

# BALLAST BULLETIN

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## Research report reveals ... 20% of working parents are exposing their families to hardship



“This research shows that the likelihood people will be unable to provide for their family due to accident, illness or death is much more common than people think.”

**More than one in five working age parents will die or become incapacitated and see their family's income drop by half because they're underinsured, recently released research shows.**

According to the Lifewise/NATSEM Underinsurance Report, commissioned by the Investment Financial Services Association (IFSA), the underinsurance of parents with dependent children and a mortgage will cost the Australian Government an estimated \$1.3 billion in additional social security payments over the next decade.

Lifewise commissioned the research to measure the social and economic cost of underinsurance. It models the number of Australian families expected to experience an insurable event during their working lives; the cost of this underinsurance to government; and the financial impact of various insurable scenarios on a typical family.

Launching the research, IFSA's Chief Executive, John Brogden said: "Australia's 'she'll be right' attitude stops most people confronting the very real possibility they will suffer an insurable event during their

working life that has the potential to leave them financially ruined. Australia is one of the most underinsured nations in the developed world.

"This ground breaking research shows that the likelihood people will be unable to provide for their family due to accident, illness or death is much more common than people think," he said.

The report found that of the nation's 4.5 million working parents, one million will die, become seriously ill or injured and be unable to work at some stage during their career.

In measuring the impact of underinsurance on a typical family, the report revealed:

- Based on current average levels of insurance, the typical Australian family's weekly income will be cut by half to about \$600 where a main breadwinner Dad becomes temporarily ill or injured and can't work, or where Mum dies or becomes temporarily or permanently disabled;
- The family's financial situation following the event will be long term, remaining broadly the same over a one, five and 10 year period;
- When recommended levels of income protection insurance are in place, the policy will in most cases replace between 80% and 100% of the family's income short and longer term (depending on the duration of the policy); and
- With adequate life insurance, the remaining partner can repay existing mortgage debt and invest what remains to generate an income that replaces income between 80 and 100% of the original.

"This research shows that recommended levels of insurance will ensure a family can maintain their hard-earned lifestyle and focus on what's important during a difficult time," Mr Brogden said.

**Christmas Greetings to all**

Ballast South Perth, Kambalda and Jandakot are closed 24th Dec to 10th Jan

Ballast Melville is closed 20th Dec 2010 to 10th Jan 2011

Ballast East Victoria Park and Rockingham are closed 24th Dec to 3rd Jan

# When is an offset facility worth having?

**M**ost borrowers have heard there are basic loans and other more sophisticated packages that come with a number of 'bells and whistles' and invariably additional costs.

One of the bells and whistles available with most professional packages is the facility of an offset account.

For some people this facility is worth having – for others it's questionable.

If you're paying a fee to have this facility you need to understand what it's for – otherwise you may be better off without it.

## Shorten the loan term

Essentially an offset account aims to reduce your interest and shorten the term of your loan through linking your standard transaction account to your mortgage account.

An offset account works in much the same way as your standard bank transaction account where you deposit money and use it to pay your bills and expenses.

Unlike standard transaction accounts, the bank does not pay interest on the money you save and retain in your offset account but instead the money you have in the account at any point in time is 'offset' against your mortgage.

In effect, the money you have in your account reduces the outstanding balance of your loan which means you pay interest on the balance – thus an offset account can reduce the interest you pay over the lifetime of your loan.

If you have your salary paid into your offset account, your salary immediately reduces interest payments from the day it is credited to your account. What it means is that your money is working for you from the moment it arrives in your account.

There are a number of variations of these accounts and most come with some form of fee – either as a monthly account keeping fee or a fee charged for each transaction that takes place. Some lenders will require a minimum and maximum balance to set up an offset account.

## Are they for you?

Some brokers suggest they're not worth the cost if your money is withdrawn almost as quickly as it goes into your account.

If very little of your wage is retained then it won't be making much of a contribution to reducing your interest rate. This is why some lenders charge you for transactions rather than a monthly fee – as a minor incentive to keep your money in the account.



# The other side of that you will not

**B**ombarded by an ongoing stream of doom and gloom in the press, it's easy to lose sight of recent reports that paint a somewhat different picture for residential property in WA.

As we go into 2011 let's look at some of these more positive developments, which were given scant coverage in the media.

