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It's November and we're off with the race that stops a nation. While this is normally a given, the fact that the Spring Carnival is going ahead, and overseas travel is back on the agenda, is a welcome sign that Australia is getting back to business.

All eyes were on the September quarter inflation figures in October, as speculation mounted that the Reserve Bank may be forced to raise interest rates sooner than planned. The Consumer Price Index (CPI) rose 0.8% in the September quarter while the annual rate eased from 3.8% to 3%, although this was distorted by the end of free childcare in the September quarter last year. A more accurate measure is underlying inflation, which rose to a 6-year high of 2.1% in the year to September.

Rising fuel and construction costs were the main culprits, as global supply chain disruptions pushed import prices up 6.4% over the year to September. Australia's national average petrol price hit a record 169.5c a litre in October, as rising demand and supply constraints pushed the price of Brent Crude to a three year high. Inflation fears lifted the Australian dollar to US75.2c, up 4% over the month, while the interest rate on 3-year Australian government bonds lifted 82 basis points over the month to 1.14%.

Inflation fears also dented consumer confidence in the final week of October, but the ANZ-Roy Morgan rating still ended the month higher at 106.8. Rising business optimism saw the NAB business confidence index lift from -5.5 to +13 points in September.

We are unlikely to get a clear picture on inflation until supply pressures ease. The Reserve Bank has stated it won't lift rates until inflation is ''sustainably" within its 2-3% target band and wages growth is above 3%.

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A helping hand ONTO THE PROPERTY LADDER

Buying your first home is always a big step, but with property prices rising faster than pay packets taking that first step seems more challenging than ever.

National house prices rose 20 per cent in the year to September, the fastest growth since 1989. Higher prices have also fanned out from capital cities to the regions, as city folk discover the country lifestyle and cheaper housing during the pandemic.[i]

While this is great news for homeowners and investors, it's putting home ownership further out of reach for many hopeful first home buyers. The combination of rapid price growth and weak wages growth have pushed up the cost of an average first home deposit from 70 per cent of income to more than 80 per cent.[ii]

And in another blow to first home buyers, the Australian Prudential Regulation Authority (APRA) has told lenders to assess whether new borrowers can afford their loan at an interest rate at least 3 percentage points higher than the current rate on their home loan. Previously, banks used a 2.5 per cent buffer.[iii]

So what strategies are available to help younger Australians get a foot on the property ladder?

Government supports

In recent years, the federal government has launched three schemes to close the deposit gap for first home buyers.[iv]

The First Home Loan Deposit Scheme (FHLDS) and the New Home Guarantee (NHG) allow eligible first home buyers to purchase a home with a deposit of as little as 5 per cent. While the Family Home Guarantee helps eligible single parents buy a home with an even lower deposit of at least two per cent.

Another way for first home buyers to build a deposit is to contribute voluntary savings to your super account and withdraw up to $30,000 plus investment earnings when you are ready to buy. The First Home Super Saver scheme takes advantage of the low tax super environment and investment returns that have consistently outpaced bank savings accounts.[v]

Rentvesting

If you can't afford to buy your dream home in a suburb or location you like, "rentvesting" may be worth exploring.

Rentvesting is where you buy property in a location you can afford with good rental yields and capital growth prospects and lease it out, while renting in an area you prefer. Or live with your parents for minimal rent and pay off the mortgage on your rental property even faster.

You can also claim a tax deduction for allowable expenses, depreciation, and interest on the loan for your investment property. The downside is you will be liable for capital gains tax when you sell.

Alternatively, under the six-year rule if you buy and live in the property for at least six months before you rent it out, you will be exempt from capital gains tax on the growth of your investment for up to six years.

Bank of Mum and Dad

It's not just younger Australians who worry about housing affordability. Their parents often worry just as much. So much so that recent research found the Bank of Mum and Dad is the nation's ninth biggest mortgage lender.

According to research by Digital Finance Analytics (DFA), 60 per cent of first home buyers are getting help from their parents.[vi] Parents typically do this by giving their children cash towards the deposit or by going guarantor for the loan.

DFA found the average parental contribution was $92,000, indicating parents may be choosing to help with the deposit. Not only are banks reluctant to lend to first time buyers with less than a 20 per cent deposit, but any less means borrowers must pay lenders mortgage insurance.

