Newsletter - February 2015

With interest rates at record low levels, now is a great time to review your existing structure or apply for that new home loan. Speak to us to arrange a free consultation and unbeatable interest rates!

In this edition of our client newsletter we've gathered some key insights and commentary to help inform 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.

Parkworth Financial Solutions

Suite 2201, Level 22,
Westfield Tower 2,
101 Grafton st,
Bondi Junction NSW 2022

P 1300 660 236
E andrew@parkworth.com.au
W www.parkworth.com.au
Facebook parkworth
Twitter parkworthfs

Investing in a holiday home

Is it really your great Aussie dream?

It happens every year. You're strolling down the high street of your local beachside town enjoying a long hot summer with the family when a holiday home in the real estate agents' window catches your eye.

And you start thinking: "If we had our own place, we could go there all year 'round and instead of contributing to someone else's financial future we could be contributing to our own".

It's a tempting thought.

That was then...this is now

In days gone by, a second home by the sea might only have been a glorified shack with an outside loo, but it was an integral part of the Aussie dream. And it was pretty cheap so it didn't break the bank.

But fast forward to the present day and you'd be hard pressed to find many cheap and cheerful beach shacks anywhere near a major city.

These days, a holiday house is a major financial investment that's got to work over the long term. And if you're like most Australians, any major financial investment becomes an emotional investment too.

The great dream...

- **It'll be great for the kids**—they will love it and the memories will last a lifetime!
- **It'll be great for your sense of freedom**—you can transform it into the holiday home of your dreams!
- **It'll be great for cash flow**—you could receive a regular income from tenants.
- **It'll be great for your tax bill**—your tax deductions will mount up.
- **It'll be a great way to make money over time**—you could be looking at a decent capital gain if the value of your holiday home increases.

...versus the reality

Before turning your dream into a reality, you should ask yourself what owning a holiday home will **really** be like.

- **Do you want to go on holiday to the same place every year?** Young kids will enjoy the routine. But think about when the kids are older and looking for more cultural experiences.
- **Will you be able to improve the property?** Many holiday homes are part of a body corporate, so:
  - you may not be able to renovate or redecorate easily
  - the value of your property could be affected by other owners.
- **How easy will it be to attract tenants?** Unlike a permanent rental, occupancy rates can fluctuate throughout the year, depending on school holidays, long weekends, public holidays and summer. Plus external factors can also affect bookings, like economic downturns and the high Aussie dollar. So you should ask yourself how attractive the property will be to prospective holiday makers:
  - Is it within driving distance of a major city?
  - Is there a nearby airport?
  - Is there an oversupply of similar properties in the area?
- **What are the running costs?** Although many of these are tax-deductible, your rental income could be swallowed up by:
  - cleaning costs every time a tenant leaves
  - body corporate fees
  - agents' fees
  - marketing costs
  - utility bills
  - general upkeep.
- **What sort of capital gain could you be looking at?** Holiday regions can be the first to suffer and the last to recover when the market turns. So it's best to do your homework, buy in the right area and hold onto the property for long enough. And don't forget about stamp duty when you buy the property and capital gains tax when you sell.

A holiday home isn't for everyone. If all you're worried about is your return, there may be better ways to invest your money—a city apartment with a permanent tenant or Australian shares with franked dividends are just a couple of examples.

But if you're looking for a family getaway that will leave your kids with wonderful memories, plus the opportunity to reduce your tax bill, receive some ongoing income and benefit from a potential long-term capital gain, a holiday home could be for you.

Making the decision to buy or not to buy can be complex, so it's important to talk to your financial adviser or mortgage broker before you take the plunge.

Grandparents unsung childcare heroes

It's meant to be a time to kick back and pursue all those interests you put aside while you worked and raised a family. But increasingly, grandparents are being called on to fill the gaps in Australia's formal childcare system while their adult children go out to work.

Grandparents provide a staggering 23 per cent of all childcare to children under 12 in Australia, according to a recent AMP NATSEM report.[i] The figure is even higher for pre-schoolers because of the high cost of formal childcare and restricted opening hours.

And in a small but growing minority of cases, grandparents are the sole carers of their grandchildren. For the estimated 63,250 grandparents in this position, the financial burden can put severe strain on their limited retirement income.[ii]

Know your limits

In most cases though, grandparents are only too happy to help out for free and regard looking after the grandkids as a joy, not a burden. But it seems joy has its limits.