The fortunes of the housing market are usually closely linked to the health of the economy. In this area WA seems to be doing well. According to Commsec's latest State of the States report, Western Australia and the ACT are outperforming the economies of the other states and territories across Australia.

## Fastest growth in Australia

Commsec's chief economist, Craig James said recently that economic growth in resources dependent Western Australia was the fastest in the nation. He added that construction in the State was a massive 88% higher than decade averages.

In October, the Australian balance of goods and services showed a surplus of \$2.625 billion for the month, the seventh straight month of sizeable surpluses and the second highest on record. Exports were up and imports down. WA is responsible for more than a third of the country's exports.

Another key driver of property demand is affordability, which includes wage increases and bank

lending requirements. Whereas poor performance in the retail sector and the unexpected slowdown in the Australian economy in the September quarter were negative factors, they did have an affordability spin-off for the housing market, pointing to less likelihood of further RBA rate rises in the next few months.

Earlier we saw the release of a report by the Housing Industry Association which said home affordability in Perth improved by 5.9% in the September quarter. Its findings were supported by Deposit Power which said individual loans had got smaller in the quarter.

The WA average male wage grew by 5.7% over the year to August to a level well ahead of all other states and was only surpassed by the ACT, the ABS figures showed. Subsequently, it was reported that WA mine pay rates were accelerating and grew by 7% since August.

## WA mortgage loans up

One of the factors that impeded the housing market this year was the imposition of more stringent lending rules. Now there are indications that lenders are loosening their purse strings a little and there are hopes of increased competition from second tier lenders spurred by pending government announcements. There was an increase in WA mortgage loans granted of 5% in the last reported month of September.

Other factors that have a major impact



## the property story read in the press

on the property market are employment levels, population growth and consumer confidence. In WA unemployment remains at healthy levels according to the Australian Bureau of Statistics.

Encouragingly, a survey by ANZ showed total job advertisements in Australia rose a seasonally adjusted 2.9% in November to their highest level in two years. The biggest sector gainers in November were transport, engineering and legal. For the past 12 months, engineering and mining boasted the strongest growth in vacancies at 46.4%.

### **Population growth strong**

Population growth, while down on the boom years, is still strong with prospects of a return to higher levels courtesy of the mining boom.

The Westpac-Melbourne Institute's consumer sentiment index rose by 3.3% to 117 in October after a 5% drop to 113.2 in September.

In contrast to press reports, it's anything but a one way street when it comes to the direction of property prices. The press made much of the 4% fall in Perth's median price in the September quarter. It made no mention of the fact that, during the period, two thirds of Perth's suburbs actually showed an increase in median price while prices in 11% of suburbs remained unchanged.

Prices it seems are certainly on the rise when it comes to residential lots. Figures from the Urban Development Association of Australia show lot prices in the

metropolitan area are up one per cent in the past three months and 3.2% this year.

Building approval rates seem to have taken a hesitant but positive step forward. The Australian Bureau of Statistics' most recent report on building approval rates showed Western Australia gave the go-ahead to 2.3% more private sector projects in October than the month before.

And while the alarmists currently rule the headlines, there are reputable analysts who actually see a small but steady increase in property prices in Perth over the next few years.

Earlier this year Australian Property Monitors' economist Matthew Bell said he expected the Perth market to play some catch up as the Melbourne and Sydney (property) markets took a breather.

### **Future growth predicted**

His view was echoed by RP Data's research director, Tim Lawless who forecast an improvement in WA's market next year as the emerging resources boom gathered pace and the State's population continued to grow. He said demand would grow in spite of expected rises in headline interest rates expected to peak at 8%.

Some weeks later a QBE Housing Outlook 2010-2013 survey compiled by BIS Shrapnel, forecast house-price growth of between 9 and 20% in Australian capital cities over the next three years, with Perth, Sydney and Adelaide predicted to grow the most.

## Familiar faces back at Ballast

### **Ballast welcomes back Greg Piotrowski as our accountant.**

As was the case previously, Greg, who is very experienced in all areas of taxation, is here to assist you with all your taxation needs including SMSF tax returns. Call him with any enquiries you may have.



We also welcome another returning staff member, Tara Roberts. Tara has returned to manage our finance and financial planning commissions area. She is one of Ballast's original staff members and it's fantastic to have her back on board.

