MONEYNEWS

The newsletter of Moneywise Personal Financial Management Pty Ltd

Issue 1 2022

2021 The Year In Review

Two Steps Forward – One Step Back

There are no prizes for guessing what dominated the economic landscape in 2021. For the second year running, the pandemic was the focus for policy makers, markets, businesses, and individuals alike.

The year began with hopes that the rollout of vaccines around the globe would stem the spread of COVID-19 and allow economies to reopen. Instead, most countries were hit by wave after wave of the virus, periodic lockdowns, and ongoing disruption to lives and livelihoods.

Yet there were also positives. Australia's vaccination rate exceeded all expectations while property and share markets soared. Investors who stayed the course enjoyed double digit returns from their superannuation, with the median growth fund tipped to return more than 12 per cent for the year.[i]

The big picture

If the pandemic has taught us anything, it is to expect the unexpected as new variants of the coronavirus - first Delta and now Omicron – hampered plans to return to a 'new normal'. This saw governments removing restrictions one minute then reimposing lockdowns and border closures the next.

Yet through it all, the global economy picked up steam. Final figures aren't available yet, but in the year to September the two global powerhouses the US and China grew at an annual rate of 4.9 per cent, while the Australian economy grew by 3.9 per cent.

The Australian economy is estimated to have grown by more than 4 per cent in 2021 and is forecast to pick up speed in 2022 to around 5 per cent. This is good news for jobseekers, with unemployment falling to 4.6 per cent ahead of the Christmas rush.

Australia Key Indices December			Share Markets (% Change) Year To December		
	2020	2021		2020	2021
Economic growth	-2.2%	*3.9%	Australia All Ordinaries	-1.45%	13.56%
RBA cash rate	0.1%	0.1%	US S&P500	16.37%	27.0%
Inflation (annual rate)	0.9%	^3.0%	Euro Stoxx 50	-5.14%	20.90%
Unemployment	6.6%	#4.6%	Shanghai Composite	13.87%	4.80%
Consumer confidence	112.00	104.3	Japan Nikkei 225	16.01%	4.91%

*Year to September, ^September quarter, # November   Sources: RBA, ABS, Westpac Melbourne Institute, Trading Economics

Continued overleaf

2021 The Year In Review

Two Steps Forward – One Step Back

(continued from page 1)

But challenges remain. As global demand for goods and services picked up, ongoing shutdowns disrupted manufacturing and supply chains. The result was higher prices and emerging inflation.

Inflation and interest rates

Australia's inflation rate jumped from less than one per cent to 3 per cent in 2021. This is lower than the US, where inflation hit 6.8 per cent, but it still led to speculation about interest rate hikes.

The Reserve Bank insists it won't lift rates until inflation is sustainably between 2-3 per cent, unemployment is closer to 4 per cent and wages growth near 3 per cent. (Wages were up 2.2 per cent in the year to September.) The Reserve doesn't expect to meet all these conditions until 2023 at the earliest, but many economists think it could be sooner.

Some central banks such as the UK and New Zealand have already lifted rates. And while Australia's cash rate remains at an historic low of 0.1 per cent, bond yields point to higher rates ahead. Australia's 10-year government bond yields rose from 0.98 per cent to 1.67 per cent in 2021, while US long bonds finished at 1.51 per cent.

Even so, low interest rates were not enough to convince everyone to resume normal life and spend. While consumers remained positive overall, the Westpac-Melbourne Institute consumer sentiment index fell 6.9 per cent in the year to December.

Shares continue to shine

Global sharemarkets made some big gains in 2021 on the back of economic recovery and strong corporate profits. The US market led the way, with the S&P500 index up 27 per cent to finish at near record highs.

European stocks also performed well while the Chinese market suffered from the government's regulatory crackdown and the Evergrande property crisis.

In the middle of the pack, the Australian market rose a solid 13.5 per cent in 2021. The picture is even rosier when dividends are added, taking the total return to 17.7 per cent. The best performing sectors were telecommunications, property trusts, consumer discretionary and financials. Only two sectors fell – energy and information technology.[ii]

Volatile commodity prices

As the global economy geared up, so did demand for raw materials. Commodity prices were generally higher but with some wild swings along the way. Oil prices rose around 53 per cent on supply constraints and increased demand. And although coal is due to be phased out in the long term, thermal coal prices soared 111 per cent and coking coal rose 37 per cent.

Australia's biggest export, iron ore, fell 25 per cent but only after hitting a record high in May.

