Parkworth
FINANCIAL SOLUTIONS

Newsletter December 2014

Welcome to the latest edition of our client newsletter!

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

If you have any questions or enquiries about any of the articles in our newsletter, or any other financial planning topic, don't hesitate to contact us on 1300 660 236.

We wish you a Merry Christmas and a wonderful 2015, we hope you enjoy reading this edition.

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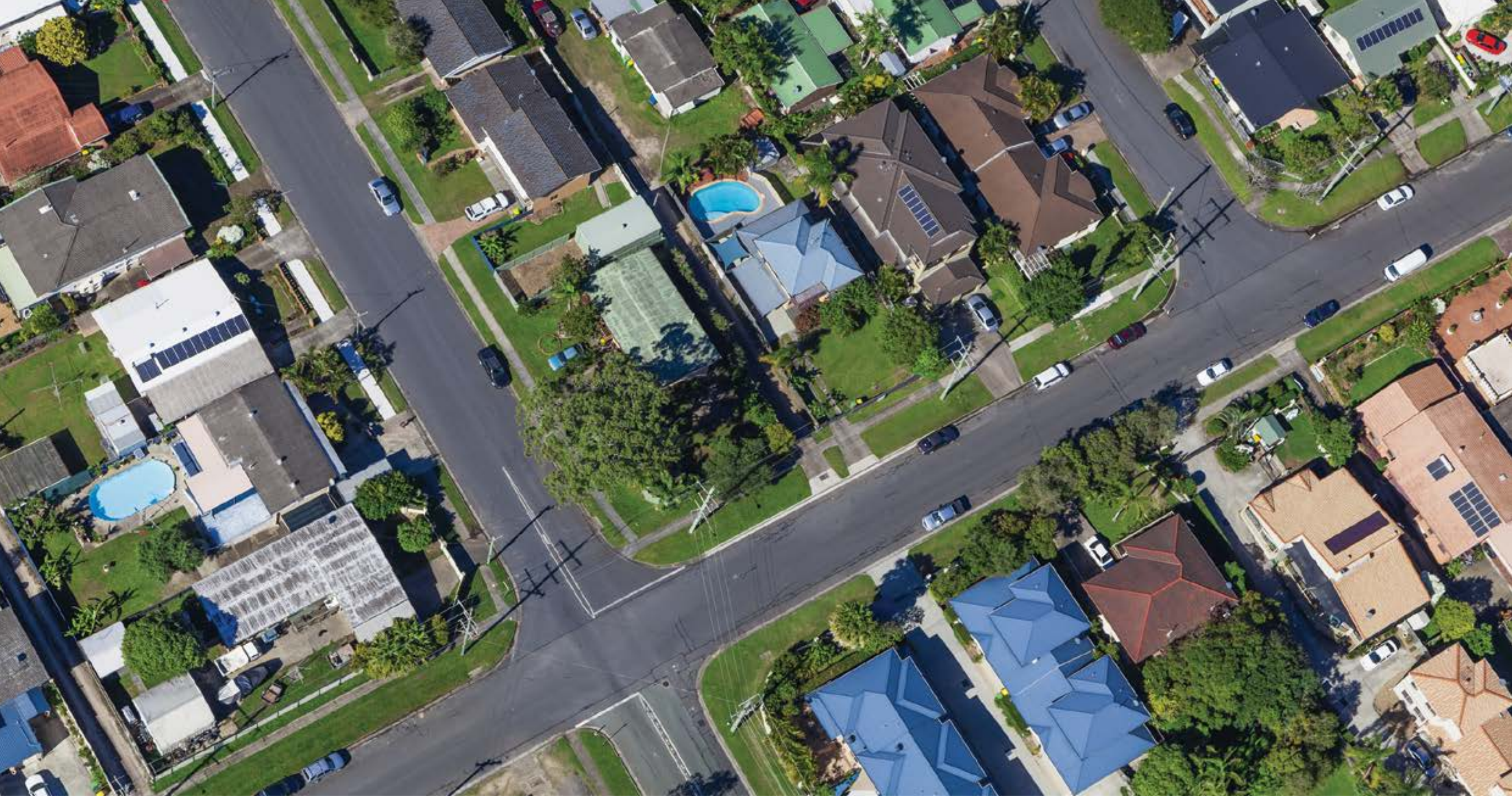


House price growth predicted to fade in 2015 after a solid spring

Domain Group Senior Economist Dr Andrew Wilson says capital city house prices are set to grow by an average of 5% over the 2014/15 financial year, with Sydney and Brisbane leading the way.

