HANMOORE
FINANCIAL SOLUTIONS

Newsletter March 2015

In this edition of our client newsletter we've gathered some interesting articles that may assist your financial and investment decisions.

This year is shaping up to be another challenging year in the world's markets. This means it continues to be important that you have clear goals in place which you are working towards with a strategy that's going to work over time.

Achieving your lifestyle goals now and in the future is important to us, so we'll continue to keep you informed with the latest thinking and ideas on key topics of interest throughout 2015.

To discuss any of the ideas raised in this newsletter, please don't hesitate to contact us. We hope you enjoy reading this edition.

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Is off-the-plan on the money?

With rising house prices, is buying off-the-plan for capital growth a good idea? When it comes to property investing, or any investment, there's no such thing as a free lunch.

AMP Capital's Dr Shane Oliver suggests going in with your eyes open.

Reasons to buy off-the-plan

Benefits can exist in buying off-the-plan if you do your homework and are not buying at the top of the market.

First-home buyers can potentially get into the market and for investors it's not a bad way to build a portfolio, particularly if buying at a discount.

1. Potentially pick up a bargain

To get a bank loan, developers often have to show interest in the property. They also like a degree of certainty before starting the development, and they'll try selling a number of properties off-the-plan. You may be able to get a good price and may only need a small deposit, like 10% or so. Depending on your lender, you may not need a deposit if you guarantee the property against other assets.

2. First-home buyer advantage

Benefits of buying off-the-plan vary state to state and can depend on whether you're a first-home buyer. There are stamp duty concessions in most states and if you're a first-home buyer, you might get a grant if it's a new development.

3. May be other incentives

Some developers provide short-term rental guarantees to attract buyers. And some allow for custom colour schemes, fixtures, fittings and appliances.

Reasons to think again

It usually means taking more risk than if you buy an established or completed building.

1. Unpleasant surprises

You can't inspect an off-the-plan property. If something goes wrong during the build—interest rates rise or banks cut back financing—it can create financial problems. Developers can fall over when the market crashes and the building may be completed years later or never get off the ground.

Check your developer:

- has sound financing
- doesn't have too much short-term debt
- has a good track record.

And assuming the development is finished, it:

- may not be what you thought - and getting the developer to fix defects could be hard
- might be harder to rent despite seemingly attractive short-term rental guarantees.

2. Better return elsewhere?

You may pay more up front for established dwellings, but you're potentially earning rent from day one. Even when you're earning rent, the net rental yield can be less than you might imagine once you factor in costs. In late 2014, the typical net rental yield was around 1-2%[i].

Like other investments (aside from cash in the bank), you're likely to be liable for CGT on selling, assuming there's a profit.

3. Property may fall in value

If not completed for a while after you agree to buy, you risk it being worth less than you agreed to pay for it.

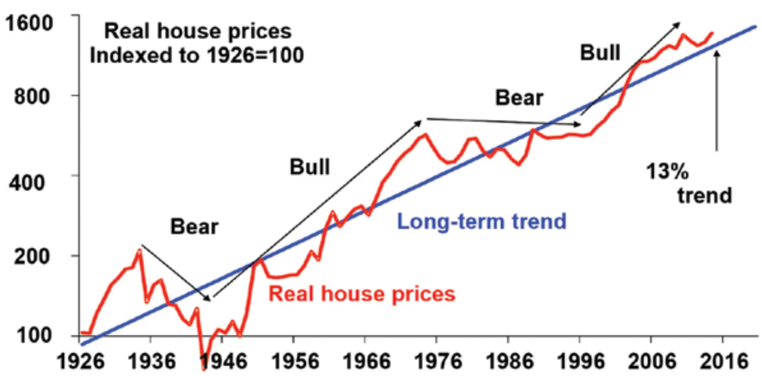
Home prices are rising for many reasons, including low interest rates and greater buyer confidence, plus high demand relative to supply.

Although likely to continue rising for a while, there'll come a time (likely 2015) when the Reserve Bank will start raising interest rates - and this will act as a dampener on the property market.

The past few years saw two significant downturns when home prices fell on average between 5% and 10%— after the GFC and through 2011-12[i]. Riskier developments would have experienced greater falls.

Before buying off-the-plan ask your adviser for help to understand potential benefits and downsides.

Australian house prices relative to their long term trend



Source: ABS, AMP Capital

Intergenerational wealth transfer

Intergenerational wealth transfer – or in simpler terms, passing on assets to your family, can be, and often is, a huge issue for all family members concerned. If done well and executed properly, it can make a real difference to the financial position of the recipients. If misjudged or poorly handled, it can cause enormous grief, fights and resentments that are never forgotten nor forgiven.

What's involved?