Despite demand for our raw materials and a sound economy, the Aussie dollar fell against the strengthening greenback. After starting the year at US77c it finished at US72.5c, providing a welcome boost for Australian exporters.

Property boom

It won't have escaped anyone's notice that Australia's residential property market had another bumper year, although the pace of growth shows signs of slowing.

National home prices rose 22.1 per cent in 2021, according to CoreLogic. When rental income is included the total return from property was 25.7 per cent.[iii]

Regional areas (up 25.9 per cent) outpaced capital cities (up 21.0 per cent), as people fled to the perceived safety and affordability of the country during the pandemic. Even so, prices were up in all major cities, led by Hobart (28.1 per cent), Brisbane (27.4 per cent) and Sydney (25.3 per cent). Melbourne suffered from prolonged lockdowns, up 15.1 per cent.

And in news that will please owners and investors but dishearten first time buyers, Sydney became the first city to surpass a median value of $1 million.

Looking ahead

The pandemic is likely to continue to dominate economic developments in 2022. Much will depend on the supply and efficacy of vaccines to protect against Omicron and any future variants of the coronavirus.

Financial markets will also keenly watch for signs of inflation and rising interest rate. In Australia, inflation is likely to be constrained while wages growth remains low, and the Reserve Bank keeps rates on hold.

The wild card is the looming federal election which must be held by May. Until the outcome is known, uncertainty may weigh on markets, households, and business.

i https://www.chantwest.com.au/resources/remarkable-a-10th-consecutive-positive-year

ii https://www.commsec.com.au/content/dam/EN/Campaigns_Native/yearahead/CommSec-Year-In-Review-2022-Report.pdf

iii https://www.corelogic.com.au/news/housing-values-end-year-221-higher-pace-gains-continuing-soften-multi-speed-conditions-emerge

Unless otherwise stated, figures were sourced from Trading Economics on 31/12/21

Aged Care Payment Options

When it comes time to investigate residential aged care for yourself, your partner, parent or relative, the search for a facility and how to pay for it can seem daunting. The system is complex, and decisions often need to be made in the midst of a health crisis.

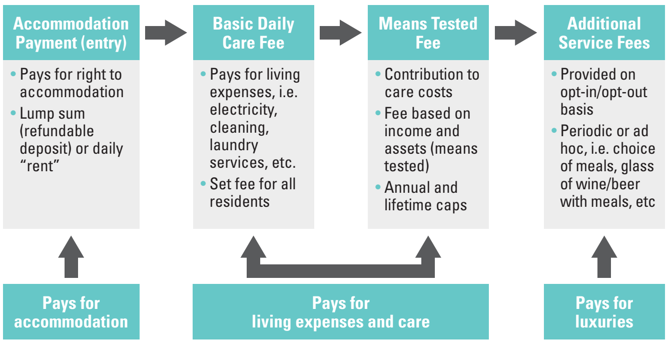
But with multiple ways to pay for aged care, it's possible to focus on finding the facility that best suits your loved one, rather than just the cost.

Factors such as location to family and friends, reputation for care or general appeal are just as important as the sometimes-high price of a room and other fees in residential aged care.

Even so, costs can't be ignored.

Most costs in aged care are set and regulated under the Aged Care Act, making them consistent for all facility operators across the country.[i] The facility itself, may differ in age, size, location, additional service offers and suitability.

Breakdown Of Aged Care Costs



Source: Aged Care Steps

Accommodation charges

The first thing to be aware of when researching your residential aged care options is that there are separate costs for the accommodation and the care provided by the facility.

The accommodation payment essentially covers your right to occupy a room. Every room in aged care will have a market price and all residents who are assessed by the government as having to pay this price have a choice. You can pay this accommodation fee as a lump sum called the Refundable Accommodation Deposit (RAD), or a daily rate similar to rent, or combination of both.

The daily rate is known as the Daily Accommodation Payment or DAP and is effectively a daily interest rate set by the government. The current daily rate is 4.04 per cent. If the RAD is $550,000 then the equivalent DAP is $60.87 a day ($550,000 x 4.04%, divided by 365 days).

A resident can pay as much or as little towards the RAD as they choose, but any outstanding amount is charged as a DAP.

For example, if the RAD is $550,000 and you pay $200,000 towards it, you will still have a $38.74 DAP to pay. Depending on the resident's circumstances, they might opt to pay the DAP from a regular income stream such as a pension or from existing savings. Or if an amount was paid towards the RAD, the DAP can be drawn from it.