According to research from the University of Melbourne, older women who took care of grandchildren one day a week had better memory and faster cognitive speed than those who didn't.[iii]

The study found that good social, emotional and mental health are associated with reduced likelihood of getting Alzheimer's Disease. Lively grandchildren certainly provide all these benefits in spades. But so does a game of bridge or a day out sailing, and these activities are arguably less taxing than chasing after a two-year-old.

Indeed, the Melbourne study also found that women who cared for grandchildren five or more days a week had significantly less processing speed and planning scores, possibly because they felt exhausted. These women were more likely to report anxiety and stress because they felt their children were being demanding.

A difficult dilemma

Ian Yates, of national seniors advocacy group COTA Australia, says this poses a difficult dilemma for grandparents who often feel they are not living the life they thought they would.

"We find that some grandparents, usually the grandmother, stop work to look after grandchildren so their children can go to work. Premature departure from the workforce is not good for your physical, mental or emotional health", he says.

Arguably, it is not good for your financial health either. This is especially so at a time when governments are winding back pension entitlements and encouraging everyone to stay in paid work for longer.

So what can grandparents do to strike a balance between helping the family and enjoying an active retirement?

- Have a conversation. Right from the start you need to have an explicit conversation with your children to set out what you do and don't want to do. Unless you speak up they may not know when you feel your time is being encroached upon.
- Look for alternative solutions. Is there another set of grandparents or family members who can help out? If formal childcare is not flexible enough, perhaps some paid home-help could step in for a day or two during the week.
- Put your own health first. Prevention is the best medicine for healthy ageing, so make sure you know your physical and emotional limits. Minding children five days a week is stressful, even for young parents, but especially when you are trying to juggle other activities in your life.
- Spending time with the younger generation, free of the demands of parenthood, is one of the perks of being a grandparent. But care needs to be taken that it doesn't become an imposition on the older generation, their health and wellbeing and their hip pocket.

i. AMP NATSEM 'Childcare affordability in Australia', June 2014, page 7, http://www.natsem.canberra.edu.au/storage/AMP_NATSEM_35.pdf

ii. 'Grandparents need greater help for shouldering primary responsibility for primary care of grandchildren', COTA Australia, 2 April 2014, http://www.cota.org.au/lib/pdf/COTA_Australia/publications/media_releases/cota_mr_grandparents_020414.pdf

iii. "Grandparenting keeps the wheels turning', http://newsroom.melbourne.edu/news/grand-parenting-keeps-wheels-turning

Australia's growing population. Get ready.

There are 5.2 million boomers in Australia born from 1946 to 1964. This compares with six million generation Xers born between 1965 and 1983. Generation Y, born across the 18 years to 2002, is expected to peak at about 7.4 million next decade.[1]

With Australia's population expected to swell by mid-century and the first wave of baby boomers reaching retirement, building up the nest egg has become more important than ever.[2]

Late boomers, generation X and Y have contributed to their superannuation fund for most of their working lives and are expected to be largely self-funded in retirement from the mid-2020s onwards. However, there is a large gap for the baby boomers retiring now between the superannuation they have and the amount they need for retirement. Either generation X and Y will be forced to support them in the form of more taxes, or Australia will need to import more taxpayers to spread the load.[3]

Generational financial strategies

Each generation has its own financial challenges and strategies vary depending on the stage of life people face.

Age 25–35	With a higher disposable income and less family expenses, this is a good time to accumulate assets.
Aged 35–45	Paying down the mortgage and increasing home equity is the focus.
Age 45–55	Now is the time to shift focus to extra contributions to the retirement nest egg. Debt elimination remains a priority.
Age 55–65	Preservation of investment capital becomes more of a priority in addition to accumulation of capital. The last years of work should be devoted to topping up superannuation contributions.

Source: 'Super success achieved in stages;, 28 July, 2013, The Sydney Morning Herald, viewed 15 November <http://www.smh.com.au/money/saving/super-success-achieved-in-stages-20130727-2qrl9.html>

Market conditions

Whether the retirement age should be lifted to 70 along with compulsory superannuation being increased from 9.25% to 12% are among the policies being explored[4] to cope with a "big Australia". The Australian Bureau of Statistics recently projected the population would surge to 38 million by 2051.[5]

The future for Big Australia

A chart that featured in a November 30 article in The Australian by demographer Bernard Salt shows two possible pathways beyond 2012. One assumption puts net overseas migration at 140,000 a year and the other at 240,000 a year. The second chart shows the net addition to the retirement population averaged about 40,000 a year between 1950 and 2010. From 2010, more than 100,000 people annually joined the retirement ranks, with the number tipped to rise to 140,000 a year.

