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FIRST HOME | Help to get you through the front door

Housing account will lift returns

ANTHONY KEANE
SMART MONEY EDITOR

SPECIAL savings accounts for first home buyers will be introduced in two months but financial experts say discipline and planning can't be replaced as the best tactics for making an entry into the property market.

According to financial experts, the Federal Government's first-home saver accounts, set to start on July 1, will not fix Australia's growing housing affordability problem. They will, however, offer incentives to save, such as lower tax on account earnings and an annual government contribution of up to \$1500.

"These accounts are designed to help Australians increase their savings via a superannuation-style investment account which helps maximise savings through government contributions and tax breaks," said Bourke Shaw Financial Services principal Lawrence Orlando.

He said the accounts should be offered by banks, credit

unions, building societies, some superannuation funds and life insurers.

"An initial contribution of \$1000 will be required to open the account and these funds can be from parents, relatives, their employer or friends."

PAGE 34: Build a deposit

Adelaide accounting firm William Buck says while legislation for the accounts has not yet passed through parliament, the rules will include: A MAXIMUM deposit of \$10,000 each year.

GOVERNMENT contributions based on deposits up to \$5000 and the saver's marginal tax rate, which would deliver \$750 to someone on the typical 30 per cent tax rate and \$1500 for those earning more than \$180,000 a year.

INTEREST on the account earnings taxed at just 15 per cent rather than the person's marginal tax rate.

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FOCUSED: Jon and Bridgette Munn, recent first home buyers.

Picture: GREG HIGGS.

Simple plan a sure-fire winner

SAVING for their first home did not mean sucking the fun out of life for Jon and Bridgette Munn.

The Windsor Gardens couple moved into their three-bedroom house in January after two years of saving and sensible spending. Mr Munn said their social life did not suffer and they still managed a honeymoon in Malaysia and a six-week holiday in Europe.

Their strategy was "nothing earth-shattering", said Mr Munn, 27.

"As soon as we had money in our bank account we put it straight into a high-interest account. Whenever we got a lump sum like a tax return, we would put it straight into that high interest account. If it's out of the way, you are less likely to spend it," he said.

"We have never had any credit cards, either."

Other saving strategies included shopping just once a week and always using a shopping list, taking a packed lunch to work almost every day, and cooking meals at home most weeknights.

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PROPERTY POWER | Experts reveal strategies for first home buyers to hit their savings target for a six

Start now and clear your financial path

ANTHONY KEANE
SMART MONEY EDITOR

DAUNTING as it may feel when put to the task, saving enough money to buy a first home is the best financial move most people can make.

With house prices doubling on average every 7-10 years and more quickly in boom times such as those South Australia has enjoyed recently, home ownership delivers tax-free capital growth and a platform for building wealth through other investments.

Soaring house prices and rising rents are two factors making it difficult for renters to become buyers, but lenders and financial planners say that with discipline, planning and a little knowledge, home ownership can be achieved.

Christine Stavrou, 30, is an example of how discipline can reap rewards.

She started saving for a house using term deposit accounts when she was a 16-year-old – that's 14 years ago – and last month settled on her first home, at Prospect, with a deposit of 20 per cent.

"It comes down to how well you can budget and where you spend your money," Miss Stavrou said.

Smart Money asked a range of SA financial experts to share their top tips to help save for a first home.

START NOW

Hilross financial planner Lee Virgin said the most important message was to begin saving as soon as possible.

"Time is the only cure. The sooner young people set a goal and establish a plan the better chance they have of achieving it," he said.

"Investing without knowing what you want to achieve is a bit like driving a car without knowing where you want to end up. Investing only really makes sense if the people investing have some purpose in mind."

Mr Virgin said the first step was to work out the amount needed for a deposit to buy a home.

National Australia Bank state general manager retail banking, Ann-Marie Chamberlain, said it was much easier to save if you make an effort to develop a savings "action plan".

"This involves working out how much you're going to set aside each week or month, directing funds to a savings account where your money will work for you, and putting systems in place to make it easy to save," she said.

"When you buy a home, you need to make regular mortgage payments, so saving is a good way of getting into practice."

CLEAR DEBTS

Community CPS Australia general manager member services, Daryl Bateman, said an important early step was to clear credit card debt.

"Credit cards can be an expensive means of borrowing and you should eliminate credit card debt if you are serious about your savings plan," he said.

There is little point earning 7 per cent on your money from a high-interest savings account when you are being slugged 17 per cent for amounts outstanding on your credit card.

Ms Chamberlain said that other debts, such as personal loans, should also be eliminated.

BUDGETING

A budget could help people identify how much they could save, Ms Chamberlain said.

"By working out how much you need to spend each month on bills and living expenses, you'll be in a better position to calculate what disposable income you have left and what portion of that can be saved," she said.

