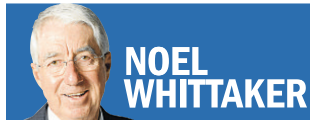
Super idea not a good one



NOEL WHITTAKER

Dipping into your superannuation to buy a new home is a bad move.

THE prize for the stupidest idea of the week must go to Treasurer Joe Hockey for his suggestion that first-home buyers should be allowed to access part of their superannuation for a house deposit.

Not only would it drive up house prices, the plan has two other major faults: it ignores the true cost of home ownership and it subverts the purpose of superannuation.

Certainly, falling interest rates have reduced the gap between owning and renting, but owning is still considerably dearer than renting.

Take a $450,000 property that rents at $450 a week: the tenant gets occupancy for a total yearly cost of $23,400 – in contrast, the repayments on a mortgage of $400,000 at 5 per cent over 25 years will be $2330 a month or $28,000 a year. And the mortgage repayments are not the end of it; add at least $3000 a year for rates and maintenance and total annual expenditure becomes $31,000.

From a cashflow perspective, the tenant is $7600 a year better off than the owner.

Obviously, renters who cannot save could end up with serious financial problems if they are suddenly handed enough money for a home deposit.

Then there is the concept of superannuation. It has one major goal – to provide people with a retirement income so they won't be living on the streets in their old age when the government runs out of welfare money. How much you have when you retire depends on three factors: the amount contributed, the rate earned, and the time the money stays invested. Reduce any of these and you reduce the final payout.

Suppose two people invest $3000 a year for 40 years. If one earns 5 per cent per annum and the other earns 10 per cent per annum, the end benefits are $400,000 and $1.6 million respectively. Doubling the rate of return quadruples the end benefit.

Obviously, the primary objective of anybody with money in superannuation is to achieve the highest returns possible – you could never achieve this if you borrow money from your superannuation account and use it to reduce a low-interest home loan.

Yes, home ownership is a worthy aim, but superannuation is not the vehicle to fund it. If you are renting and want a home, the solution is simple. Find a home you like, work out the monthly payments on the loan it would take to buy it, and then add $250 a month for ownership costs.

Yes, home ownership is a worthy aim, but superannuation is not the vehicle to fund it. If you are renting and want a home, the solution is simple. Find a home you like, work out the monthly payments on the loan it would take to buy it, and then add $250 a month for ownership costs.

Start an aggressive savings campaign with the difference between that figure and the rent you are paying.

If the difference between renting and owning is $883 a month, as it is in our example above, simply bank $883 every month into a special account. If you can earn 2.5 per cent interest, you will have just over $10,850 in the bank in one year and almost $22,000 in two years. By then you will have convinced yourself and your bank of your ability to pay off a home loan.

The major message of the latest *Intergenerational Report* is that government resources will come under increasing pressure as the population ages. Young Australians should do everything in their power to gain a good knowledge of finance so they can build a portfolio to rely on when they eventually retire.

Dipping into their superannuation because they can't save a deposit is moving in the opposite direction.

Treasurer Joe Hockey needs to remember that the genesis of the global financial crisis was President Bill Clinton's belief that every American was entitled to home ownership irrespective of income or assets. This lead to billions of dollars of bad debts, repossessions and plunging real estate prices. Australia can't afford for this to happen here.

Noel Whittaker is the author of *Making Money Made Simple*, and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Q I am 56 and have been working overseas for the past few years, so have declared myself as non-resident for tax purposes. Is there any impact on my age pension if I continue working overseas for another five years?

A You won't be entitled to the age pension until you are 67, so will have plenty of time to return to Australia, regain your tax residency, and apply for the age pension.

Q I am 30 and my wife is 25. Our combined yearly salary is $145,000, we have $180,000 in savings, and $60,000 in shares. We are currently renting at $430 per week, and can save $3500 a month. Should we buy our first home now, continue saving towards a deposit, or invest somewhere else?

A It appears that buying a home is your dominant goal, in which case I would continue saving until you find the place you're looking for. If you invest in managed funds while you're waiting, you may suffer a capital loss if the market falls and will be liable for capital gains tax if it rises. At your stage in life, I think flexibility is the key as you need to be able to act quickly if you suddenly find your dream home.

Possibly some growth during next year, maybe

By **DAVID POTTS**

SHOULD you be planning ahead, thought you better know that 2044-45 won't be a good year. There, plenty of time to prepare.

Not that 2024-25 will be much chop either, unless you've got something else planned because economic growth, on Treasury's best guess in the *Intergenerational Report*, will be only 2.8 per cent, which is officially below par.

Yet even that's better than what we have. The fact is the economy was limping along with growth at 1.8 per cent annualised by the end of last year.

No wonder the Reserve Bank cut rates in February, only to sit on its hands at its last meeting lest it look as if something was up. Or I should say down.

So don't dare say the R-word. But just between us, could a recession be around the corner? Economists don't think so. Also the Reserve Bank is going out of its way to say it's just that things are taking longer to come together rather than anything being up. Or I should say down. Well, fingers crossed.

It's already contradicted Treasury, which in the freshly minted *Intergenerational Report* was still forecasting growth this year of 2.5 per cent. Last month the Reserve reduced its forecast to 2.25 per cent.

Since GDP per person, which is what counts in the end, is growing, if that's the word, at an annualised 0.6 per cent there's no room for any slack.

But here's the surprise, or perhaps wishful thinking. While growth this financial year has slowed, both Treasury and the Reserve Bank are forecasting a pick-up next financial year. No boom, mind you, but definitely at odds with what we're experiencing.

"But just between us, could a recession be around the corner?"

Treasury's forecast for the coming financial year, published just before Christmas, was growth of 3 per cent.

But the new Reserve forecast, only a month old, is for 3.25 per cent, based on the mid-point of its 2.75 per cent to 3.75 per cent range.

Whoa, did you notice the 3.75 per cent? Well for 2016-17 the Reserve must be throwing a party. It bumped this top end possibility to a blistering 4.5 per cent – better than anything during the mining boom.

That's some divide between hope and reality. The smart money, as represented by the bond market, thinks growth will be even lower, if not in a recession by then.

How do I know? Because when the yield on a three-year bond is less than the official at-call cash rate, it's normally a precursor to a recession.

Even the Reserve concedes unemployment could "rise a little further and peak a little later", though in the same report there's a separate analysis, the gist of which is it doesn't really know.

At the same time real wages are falling. National income has taken a king hit from falling commodity prices, so don't expect this to change any time soon either.

So what are economists on about?

They're banking on a trifecta of LNG exports next year, low rates and the weaker dollar, though it does seem rather like waiting for Godot. Still, touch wood, there's one reassuring statistic noticed by AMP Capital's Shane Oliver: the current account deficit is only 2.4 per cent of GDP which is "about as low as it's ever been since the early 1980s". That's nice, but so what? It makes us less susceptible to a Global Financial Crisis-style flight of capital.

"In fact the economy seems to be becoming less vulnerable," Dr Oliver says.

This is critical since our banks are still big borrowers internationally just as the budget is in a mess and our economic fairy godmother, China, is also facing slower growth, though it must be said to a level almost three times better than ours. So far at least, the sharemarket is running with the upbeat forecasts. You could even say it's revelling in the bond market's discomfort. But I wonder who's going to have the last laugh.