When $45 becomes $530

NOEL WHITTAKER

Beady eyes are needed when your credit card statement arrives.

JANUARY BLUES: All those small purchases you put on the plastic in December can add up to a huge headache when the tinsel is put away.

THE dangers of credit cards at this time of the year have been well publicised.

First is the danger of going way over your budget, because handing over a credit card has a different feel to handing over bank notes. Buying all those gifts might give you a wonderful feeling of well-being, but it's often replaced by a sick feeling in your stomach when the credit card statement hits in January, and you realise that all those small payments have added up to such a huge amount.

But the other aspect is the horrendous fees that credit card issuers can charge. The surcharges that retail outlets and airlines hit you with are bad enough, and fortunately have been targeted in the Murray Report. Worse are the penalties if you get into arrears.

Let me tell you the story of a friend I'll call Bill who is a retired executive. He decided to switch credit cards from his current provider to a new provider, because the new provider was offering more generous reward points. He figured it shouldn't be too difficult because the old card and the new card were both administered by the same credit card provider. The difference was only a matter of branding.

The first problem arose when Bill applied for the new card online because most of his assets are in a tax-free superannuation fund, and his income comes by way of a tax-free pension. His application was rejected on the grounds that he was unemployed with no taxable income.

Bill is a resourceful fellow, so he used his business network to talk to the upper echelons of the credit card issuing company, who thought of a creative solution. They simply cancelled his existing card and transferred the limit to a new card. What could be simpler?

The troubles surfaced about a month later when it was discovered that the card issuer had forgotten to take an outstanding charge into account when the balance was transferred from the old card to the new card. Apparently $45 remained owing on the old card. Bill was happy to pay it, but the powers that be told him not to worry – it would work itself out.

Two months later he got a notice that the balance on the old card had risen to $124 because of the outstanding amount. He called his now best friends in the senior executive team, and was once again told it was nothing to worry about.

His worries really started when six weeks after that he got a Notice of Demand for $530. This time he hit the roof, demanded action, and after a couple of days of argy bargy had the entire amount cancelled.

In this case there is a happy ending, but it begs the question as to what kind of monetary system can allow a debt of just $45 to balloon into $530 in just six months. It also makes me feel for the ordinary people who don't have Bill's experience and network to take on the big institutions. They may well give up the battle and hand over $530 in desperation or simply tell the credit card issuer where to go, and end up with a stain on their credit file for years to come.

The lesson is clear. If you have any outstanding amounts on your credit card, monitor them closely and take immediate action if you get into arrears.

Noel Whittaker is the author of *Making Money Made Simple* and numerous 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 My employer and I will have added about $18,000 to my super account by June 30, 2015. I have $100,000 sitting in the bank from an inheritance. As we can put in up to $30,000, should I take $5000 to $7000 of this inheritance and put it in my super? Would it be beneficial? I don't need the money at present.

A The $30,000 limit is for concessional contributions (deductible) – the limit for non-concessional contributions is $180,000. But if your income from employment comprises more than 10 per cent of your total income, you cannot claim a tax deduction for any concessional contributions you make. You should take advice about contributing part of the $100,000 as a non-concessional contribution.

Q If you borrowed to invest, would the average mortgage interest of 8.55 per cent over the last few decades negate the 9 per cent average rate of return on shares and property?

A There is no simple answer because you would need to factor in your tax bracket, as well as the percentage of franking you would receive from the share dividends. Keep in mind that the bulk of the returns from shares may well be in capital gain, on which no tax is payable until you sell. This would enhance the tax effectiveness of borrowing, especially if you are in a high tax bracket. There is a free calculator on noelwhittaker.com.au that will enable you to run some hypothetical scenarios.

Our dollar's a commodity the RBA can't control

By **CLANCY YEATES**

WHEN it comes to the currency, it seems there is no pleasing Reserve Bank governor Glenn Stevens.

This time last year he got traders' pulses racing by calling for the dollar to fall to about US85¢, when it was fetching US90¢.

It has done that and much more since, reaching four-year lows near US82¢, but Stevens remains frustrated. Last week he said he would prefer to see it trade near US75¢, a level not seen for 10 years.

What's going on?

At first glance you might think these two rare statements – it is unusual for the governor to nominate a preferred currency level – are inconsistent.

But it's not that simple. In fact, what they really show is just how big a headache the dollar remains for the economy, even though it has fallen so sharply recently. And unfortunately for Stevens, the causes of this headache are largely out of his control and they don't look like fading any time soon.

So, why does Stevens remain so troubled about the dollar when it has tumbled 14 per cent in the year, even lower than the target he offered last December?

There are a few reasons, but a big one is that the importance of the US dollar is overstated in much of the public discussion about the exchange rate.

We've been hearing the RBA and other economists bang on for several years about how a lower exchange rate would be good for the economy, because it would assist exporters and businesses that compete with importers.

When they say this, it is easy to assume they are talking about the much-quoted exchange rate versus the US dollar.

But how the Aussie fares against the greenback isn't nearly as economically significant as the media and financial markets would have you think. The rate that matters most to the economy is the trade weighted index. That measures our dollar against the currencies of our biggest trading partners, weighted according to their share of trade with Australia.

By this measure, the exchange rate has fallen much less than might be imagined.

The dollar is down 14 per cent this year against the greenback, but it has fallen only 3 per cent when measured on the trade weighted index.

The index has dipped so slightly because much of the dollar's recent decline has been a case of US dollar strength, not Australian weakness.

Against the Japanese yen, the currency of our second-biggest trade partner, the Aussie has been rising throughout the year and last month hit its highest level in more than a year.

It's a similar story against the euro. One Aussie dollar today buys about €0.66, slightly more than it did at the beginning of the year.

Dwelling on the trade weighted index sounds technical, but the point is the dollar is doing a rather poor job as a "shock absorber" for the economy. For example, businesses exporting to Japan, or domestic companies competing with imports from Europe, are not getting much relief from recent changes in the currency.

And if ever there was a time when we needed the dollar to act as a shock absorber, it is now.

The price of our biggest export, iron ore, has crashed by 30 per cent since May, while the coal exported to power stations is down 15 per cent.

That takes us to the second reason Stevens has changed his tune and now wants an Australian dollar at more like US75¢. National income is being crunched by plunging export prices, and a weaker dollar would shield the country from some of this pain. The government's Mid-Year Economic and Fiscal Outlook on Monday forecast the terms of trade – export prices relative to income prices – would decline by the most since official records began in 1959.

The Aussie is being buffeted by the policies of overseas central banks at a time when the biggest source of national income is plunging.

Stevens and the RBA board have a lot of power in their ability to set official interest rates, but there is only so much that will do in fighting this battle. It is little wonder he is getting frustrated.