## Ai Lin joins the team

### **Ai Lin, who holds a Bachelors Degree in Accounting with a minor in Human Resources, has joined Ballast as assistant accountant.**

With more than 2½ years of experience in public practice, mainly in tax processing and Self Managed Superannuation Funds, Ai Lin likes to read and enjoys hanging out with family and friends in her spare time.



## Meet Business Development Manager, Paul Skuse

### **Ballast Finance welcomes Paul Skuse on board as our Business Development Manager.**

Paul, whose role will be to introduce mortgage brokers to our many services, gained his Marketing Degree in the UK and has a wealth of experience in working as a Home Finance Manager for Westpac and more recently alongside a team of mortgage brokers in the property investment industry.

Paul is excited to have joined Ballast and is looking forward to talking to old acquaintances and new, about what he and Ballast can offer during this period of their growth in the industry.



## Fixed interest rates

# Is this the time to make your move?



**R**ecent reports in the press, pointing to a doubling in the number of people taking out fixed rate home loans in recent months, have once again put the focus on whether it's desirable for home loan borrowers to consider fixed rate loans.

It seems borrowers have shown more interest in fixed interest home loans for two main reasons. In the first place, banks are currently offering three-year fixed rate loans at interest rates similar to those of variable loans. Secondly, there is the widespread perception that interest rates will be going up.

Fixed-rate loans are a form of insurance policy, where borrowers insure themselves

against interest rates going beyond the fixed rate. Predicting the future of interest rates is of course an extremely hazardous activity. However, the overwhelming consensus among economists is that interest rates will rise in 2011.

The problem is that if they get it wrong you can be locked into a rate that can become very unattractive if interest rates fall – as was the case for unfortunate borrowers in 2008 who fixed at about 9% only to see rates fall in 2009 to their lowest since the 1950s.

If you feel that a fixed loan is the way to go you may also be wise to consider looking at a split loan – where one part of the loan has a fixed interest rate while the other

is variable. Not only does it partly insure you against rate rises, it gives you a real opportunity to pay your mortgage off faster.

If you had a loan of \$400,000 for example, you could fix two-thirds (about \$266,000), leaving the remaining \$133,000 variable.

You can then reduce the \$133,000 with extra payments without incurring a penalty, while the payments on the remaining \$266,000 stay fixed.

You might also make the fixed portion of your loan "interest only". By doing that you're only making interest payments on the \$266,000. That will free up more money for you to pay on the \$133,000.

With financial discipline you'll probably have a lot of the \$133,000 paid off in three years. You can then repeat the process - split the loan again, start paying down the variable portion and make some more headway.

It can be a good strategy, but it's vital to get the right loan. You can be charged set-up, account and discharge fees on both sections of your loan, which can negate your gains. So talk to your finance broker who can steer you round the pitfalls of such a strategy.

## Should you have your own self managed super fund?

**Some people are attracted to switching to a Self Managed Superannuation Fund (SMSF) but fail to make the move because they've been told over and over again that you have to have experience and confidence to manage an SMSF.**

That is true, but even if you haven't got a clue about how it all works, you can still benefit from having an SMSF by getting the professionals to handle everything from A to Z.

What is an SMSF? It's a specialised superannuation trust that can be established for the sole purpose of providing retirement benefits to its members. In other words it's your own super fund.

An SMSF is not just a case of choosing some astute investments, sitting back and watching the money start piling up. It can take a lot of time, money and effort to satisfy the legal requirements involved.

### Investment strategy

For starters you have to write an investment strategy with details about the risks of your investment and its likely returns. Then you have to provide information about the diversification of investments and the risks of not diversifying them.

You then need to provide details of the liquidity of each of your investments and the

ability of your super fund to meet its current and future liabilities.

And it's not over yet. You'll also need to describe how you're going to follow your investment strategy and document any changes you make to it. If you're wondering if it's all worth the effort by now, that's probably no bad thing.

### A worthwhile idea?

But if you have the commitment and capability it can still be a worthwhile idea. If you're not up with all of the above, you can gain professional advice from Ballast on how to set it up and we can also administer it for you.

Ballast's Superannuation Department can handle all aspects of your SMSF, including relieving you of the many hassles of satisfying all the compliance issues associated with your Self Managed Superannuation Fund.

Working to the stringent requirements of the current legislation governing SMSFs, we will update your records on a monthly basis giving you ready access to the paperwork required by auditors of the Fund or for income tax returns.

Find out if an SMSF would suit you or your business by calling the Ballast Superannuation Department.



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