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Written by: Tony Sirett, Managing Director, Rodney Gibson Financial Services Pty Ltd.

## Today's Hot Topics

### The Budget

As you know we will have a budget handed down next month and there has been a lot of speculation about what will and won't be included.

Some are saying there could be changes to superannuation and in particular the Transition to Retirement Rules.

Other issues that may be looked at are the inequity of people on various income levels and the resulting tax scales. For example someone on the top marginal rate (that is someone earning over \$180,000) would save 31.5% by making deductible contributions over and above this salary level, whereas someone earning under \$11,000 would effectively pay 15% tax when they should actually pay nothing.

No one can say for sure what is going to happen (except perhaps the treasurer and PM) so effecting a Transition to Retirement strategy would only be for those who were going to do it anyway and were holding off. Anyone who is over 55 should look whether this strategy is suitable for them, if they are not already. It has fantastic taxation benefits and is extremely flexible.

What we do know about budgets is that when they do announce a change it quite often starts from the night of the announcement. Many are suggesting that anyone who is intending to commence a Transition to Retirement strategy **should do so immediately** to make sure they get in under the old rules.

### Banks and Interest Rates

There has been a great deal of criticism of the banks for not passing on the recent interest rate cuts in full (and some not passing them on at all – mine was one who did not). Now they are increasing their fixed rates as many people feel we are nearing the bottom of our interest rate cycle and are starting to fix their rates.

I feel we may still have some way to go before reaching the bottom of the interest rate cycle and we could do with further stimulation to the economy. We currently have some of the highest rates of the developed economies in the world.

The big banks seem to have been given an amazing advantage with the government guarantee on deposits under \$1M and now the repayment holiday. They are awash with business and we are noticing that their service standards have deteriorated terribly.

If you are thinking about arranging finance you should make sure you allow plenty of time, as we are seeing simple increases take months to complete.

Regardless of this it still pays to shop around because we see many people are put into a loan that is not the most competitive. A small difference in interest rate or fees can make huge differences in the total loan costs.

I personally think in most cases you are better off to be on variable rates at all times if you can absorb the potential increases. The banks price in a margin depending on where their experts feel interest rates are going in the future. It is very rare to pay less using a fixed rate rather than a variable.

There are many people however who prefer the certainty of knowing what their future commitment will be and they are happy to accept paying a higher rate in the short term.

We highly recommend people save their initial 20% deposit plus costs and this means they will have a buffer if required but will also avoid mortgage insurance. This can be achieved via a sensible saving strategy over a period of time. This also helps to demonstrate a saving discipline which the banks and financial institution love when considering a loan applicants position.

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