in super, a term deposit of $140,000 and shares of $160,000. Should I continue to work until 55 to get a transition to retirement pension (TTR)?
Also, should we sell the unit and gradually transfer the funds to super, or should we sell our house and buy a house in the country and invest the balance proceeds?

A You have done very well to date and a comfortable retirement seems assured. I certainly agree that you should be moving your cash into super so it will enjoy the benefits of lower income tax and the shares should be moved in there as soon as it is practicable. The problem with selling the shares is capital gains tax, and if you are both working and your employers are paying superannuation for you, you cannot alleviate the CGT by making a tax deductible contribution to super.
Maybe you will need to wait until a year when there is no employer super being paid on your behalf. You can certainly use a TTR to boost your retirement assets, but only you can decide on the best time to sell the present house and relocate.

Send your questions to noel.whittaker@whittakermacnaught.com.au

Plans in limbo as baby-boomer advisers retire

By **LESLEY PARKER**

IT'S been suggested that baby boomers shouldn't just be thinking about their own retirement plans but also about the retirement plans of their advisers, because a similarly aged financial planner may well be collecting superannuation just at the time their advice is needed most.

Four out of 10 Australians are considered baby boomers – the generation born between the mid-1940s and the mid-1960s – and the oldest of them have started hitting the official retirement age.

"A great many financial planners are also baby boomers about to retire, and unless they've been involved in a well-planned handover, their clients are likely to feel left in the lurch at a time when they most need personal and specific advice," the head of wealth management at Equity Trustees, Phil Galagher, says.

"Unfortunately, there's a fair amount of anecdotal evidence that this is quite common. Clients are simply passed on to another adviser, not given any sense of continuity and end up feeling that they've got to start all over again with someone they may not have confidence in."

Market researcher IBISWorld agrees that many financial planners will be considering retirement in the next decade.

"The number of financial advisers exiting the industry over the next few years is expected to increase," it says in a report on the $5 billion financial-planning and investment-advice industry released last month.

"The average age of a financial adviser is about 55 years and some may be unwilling to make the transition to a new remuneration model," it says, referring to the banning of commissions.

Galagher says people should ask their advisers about their retirement plans to see how it will affect their own circumstances.

And it's not just financial advisers people should think about, he says, but professionals such as dentists, doctors, solicitors and accountants, who may be part of the baby-boomer bulge, too.

Galagher argues baby boomers won't put up with being treated as business "assets" sold on to a new operator in the way other assets may be. "Retirees have time available to them to seek alternatives and aren't going to be as passive or lethargic as time-poor clients still in the workforce may be," he says.

The chief executive of the Association of Financial Advisers, Richard Klipin, says clients of financial planners are just like any other consumer and free to stay or go if a business changes hands.

"When circumstances change, people are at liberty to stay with an adviser or move on from their adviser," Klipin says.

"That could be because of client issues or because the adviser has sold the practice or brought in a new partner."

Having said that, new owners tend to take steps to make sure people want to stay, by making sure they see value in a continued relationship, he says.

As for any change in advice or strategy between the smaller operator you may have started out with and the big firm or institution that has bought the business, Klipin says that, under the law, your portfolio cannot be changed without your signoff. "That protection is always there," he says.

BISWorld says there are 3125 financial-planning businesses in Australia and about 15,800 financial advisers in total.

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