"While you may need to cut back on discretionary spending, it's important to be realistic and allocate some money for lifestyle expenses and having fun.

"If you make too many drastic changes to the way you live it may become too tempting to throw away your savings plan and spend all that hard-earned money instead."

Financial Planning Association state chairwoman Kerrin Falconer said while a budget might be tough to stick to and it was easy to get sidetracked, savers should keep a picture of their own home in mind to help stay focused.

"If you draw up a budget that saves a certain amount of money each week in a high-interest savings account, you will be amazed at how quickly these funds can accumulate," she said.

Bourke Shaw Financial Services principal Lawrence Orlando said developing good saving habits, sticking to a budget and being disciplined were the three keys to achieving the goal of home ownership.

OUT OF SIGHT . . .

One of the most effective ways to save quickly is to divert your money before you get a chance to spend it.

William Buck business advisory manager Tom Laundry said a good idea was to have a percentage of your salary – perhaps 30 per cent – sent to a different savings account and which could be used to build your deposit.

"Be disciplined and eliminate any unnecessary expenses. For example, reduce the size of your mobile phone bills," he said.

Mr Bateman said other small sacrifices – such as using public transport and taking lunch to work – also helped.

He said people should familiarise themselves with other financial incentives, such as the \$7000 first homeowners grant, and understand costs such as borrowing fees and conveyancer costs.

"A good financier should willingly provide you with guidance and advice in planning for these and other ongoing costs of first home ownership."

HIGH-INTEREST ACCOUNTS

Unless you don't mind the volatility of the share market and don't plan to buy a home for at least five years, the best place to park your savings is in a high-interest deposit account.

Interest rates on term deposits and online savings accounts have climbed rapidly in the past year because of a combination of rising official interest rates and banks lifting deposit account interest rates independently in an effort to attract more customers.

Mr Virgin said future home buyers could be doing much more with their money than leaving it in a regular everyday transaction account, which often had an interest rate near zero.

"Even if there is only a small amount of money to save from a pay packet each week, an additional savings account can help people stay on track by separating their savings plan and, with lots of high-interest, no-fee options available, now is a great time to find a better deal and watch those savings grow," he said.

TURBO-CHARGED SAVINGS

Those with a higher tolerance to risk and a longer savings time frame can look at shares, managed funds and borrowing to invest. Shares have historically outperformed all other types of assets over the long term but have much greater volatility. Just look at the downturn since last November.

Mr Virgin said there were thousands of managed funds in Australia that catered for many types of investors.

He said margin lending – a form of borrowing to invest that used shares as security for a loan – could help build wealth faster than if a person relied exclusively on their own money, and also reduced their tax bill because interest paid on the loan was tax-deductible.

"Margin lending strategies will generally yield a superior result over the long term than regular saving. This is achieved by having more money exposed to the market in a tax-effective manner," Mr Virgin said.

"Like other investment strategies, margin lending does have its risks. However, if people plan in advance and review their circumstances regularly, margin



TOO GRAND: Financial experts say first home buyers should spend within their means.

QUICK TIPS FOR SAVERS

■ Eliminate existing debt such as credit cards and personal loans.

■ Create a realistic budget, allocating some money to fun and lifestyle expenses.

■ Choose a high interest savings account. Most financial institutions have accounts that offer incentives designed to help people save.

■ Create automatic transfers into your savings account.

■ Set yourself a series of smaller, regular savings goals, which can help keep you motivated.

■ Cut down on non-essential luxuries.

■ Stay focused on the end result.

Source: National Australia Bank

lending could help them achieve their long-term financial objectives faster."

HELP FROM MUM AND DAD

Parents are becoming more important than ever before in helping their children enter the property market. Some allow their children to live longer at home to boost their savings capacity while others take a more financial approach.

Parent equity loans – where parents become guarantors of their child's loan – have grown in popularity in recent years, but Mr Laundry said they needed to be carefully considered. "If the child defaults on the loan, the lender will require the guarantor to make the repayments, which could place the parent under financial strain," he said.

Parents and grandparents could also make loans or gifts to children, or put money into their soon-to-be-introduced first-home saver account.

"They could review their own financial affairs to see whether they can afford to give them a 'pre-inheritance' as they could have a greater need for it now than in the future," Mr Laundry said.

DON'T OVER-COMMIT

Mr Bateman said people should always borrow within their means.

"Speak to your financial institution and work out what you can really afford to pay as a monthly repayment," he said. "You need to be able to still enjoy your life. Purchasing a property is a great achievement, but it is not worth sacrificing your happiness."

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SAVER: Christine Stavrou began saving to buy her first home when she was 16.

Picture: DEAN MARTIN