Australia's capital city housing markets have performed solidly through the winter of 2014 with the prospect of a generally robust spring selling season ahead.

House price growth will, however, be mixed over the remainder of 2014 and into 2015 as the waning effect of historically-low interest rates and underperforming local economies impact home buyer activity.

Housing revival in 2013-14

Low interest rates have been a key catalyst in the revival of housing markets over the 2013-14 financial year with the sharp improvement in affordability releasing pent-up demand and pushing up house prices in all major cities.

Over the past year, prices growth has however varied significantly between capitals with Sydney the clear leader, recording boom-time, decade-high results. Melbourne produced relatively strong house price growth while Brisbane, Adelaide, Perth, Hobart and Darwin all saw moderate outcomes. Canberra has been the clear national underperformer with flat prices growth recorded over the year.

Price growth has softened from the peak December quarter results and annual capital city performances for 2014 are set to converge to relatively similar levels.

2014-15 property outlook

Sydney and Melbourne will record significantly lower levels of house price growth over the 2014-15 financial year compared to the strong results of the previous year. As a consequence of underlying flat income growth, rising affordability barriers will act to generally constrain price growth capacity.

Meanwhile, Adelaide, Brisbane, Hobart and Darwin are set to record moderate house price over the 2014-15 financial year, producing similar results to the previous year.

Factors influencing the housing market

The performance of the national economy remains problematic with stubbornly high unemployment and low income and profit growth.

The likelihood of an improving international economy will bolster Australia's economic prospects, however, the disparity between local multi-speed economies will continue to hamper housing markets exposed to higher levels of unemployment and lower growth.

The short-term outlook for interest rates is most likely to remain at current levels, however, the continued underperformance of the national economy will facilitate an outside chance of another rate cut by year's end, particularly if unemployment keeps rising. Currently, there is no compelling macro case for a rise in official interest rates over the foreseeable future.

Regardless of lower interest rates, either through official cuts or intensifying competition amongst banks, the offsetting forces of declining economic activity and rising affordability barriers will act to generally moderate house prices growth.

For the 2014-15 financial year, capital city house price growth will peak over the spring period with buyer activity set to fade overall into 2015. Local prices are set to broadly increase between 3 and 6 per cent over the 2014-15 financial year.

Accordingly, the national house price will increase by 5 per cent over the 2014-15 financial year compared to the 10.3 per cent recorded over 2013-14.

Am I too young for a self-managed super fund?

If you're under 55 and thinking about setting up a self-managed super fund (SMSF) you're not alone. SMSFs are being established by younger Australians wanting greater control over their super. In March 2014, younger people represented 75% of new SMSF members[i].

Before deciding if an SMSF is right for you, consider some of these important questions.

How much do I need?

Consider how much you'll have if your super is combined with other potential fund members. And keep in mind that if your combined balance is less than $200,000 the ATO suggests an SMSF may not be the most cost-effective option. When compared to fees in other funds, SMSFs may cost more.

What age do I need to be?

You must be 18 years or over to be a trustee of an SMSF. People under 18 can be SMSF members, but conditions apply, for example a parent of a younger member may need to act as their trustee. Generally, all members must be trustees of the fund. They have legal obligations and are responsible for the management and decisions of the fund.

If you're under 55 you or your spouse may be actively contributing to super and ideally have considerable super assets already. If you've also gathered investment knowledge and experience along the way, it'll come in handy if you decide to manage your own fund.

What are the risks?

Generally the risks come with the increased responsibilities you'd have as an SMSF trustee.

Running an SMSF means you, along with the other trustees, will be responsible for all decisions regarding investments and activities of the fund.

If you're pretty savvy with investing you may like the idea of selecting and managing investments from asset classes across the world. But the risk is your fund's investment performance will ultimately rest with you and your fellow-trustees.

One of the most important duties of an SMSF trustee is to keep abreast of superannuation laws and understand how they'd be applied to you and your fund. Penalties for breaches were introduced on 1 July 2014 and can be applied to trustees (corporate or individual) but can't be paid with SMSF monies. That means you could be personally liable for a penalty if your fund is found to be in breach.

What are the opportunities?

