

Snippets

Avoiding mortgage stress

Many Australians have been lured into the property market in recent months by low interest rates and government incentives. But in his first televised interview (broadcast by the Seven Network on 29 March 2010) Reserve Bank of Australia (RBA) Governor Glenn Stevens warned official interest rates will push towards more 'normal' levels as the economy improves.

True to its word the RBA upped the official cash rate to 4.25% on 6 April 2010, the fifth increase since September 2009. Further rate hikes could put property investors under 'mortgage stress' — a term used when people are paying more than 30% of their income on mortgage repayments.

Consider the impact of a rise of just 1.00% in dollar terms. On a standard variable mortgage of \$270,000 at 5% interest over 15 years, the monthly repayment would be around \$2,135. To meet repayments without mortgage stress, you'd need a minimum monthly income of \$7116.

A 1.00% rise in interest would see the monthly repayment increase to \$2,278. To avoid mortgage stress you'll now need to earn over \$7593 a month.

If you're thinking of buying property it's wise to consider whether you'll still be able to afford to pay the mortgage when interest rates rise.



Underinsurance remains a problem

Smaller families; living longer; the perception that insurance is expensive; growth in super; are all factors contributing to a decrease in the level of life insurance in the last 10 years according to a recent IBIS World Report.¹

It's estimated that it costs Australian taxpayers more than \$250 million a year to support the additional social security payments made to beneficiaries of people who were underinsured. Although many people with life insurance through their super fund may think it provides sufficient cover for their death or disablement, generally this is not the case and they tend to be underinsured.

The report identifies a need for insurers to improve consumers' knowledge and understanding of their insurance products and continue to take steps to simplify them, if they are to successfully bridge the underinsurance gap.

Talk to your financial adviser if you think you may be underinsured.

Pensions on the rise

On 20 March 2010, pension payments increased by \$29.20 for singles on the maximum rate, up to \$701.10 per fortnight. Couples on the maximum rate saw an increase of \$44 per fortnight, up to \$1,057.

Although deeming rates (used to assess income you receive from financial investments) increased from 2% to 3% on investments up to \$42,000 for singles and \$70,000 for couples and from 3% to 4.5% on greater amounts, the income and assets cut-out amounts also increased.

If you previously missed out because your income has been too high, these changes could mean you now qualify for a part pension. Even if you only qualify for a pension of just \$1, you could receive associated benefits such as reduced public transport fares and cheaper prescription medicines.

Your financial adviser can help you work out if you're eligible.



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