The first step you should to take, is to go through the process of making a will, which is a legal document that enables you to say who gets what after you die. Without one, your estate could go to people you wouldn't want it to. Indeed, in the absence of a will, and any relatives, your estate may end up going into the public purse.

Given the importance of a will in seeing your family receive what you want when your estate's distributed, incredibly, it's estimated that nearly half of all Australians die without one.[i] This is even more surprising when you realise a will can be a fairly simple document to draw up, and generally doesn't cost much. Having a solicitor draw one up for you will ensure it's properly completed and worded, and is less likely to be successfully contested by anyone who believes they haven't received their fair share of the pie.

Naturally, there's not much point in having a will if no one knows where it is. Make sure one copy is in a safe place for yourself, and keep another copy with your executor and/or solicitor.

Wealth transfer during your life

While having a well-considered and properly drawn up will is a necessity for anyone serious about achieving good outcomes, you don't have to wait until you die before distributing your wealth. – You can pass on assets while you're alive, though note, there may be some pitfalls involved, depending on your circumstances.

Firstly, you need to ensure that by giving your capital or assets away you're not going to leave yourself short-changed, particularly if you live longer and have greater aged care costs to deal with than anticipated, which is not unlikely.[ii] You really have to consider closely whether you can afford to pass on the assets you would like to while you're alive.

Secondly, if you give away assets worth more than $10,000 in one year or more than $30,000 in five years, anything above those limits, under so-called 'deprivation' rules, are still counted as belonging to you, for up to five years – and this can negatively affect your Centrelink aged pension and aged care entitlements. We recommend you speak with your financial adviser if you might be at risk.[iii]

There may also be costs involved in the transfer, such as capital gains tax and stamp duty. Make sure you speak to your accountant before making any decisions.

Other considerations

With intergenerational wealth transfer there are other issues to consider in addition to the ones above. These include:

- what tax implications there may be for your beneficiaries (some assets may be passed down with a potential capital gains tax liability or a superannuation death benefit tax attached – which affects their ultimate net value)
- what your beneficiaries really want (one child may want your shares, the other may want your old Jaguar)
- which of your beneficiaries may be 'at risk' (for example, your daughter's marriage could be looking shaky, which could see part of her inheritance from you end up in her ex partner's hands).

These and other matters can be addressed through some key steps including open family communication, the use of testamentary trusts if required, a binding nomination on your super and a good will. Much of intergenerational wealth transfer will involve input from your solicitor, however for an area as important as this, a lot of very useful advice and help can be provided by your financial adviser.

i https://www.moneysmart.gov.au/life-events-and-you/over-55s/wills-and-power-of-attorney

ii http://www.legalanswers.sl.nsw.gov.au/guides/wills_estates/intestacy.html

iii http://www.humanservices.gov.au/customer/enablers/assets/gifting

Make your own plans for aged care

It can be tempting to put off thinking about aged care. When you're busy enjoying life in the present it can be challenging to find the time or desire to think too far ahead. But the key to successful ageing is having a sense of control—and when it comes to control, planning ahead is essential.

When's the right time to start planning?

Considering your aged care options when you plan for retirement is probably a good idea. It may seem too early to think about a future you can't imagine, but the reality is, and experience has shown, that it's probably too late to consider aged care when the need for it has actually arrived.

If you—or your family—need to decide about aged care suddenly the added emotional stress and working a way through the process can make finding an agreeable solution seem impossible.

By thinking ahead early you can consider alternative options, seek appropriate advice and put plans in place - then you can move on to enjoying your retirement.

Can you stay at home for longer?

The 'Living Longer Living Better' Federal government reforms encourage older people to stay at home longer, before having to enter residential care, by providing low-cost home care packages.

Home care packages

The services provided include:

- transport for shopping and appointments
- social support
- personal care
- food services
- domestic help with household jobs
- home and garden maintenance
- home modifications
- nursing care
- medical assistance.

If a home care package is something you're interested in, find out if you're eligible by reading more at

http://www.myagedcare.gov.au/home-care-packages.

Paying for aged care

When the time does come to move into residential aged care the associated costs will be determined by a means test applied to your personal income and assets, including the family home[1].

Homeowners with insufficient cash to cover the cost of aged care accommodation are tempted to sell or rent out their property[2]. For example, if they rent out their home, a combination of rental income and part-pension may provide enough money for living costs, while preserving the family nest. Selling up on the other hand, could reduce an individual's pension entitlement if the value of the home far outstrips the cost of care.

It's really important to seek financial advice on what the best option is for you so you can make sure you're living the best life you can whether it's in your own home or residential care.

1 http://cuffelinks.com.au/face-aged-care-changes-now-face-higher-costs/

2 https://www.moneysmart.gov.au/life-events-and-you/over-55s/aged-care