You can pool your superannuation with up to four family members (including yourself). While this provides the opportunity for costs savings—the bigger the fund balance the greater the potential for savings—but you also have full transparency of all the costs and returns for your super. That can help you manage your tax effectively too; another benefit of an SMSF.

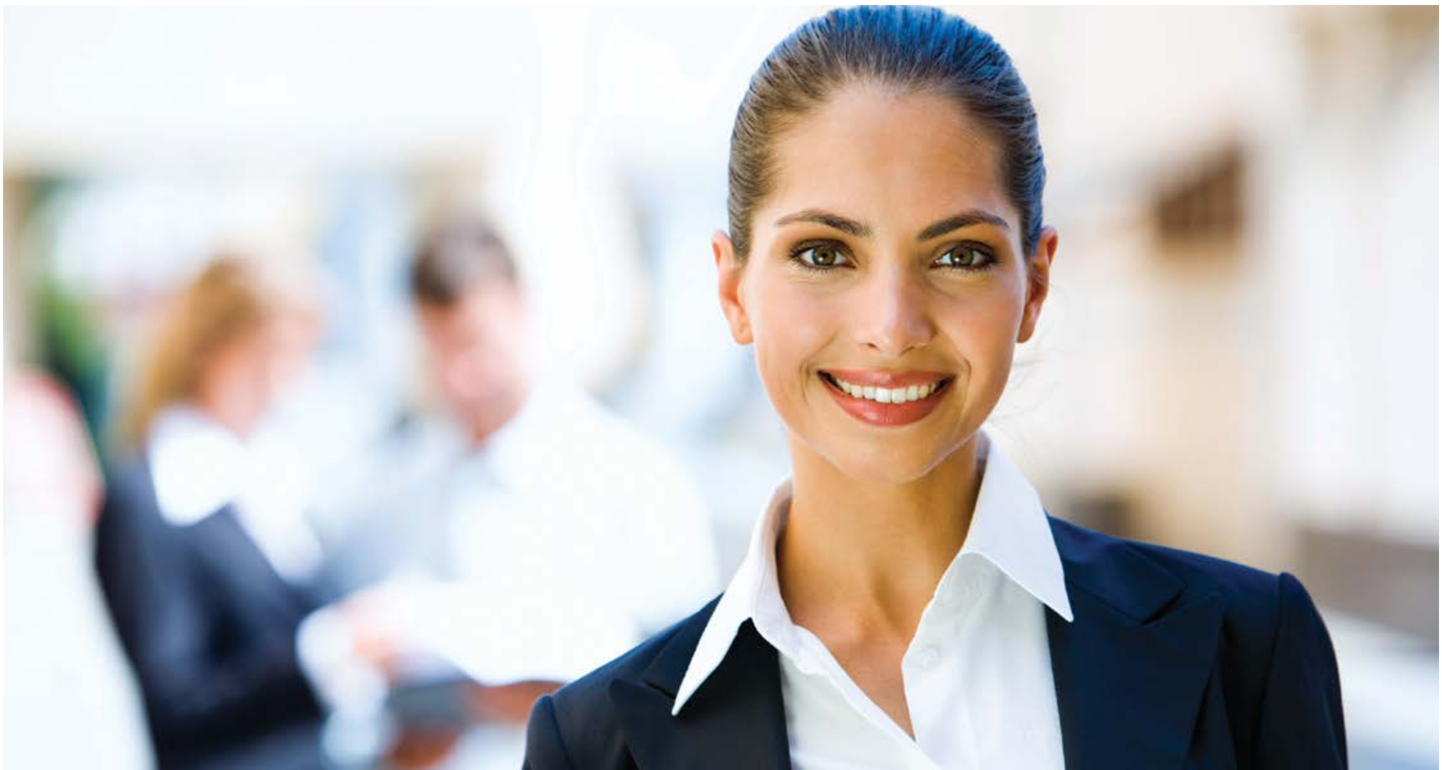
An SMSF gives you investment flexibility too. So not only can the fund invest in direct property, both residential and commercial, it can also borrow to invest. If you are a business owner your SMSF has the potential to buy premises you can lease back. Special rules apply so make sure you seek advice.

When it comes to accessing your money down the track—and how you'll hand down your assets when you die—you have several options. It's another area where you'll benefit from gaining specific advice.

What next?