Salt argued net overseas migration of 242,000 people a year in the next 40 years could provide the skills and tax required to support the transition of baby boomers into retirement. Government spending across housing, health, infrastructure and pensions will have to increase further to accommodate greater boomer numbers.

Whatever stage you are at in your life, there is never a better time for you to plan your future. Speak to your adviser to see how they can help.

1 'We are at a population tipping point', 6 December, 2013, The Australian Financial Review, viewed 15 November, 2013 <http://www.afr.com/p/opinion/we_are_at_population_tipping_point_UgHzGKQHcuJs2ihM9QR9kl>

2 ibid

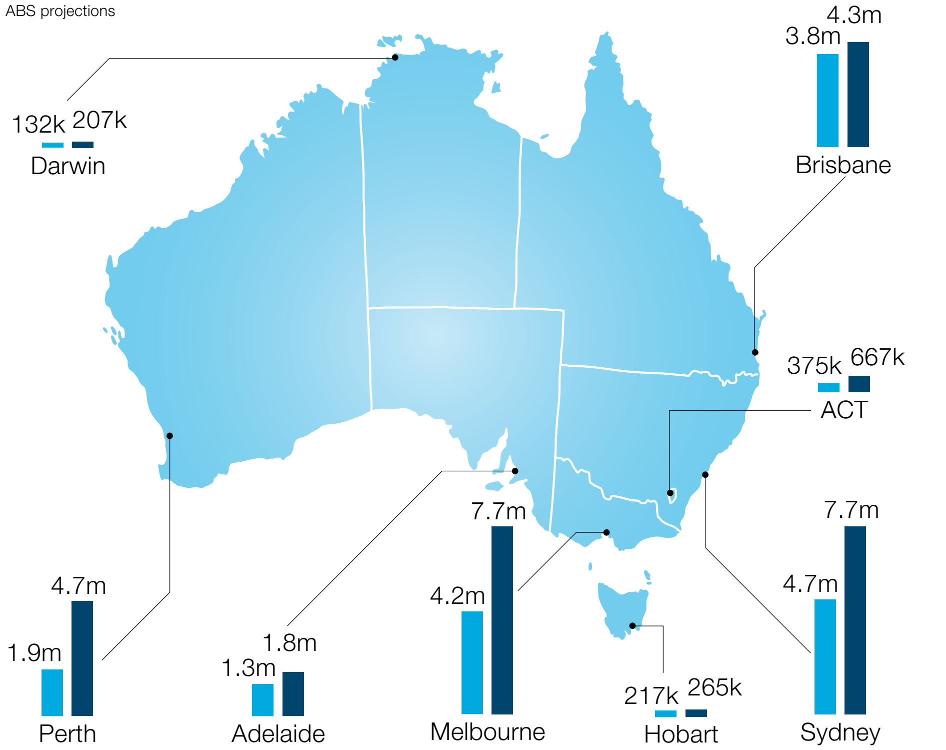
3 ibid

4 Commonwealth Government – Department of Treasury

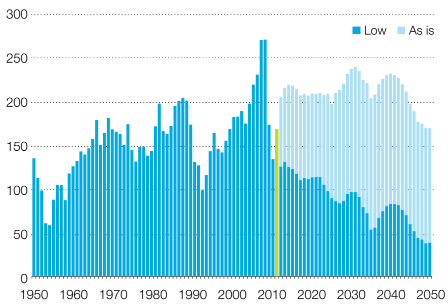
5 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/3222.0main+features52012%20%28base%29%20to%202101

Pathways to a Big Australia

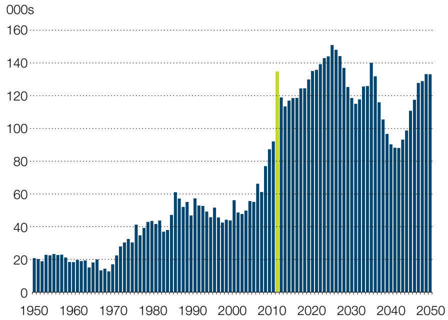
Population 2013
Population 2051 (2013 release)
ABS projections



Propping up the worker base
Net growth in working-age (15-64) population
000s



The Retirement Tsunami
Net growth in population aged 65+
000s



Source: ABS; KPMG. Moment to find our bearings on the road to bigger things', 30 November, 2013, The Australian, viewed 15 November 2013 http://www.theaustralian.com.au/business/opinion/moment-to-find-our-bearings-on-the-road-to-bigger-things/story-e6frg9jx-1226771686987#