Going guarantor

Parents without cash to spare sometimes agree to guarantee their child's loan by using the equity in their own home as security. This can have the advantage of helping children get into the market sooner, but there are risks.

If the borrower can't make repayments the guarantor is responsible for the debt, putting their home at risk. To limit this risk, you can choose to guarantee a portion of the loan, so you are only liable for that portion if the borrower defaults. You can also arrange to be released from the loan once the borrower builds up the same portion of equity in their home.

Saving for a first home is a challenge in the current market, but there are strategies to help make your dream a reality. So get in touch if you would like to discuss your options.

i https://www.corelogic.com.au/sites/default/files/2021-09/211001_CoreLogic_HomeValueIndex_Oct21_FINAL.pdf

ii https://theconversation.com/as-home-prices-soar-beyond-reach-we-have-a-government-inquiry-almost-designed-not-to-tell-us-why-168959

iii https://www.apra.gov.au/strengthening-residential-mortgage-lending-assessments

iv https://www.nhfic.gov.au/what-we-do/support-to-buy-a-home/

v https://www.ato.gov.au/individuals/super/withdrawing-and-using-your-super/first-home-super-saver-scheme/

vi https://www.savings.com.au/home-loans/we-need-to-talk-about-the-rise-of-the-bank-of-mum-and-dad

Retirement income on the house

Asset rich and income poor is the dilemma faced by many retirees. But there may be opportunities to boost your income in retirement by tapping into your biggest asset – your home.

With property prices booming, many retirees are finding that the home they have lived in for decades is worth a small fortune, but for various reasons they don't wish to sell or downsize.

What many may not realise is that you can have your cake and eat it too. Or, in this case, convert part of the value of your home into an income stream while you remain living there.

The ability to borrow against the equity in your home without having to repay until you move out or sell comes in various guises, but the result is largely the same – an enhanced lifestyle in retirement. The extra income may allow you to enjoy some little luxuries, travel more, or pay for home improvements.

There are four key types of product on offer:

- Reverse mortgage
- Home reversion
- Equity release agreement
- The government's Pension Loans Scheme (PLS).[i]

None of these strategies should be adopted without careful consideration as they may have an impact on your family, your beneficiaries and – with the exception of the PLS – your Age Pension if you receive one.

As a result, we recommend you speak to us first to discuss whether accessing some of your home equity would be appropriate for you.

This is how these products work:

1. Reverse mortgage

A reverse mortgage lets you borrow money against the value of your home and take it as an income stream, a line of credit, a lump sum or a combination.

The amount you borrow is often determined by age. At 60 you can generally borrow 15-20 per cent of the value of your home. This percentage increases by 1 per cent a year.[ii]

The interest accrues and is paid when you sell, either on entering an aged care facility or from your estate when you die. The interest rate is usually higher than the standard mortgage rate, but you don't have to make repayments along the way.

Since 2012, reverse mortgages must come with a negative equity guarantee. This ensures you can never end up owing more than your home is worth.

2. Home reversion

Here you sell a percentage of the future value of your property at a reduced rate. It is not a loan, so there is no interest payable. However, there are immediate costs such as a property valuation and an upfront fee. And there is also the cost of losing the full benefit of your home's increase in value over time. The more your home's value increases, the more the provider will receive.

3. Equity release scheme

This third option lets you sell a percentage of the value of your home in return for a lump sum or an income stream. You pay fees which are periodically deducted from the remaining equity in your home, so your share diminishes over time.[iii]

4. Pension Loans Scheme

The Federal Government's Loan Scheme is offered through Services Australia and the Department of Veterans Affairs.

You can access a voluntary non-taxable fortnightly loan up to 150 per cent of the maximum Age Pension rate to bolster your retirement income with the loan secured against your home. You don't need to be on the Age Pension to qualify but even if you are, this government loan does not impact your pension entitlements.[iv]

Your mortgage increases by the payment amount plus interest which currently stands at 4.5 per cent a year. As with the other schemes, you don't need to repay the loan until you move out or sell. And if your circumstances change, you can adjust the loan accordingly such as pausing payments.

