



October 2018

October is here, which means football fever and the holiday long weekend are behind us as we enter the final stretch towards Christmas. It's traditionally a busy time for households and on the business and economic scene, as we prepare for the end of another year.

As expected, the US Federal Reserve lifted interest rates for the 8th time in September, by 0.25 per cent to a target range of 2.0-2.5 per cent. The US economy is growing strongly, with growth of 3.1 per cent forecast for 2018, full employment and inflation on target at 2 per cent. The Fed forecasts one more rate rise this year and three in 2019. Meanwhile, Australia's cash rate remains at an historic low of 1.5 per cent. The growing differential between local and US rates pushed the Aussie dollar lower in September, down more than 1 per cent to around US72.5 cents.

Overall, our economy is in good shape. Australia's record economic expansion is in its 28th year, with growth up 0.9 per cent in the June quarter, 3.4 per cent on an annual basis, the strongest in 6 years. The Budget deficit fell to \$10.1 billion in 2017-18, the smallest in a decade, with more Australians in jobs and record company profits boosting tax revenues and reducing the welfare bill. Unemployment was steady at 5.3 per cent in August. Consumer and business confidence continue to fluctuate on political uncertainty; the ANZ-Roy Morgan consumer confidence index fell 0.7 per cent from a 5-week high to 117.2 in late September. The NAB Business Confidence index fell from 7 points to a 25-month low of 4.4 points in August.

*growing
together.*

Ivy Wealth

9/39 Murray Street
Hobart TAS 7000

P 03 6245 1777

E reception@ivywealth.com.au

W www.ivywealth.com.au



Planning for the future of a special needs child

While estate planning is essential for any parent, it takes on additional significance for the parents of a child with special needs. One of your biggest concerns is probably planning for their future care when you are no longer there to look after them.

There is a lot to consider and each child's needs are unique, depending on the nature of their disability and the level of ongoing support they will need. Any plan you put in place is likely to consider things such as where they will live, who will care for them on a day to day basis and how you can safeguard their financial interests.

Not only do you need to make sure your child receives the same level of support in your absence, but you also want to set in place a strategy that is transparent and allows all your children to thrive.

As best you can, try to plan for the long haul, protecting your child from any future changes to circumstances or legislation as well as taking stock of how their personal needs will change over their lifetime. You also don't want to jeopardise their eligibility for any government benefits.

The matter of trusts

One of the big concerns for parents is that their child may not be capable of managing their own finances. One way around this is to establish a testamentary trust as part of your Will.

If your child is severely disabled, over the age of 16, and you are concerned that the money you leave them could reduce their social security benefits,

you might consider a Special Disability Trust. This will not only provide for them, but the money and income will not be subject to any means test as long as the amount invested is under an inflation-adjusted cap.

As at 1 July 2018, the cap is \$669,750. Plus, you can spend up to \$12,000 a year on expenses unrelated to their care and accommodation needs.

Other types of trust include a capital reserved trust, where the individual can receive income from the trust and use the trust's asset such as the home during their lifetime, and a protective trust, where the trustee can apply income and capital to the trust over its lifetime if more funds are needed for their wellbeing.

Other considerations

You need to maintain a very long-term view and think about what will happen to your estate when your special needs child dies and whether they will be capable of making decisions on its distribution. It may be a good idea to have a clause in a trust that says the money should go to your surviving family members.

The choice of trustees is also important. In most cases, Australian law dictates that there will need to be

more than one, and while it may seem natural to appoint your other children as trustees, in general it is wise to choose someone outside of the family to avoid conflicts of interest.

While appointing an external trustee can be a more expensive option, if you select the right person, you can have confidence in their empathy and financial acuity. With the correct structures in place, your child or their carers can also be involved in financial decisions, if appropriate.

Super plays a role

In some circumstances your super can also be used to provide ongoing support. If your child is considered to have a severe disability, you can pass your superannuation money on to them as an income stream regardless of their age.

It takes careful and considered planning to provide properly for a loved one with a disability, beyond your lifetime. It's also important to review your plan frequently, making adjustments when legislation or your child's circumstances change.

We can assist and are here for you and your family, now and into the future.

Housing prices

off the boil



The Australian housing market appears to have reached a turning point, with prices falling 2.2 per cent since peaking in September 2017. This is welcome news for first home buyers; not so much for sellers and investors.

As always with residential property, it's a tale of many markets with big differences between states, cities and even between suburbs. Before you make any property decisions, it's important to look beyond the national figures to understand what is happening to prices in your neck of the woods and why.

A tale of many markets

Price falls over the past year have been greatest in Sydney (-5.6 per cent), Darwin (-4 per cent), Perth (-2.1 per cent) and Melbourne (-1.7) per cent. The standout performer is Hobart (+10.7 per cent), followed by Canberra (+2.3 per cent), Adelaide (+1 per cent) and Brisbane (+0.9 per cent). Regional areas are still rising (+1.6 per cent) as buyers look beyond the big cities.ⁱ

There are a variety of factors at play. The Australian Prudential Regulatory Authority (APRA) has imposed tighter lending standards on the banks and encouraged them to restrict higher risk lending, which has slowed market activity.

There has also been a fall in foreign investment. Last year, Chinese investment in local residential property fell 25 per cent, although Australia still ranks second only to the US as a favoured destination.ⁱⁱ

With fewer buyers in the market and an oversupply of new apartments in Sydney and Melbourne in particular, sellers are having to drop their asking price to compete.

Mortgage rates on the rise

More recently, three of the big four banks and many smaller lenders have lifted mortgage interest rates due to the increased cost of funding. Lenders source much of their funding from overseas markets where interest rates are rising, unlike here where the cash rate remains at an historically low 1.5 per cent.