The RAD is fully refundable to the estate, unless it is used to pay any of the aged care costs such as the DAP.

Daily fees

As well as an accommodation cost there are daily resident fees that cover living and care costs. There is a basic daily fee which everyone pays and is set at 85 per cent of the basic single Age Pension. The current rate is $52.71 a day and covers the essentials such as food, laundry, utilities and basic care.

Then there is a means tested care fee which is determined by Services Australia or Veteran's Affairs. This figure can range from $0 to about $256 a day depending on a person's income and assets. The figure has an indexed annual and a lifetime cap – currently set at $28,339 a year or $68,013 over a lifetime.

Some facilities offer extra services, where a compulsory extra services fee is paid. It has nothing to do with care but may include extras like special outings, a choice of meals, wine with meals and daily newspaper delivery. It can range from $20-$100 a day.

Increasingly facilities are introducing an additional service fee which may be offered on an opt-in basis but is often non-negotiable, to cover things like TV in the room, meal choice or nicer furnishings. Typically they are between $10 and $60 a day.

A means assessment determines if you need to pay the means-tested care fee and if the government will contribute to your accommodation costs. Everyone who moves into an aged care home is quoted a room price before moving in. The means assessment then determines if you will have to pay the agreed room price or RAD or contribute towards it.

How means testing works

A means-tested amount above a certain threshold is used to determine whether you pay the quoted RAD and how much the government contributes towards the means-tested care fee. The more you pay the less the government pays on your behalf.

A person on the full Age Pension and with property and assets below about $37,155 would have all their costs met by the government, except the $52.71 a day basic daily fee.

A person on the full Age Pension with property and a protected person, such as their spouse, living in it and assets between $37,155 and $173,075 may be asked to contribute towards their accommodation and care.

To be classified a low means resident there would be assessable assets below $173,075.20 (indexed). It is also subject to an income test.

A low means resident may pay a Daily Accommodation Contribution (DAC) instead of a DAP which can then be converted to a Refundable Accommodation Contribution (RAC). They may also pay a small means-tested care fee.

Payment strategies

The fees you may pay for residential care and how you pay them requires careful consideration. For example, selling assets such as the former home to pay for your residential care can affect your aged care fees and Age Pension entitlements.

If you would like to discuss aged care payment options and how to ensure you find the right residential care at a cost you or your loved one can afford, give us a call.

i All costs quoted in this article are available on https://www.myagedcare.gov.au/aged-care-home-costs-and-fees

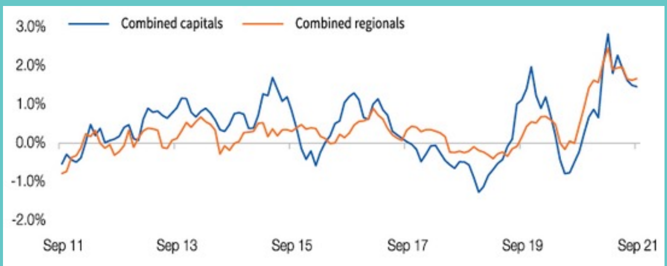
A Helping Hand Onto The Property Ladder

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]

Month-On-Month Change In Dwelling Values



Source: Core Logic: Hedonic Home Value Index October 2021

Tighter lending

A recent move by the banking regulator requiring banks to be more cautious in assessing new mortgage customers is unlikely to help.

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.

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. The government guarantees lenders up to 15 per cent of the value of the property, allowing borrowers to avoid paying lenders mortgage insurance (LMI) which can add tens of thousands of dollars to the purchase price.

The Family Home Guarantee helps eligible single parents buy a home with an even lower deposit of at least two per cent. In 2020-21, more than one third of all guarantees were issued to single applicants earning less than $80,000. The schemes have helped almost 33,000 first home buyers since January 2020, bringing forward their purchase by about four years on average.

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.

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.[iv] 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 more of a challenge than ever 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.savings.com.au/home-loans/we-need-to-talk-about-the-rise-of-the-bank-of-mum-and-dad

MONEYWISE

Moneywise Personal Financial Management Pty Ltd

ABN 43 764 170 979
Australian Financial Services Licence 287804
Australian Credit Licence 287804

Level 8, 360 Collins Street,
Melbourne Victoria 3000
PO Box 505 Collins Street West VIC 8007

Telephone: 03 9649 7611
Email: info@moneywise.com.au
www.moneywise.com.au