Before setting up an SMSF look into all your options. There are ways to manage the administration without using up all your spare time and your adviser can discuss this with you. You'll need to carefully consider your strengths and weaknesses and those of each trustee too, as well as the stage in life of each to make sure it's going to benefit all parties.

i. Those aged under 55 years establishing an SMSF, ATO Statistical Report March 2014.



Fight for the fittest

– Insurance discounts for the active

Rupert Murdoch wears one, so does Gwyneth Paltrow. Wearable fitness devices are the latest must-have accessory for health conscious media moguls, celebrities and ordinary Australians. So it was only a matter of time until health insurers got behind the trend.

Some major health funds have recently launched campaigns to attract new members by offering them free fitness-tracking devices. Wristbands such as Fitbit, Polar Loop, Jawbone and Vivofit, which normally retail for more than $120, are among the wireless activity trackers insurers have been giving away to lure policy holders.

These high-tech accessories not only count distances walked or run and calculate calories burnt, but some of them also measure heart rates, blood oxygen and glucose levels. The data is transferred to a smart phone or PC, where it is logged and analysed to give a general indication of wellbeing.

While gadget giveaways may seem like a gimmick, it's not surprising that insurers are encouraging members to be more active and monitor their own progress rather than rushing to the doctor as their first line of defence.

A growing problem

Although Australians are among the world's most long-lived individuals, with a life expectancy ranked in the top ten out of more than 200 nationalities,[i] there are growing concerns that our Western lifestyles are contributing to soaring obesity rates and chronic illness.

Obesity can precipitate diabetes, stroke and heart disease, which in turn creates a significant burden on health systems struggling to treat an ageing but increasingly unhealthy population. Treating diabetes alone costs more than $10 billion a year and 10 per cent of that is estimated to be related to obesity.[ii]

Currently, about a quarter of Australians are classified as obese, but this figure is forecast to rise sharply to two-thirds of the population in a decade's time, if sedentary lifestyle habits persist.[iii]

Health authorities estimate that treating obesity-related conditions costs the economy almost $57 billion a year.[iv] With obesity also affecting 25 per cent of children, the future of healthcare looks costly and unsustainable.[v]

It is no surprise then that governments are scrambling to limit costs in the face of an increase of almost 75 per cent in health funding over the past decade.[vi] Australia spent $147.4 billion on health in 2012-13, almost 10 per cent of the nation's economic turnover.[vii]

Focus on prevention

Faced with the rising cost of hospital care, health insurers are doing their bit to encourage Australians to remain healthy with a range of incentives including mobile apps and online exercise and dietary programs as well as free fitness tracking devices.

One innovative fund[viii] will soon offer members a free support program to help those who have been discharged from hospital to manage risk factors associated with their illness and hopefully keep them out of surgery in future.

The program provides over-the-phone assistance with medications, guidance on increasing activity levels and tips on maintaining a healthy weight.

Other fitness-related giveaways to those who sign up include vouchers in the hundreds of dollars for fitness products such as running shoes, discounts on big brand vitamins, gym memberships and weight control programs.[ix] One fund has even offered a separate policy which provides rebates on the cost of gym membership, sports gear and bike repairs.

Reducing health costs

While the business case for insurance companies to control costs is compelling, it is even more so for individuals whose out-of-pocket expenses as a proportion of total health funding, at 17.8 per cent, are high by international standards.[x]

Perhaps keeping tabs on your personal fitness could be the best insurance against big medical bills and poor health. But before switching funds based on a special promotion, shop around for the policy that best meets your needs.

i http://www.health.qld.gov.au/epidemiology/documents/burden-disease-study.pdf

ii http://www.diabetesaustralia.com.au/Understanding-Diabetes/Diabetes-in-Australia/

iii https://www.nhmrc.gov.au/your-health/obesity-and-overweight

iv https://www.nhmrc.gov.au/your-health/obesity-and-overweight

v http://www.theaustralian.com.au/news/features/how-did-our-kids-get-so-big-so-quickly/story-e6frg8h6-1226934386998

vi http://theconversation.com/tough-choices-how-to-rein-in-australias-rising-health-bill-13658

vii Australian Institute of Health and Welfare, http://www.aihw.gov.au/media-release-detail/?id=60129548933

viii http://www.frankhealthinsurance.com.au/member-area/health-programs

ix http://www.bupa.com.au/health-insurance/switch-to-bupa

x http://www.smh.com.au/federal-politics/political-news/governments-spend-less-on-health-while-outofpocket-costs-highest-in-a-decade-20140923-10kerb.html