This raises the bar for first home buyers and puts added pressure on existing borrowers who are already stretched to the limit.

Rates on interest-only loans, used mostly by investors, have been increasing for some time. Interest-only loans typically have a term of 1-5 years after which they revert to principal and interest payments. This has raised concerns that investors who took out loans at the peak of the housing boom may struggle to meet higher principal and interest payments. Forced sales could lead to further price falls.

However, as Reserve Bank Assistant Governor, Michele Bullock, recently said, "borrowers have been transitioning to principal and interest loans for the past couple of years without signs of widespread stress".ⁱⁱⁱ

Affordability a worry

Despite falling prices, housing affordability remains an issue, especially for first home buyers in Sydney and Melbourne. The median home value in Sydney is \$855,287, almost twice as much as

Hobart (\$437,254) and more than twice the regional average (\$368,366).

Affordability is measured by the share of income required for mortgage repayments. In June 2018, for borrowers with a 20 per cent deposit, the repayment required on the average mortgage amounted to 36.3 per cent of gross household income. Ten years ago, it was 51 per cent. That's due largely to mortgage interest rates almost halving over the same period.^{iv}

What does it mean for me?

For first home buyers, the biggest stumbling block is often saving a deposit as rising prices push desirable properties further out of reach. But with prices expected to fall over the next couple of years, time is on your side.

Homeowners planning to downsize have an opportunity to sell now near the market peak and buy a smaller property in a falling market. What's more, if you are over 65 you can put up to \$300,000 of the sale proceeds into your super for a significant tax saving.

Families looking to upsize to a larger home also need to weigh up whether it's better to sell and buy now or wait and see if prices of larger homes fall further.

If you are looking to buy or sell a home or an investment property and would like to discuss your options, give us a call.

i <https://www.corelogic.com.au/news/augusthomevalueindexresults>

ii <https://thenewdaily.com.au/money/property/2018/09/11/foreign-investment-real-estate/>

iii <https://www.rba.gov.au/speeches/2018/sp-ag-2018-09-10.html>

iv <https://www.corelogic.com.au/housingaffordability>



Getting into The Great Outdoors

Despite our intrepid image, Australia is an incredibly urbanised country by world standards, with almost 90% of our population living in or around cities.ⁱ The impact of this cosmopolitan living is a proclivity for the indoors, often resulting in sedentary lifestyles, which can augment rates of stress, depression and obesity. The antidote to all this is simple: get outdoors more often. Your body and mind will thank you for it.

The power of nature on the mind

The romantic poets wrote about it at length, and countless artists throughout history have reached the same conclusion: there is healing power in the magnificence of nature. Increasingly science is supporting this thesis, with research into the mental health benefits of being outdoors coming from all corners of the globe.

In Japan, for example, they have a tradition known as Shinrin Yoku, which basically translates as ‘forest bathing’. The idea being that you go into the woods for a length of time to calm down from city life. This practice has been shown to decrease cortisol levels as well as giving your immune cells a boost. In the States they have made similar findings, with research demonstrating that participants performed 50% better on creative problem-solving tasks after having spent three days in the wilderness.ⁱⁱ

By contrast, city dwellers are at much higher risk of developing anxiety and mood disorders than their rural counterparts. The reasons for this are manifold: traffic jams, excessive time seated in front of screens, the close proximity of everything and everyone – they all make it easy to get stuck in

your head and sweat the small stuff. The beauty of nature by contrast is its vastness, how it can situate you in the ‘here and now’ and put your problems into perspective.

Body and soil

It appears the old saying ‘go outside and get some fresh air’ was more than just a trick your mother used to get you out of her hair. Indeed, the benefits of fresh air cannot be underplayed. Not only does the increase in oxygen help your white blood cells and thus your immunity, it also boosts your serotonin levels, ameliorating your mood and fostering a sense of wellbeing and joy.ⁱⁱⁱ

Moreover, people who get outdoors more often are more likely to be exercising thereby producing endorphins. Even the decision to walk to the local shops rather than drive can have numerous benefits.

Cheap and easy

Getting outdoors doesn't have to mean going on a five-day canoe trip or taking your swag to some remote location. It can be as simple as going to your local park. Australia has a legacy of public green spaces from Victorian times, as well as vast reserves of national parks not far from city centres. The best bit about them is that they are free for

everyone and actually function as a social leveller. So why not take your bikes for a ride, pack a picnic with the kids, or enjoy a leisurely stroll with the dog around your local park.

To the future

The proof as they say is in the pudding, with governments around the world developing responses to the health problems associated with the concrete jungle. Many are starting to factor this into both their urban planning and public health policy. In Singapore they have long held the ‘city as a garden’ concept aiming to foster green spaces in municipal centres. Finland's government endorses five hours of forest time every month to promote good mental health. Studies even showed that suburbs that are more heavily treed have residents with better heart and metabolic health. The same level of increase one would usually associate with a \$20,000 rise in income.^{iv}

With science on its side and governments the world over responding to our human need for nature, it seems clear that it's something we could all use a little more of. Start with the little things—a morning walk around the block or some time out in the garden—and with warmer weather just around the corner, what better time to embrace the new, outdoorsy you.

ⁱ <https://www.indexmundi.com/australia/urbanization.html>

ⁱⁱ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3520840/>

ⁱⁱⁱ <http://www.phantomcreens.com/resource/getting-fresh-part-1-the-health-benefits-of-fresh-air/>

^{iv} <https://www.nature.com/articles/srep11610>