All four options are variations on a theme of providing a better lifestyle in retirement.

If you want to find out if any of these options might play a role in your retirement income strategy, don't hesitate to call us to discuss.

Case study

Self-funded retirees Frank (75) and Mary (73) were struggling to maintain their lifestyle after no longer qualifying for the Age Pension. By borrowing $400 a fortnight against their $390,000 home from the government's Pension Loans Scheme, they would still own 72 per cent of their property after 10 years and 41 per cent after 20 years. In the meantime, they can enjoy a few extra luxuries in life while remaining in their home.[v]

i https://moneysmart.gov.au/retirement-income/reverse-mortgage-and-home-equity-release

ii https://www.ratecity.com.au/home-loans/articles/maximum-amount-borrow-reverse-mortgage

iii https://moneysmart.gov.au/retirement-income/reverse-mortgage-and-home-equity-release

iv https://www.pensionboost.com.au/faqs

v https://www.pensionboost.com.au/pension-loan-scheme

Cyber security

- protecting yourself at home

Greater flexibility in working arrangements has been a by-product of the pandemic, as working from home has become more widespread. In fact, *The Families in Australia Survey: Towards COVID Normal* reported in November 2020 that two thirds of Aussies were working from home.[i]

While this flexibility has many benefits, it does also bring downsides, such as the increase in cyber security risks. With working from home to continue to be a reality for many, as workplaces move to more flexible working arrangements, here's what we can do to stay safe.

Why cyber security is of greater risk at home

According to the *ACSC Annual Cyber Threat Report 2020-21*, there was an increase in the average severity and impact of reported cyber security incidents, with nearly half categorised as substantial.[ii] And there were over 67,500 cybercrime reports, an increase of nearly 13% from the previous financial year.

Not only are cyber security attacks impactful to the individual, but they also take a toll on businesses. The Australian Cyber Security Centre (ACSC) found that the total estimated cost of cyber security incidents to Australian businesses is $29 billion per year.[iii]

With so many Australians working from home, it's no coincidence that the rates of cyber security attacks are on the rise. When we work from home, we are no longer protected by a closed office network, so we are at greater risk of cyber security threats.

Given we tend to be working alone at home, this also makes us more vulnerable to scams and phishing attempts. Click on a suspect email in the office, and it's either caught before it gets to you or you can ask a co-worker if they have received the same. With fewer opportunities for water cooler chat, you are more likely to be out of the loop.

How to stay safe

There are various ways you can protect yourself from cyber-attacks, and you don't need to be an IT whiz to do so.

Install antivirus and security software

Your first layer of protection should be the use of antivirus and security software, such as Norton or Bitdefender. If you already have this software installed, ensure that it is up to date.

Update software, including all security updates

You also want to stay up to date with your software, so don't skip those security updates that appear on your computer and phone. You can turn on automatic updates, so you don't have to worry about missing these.

Secure your home Wi-Fi

As well as having a secure password for your home Wi-Fi, you should also use a strong encryption protocol for your router (currently WPA2 is the most secure type of encryption) – you can check this through your device settings.

Review and update your passwords

If you have had the same password for years and don't have variations for different purposes, it's worth updating your passwords. It sounds obvious, but don't choose a password that will be easy to guess, such as something relating to your street name or workplace.

Opt for multi-factor authentication

Multi-factor authentication provides an extra layer of security when it comes to accessing your devices, making them harder to hack into. An example of multi-factor authentication is the combined use of a secure password, an item such as a security key or token, and a validation such as a SMS or email.

Be aware of scams

Scamwatch.gov.au is regularly updated with the latest scams. Run by the ACCC, this website contains comprehensive and current information on scam attempts such as phishing and extortion. Share this info with family and friends so they also know what to be on the alert for.

Consult with your IT Department

If your workplace has an IT Department, contact them to ask for any additional tips on how you can stay secure working from home.

i https://aifs.gov.au/media-releases/two-thirds-australians-are-working-home

ii https://www.cyber.gov.au/acsc/view-all-content/reports-and-statistics/acsc-annual-cyber-threat-report-2020-21

iii https://www.cyber.gov.au/acsc/view-all-content/news/announcing-acsc-small-business-survey-report