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THE NARRATIVE

The official AWS newsletter
With guest articles from Yelland Consulting & Custom Finance

Welcome to the autumn edition of *The Narrative*

In this quarters newsletter we explore some interesting issues, including:

- how to use the equity in your home to build wealth
- the life insurance gap in Australia (why are we lagging behind our international peers?) and
- how to continue your legacy with considered estate planning

We thank you for engaging with AWS Financial Planning as we continue our journey to help more Australian's plan for their financial futures.

If you haven't already done so, take a moment to look at our new Knowledge Centre (www.awsfp.com.au/knowledge-centre-gateway). It's jam packed full of facts, insights and educational videos for you to access at your convenience.

If you have any questions or simply want to know more, please reach out to the AWS team for a meeting.

SNEAK PEEK

AWS Financial Planning

Planning for an investment property

THE IDEA OF PROPERTY INVESTMENT IS ONE THAT APPEALS TO MANY AUSTRALIANS - HOW CAN YOU INVEST YOURSELF? - BY YELLAND CONSULTING & CUSTOM FINANCE

The idea of property investment is one that appeals to many Australians but is sadly often overlooked because of the misconception that it is only within the reach of the wealthy. The reality is that with the right finance, planning and strategy, an investment property may be easier to achieve than you think. Hence, 2018 is a perfect time to review your options.

One of the key challenges to breaking into property investment is raising a deposit, but there are solutions. Property buyers are typically required to contribute 20 per cent of the property's value, and for some this can be a stumbling block. But existing home owners may be able to unlock equity – or the increased value – that's built up in their own home to cover some or even all of the down payment on an investment property

To demonstrate how this works, Peter Wright of Custom Finance has provided an example of how a couple would release equity in their home to invest.

Example only:

Dan and Jessica bought their three-bed room unit family home in **Erskineville** in 2005 for **$530,000** putting down a **$106,000** deposit and taking out a loan for **$424,000.** The couple recently decided that they'd look at breaking into the investment market so they contacted Custom Finance Group's broker to discuss finance. Their broker suggested that they get a valuation of their home, and they discovered that it was now estimated at **$885,000**.

Over the years Dan and Jessica had paid **$120,000** off their original loan leaving **$304,000** owing on the property. Today's valuation of the property, left them with **$581,000** worth of equity. Their broker suggested that they consider using the equity in their own home to free up some equity for an investment. Based on the current property value and assuming they could afford the repayments, they would be able to borrow **$442,500;** making an additional **$138,500** available for investment purposes.

This strategy appealed to Dan and Jessica because otherwise they would have needed to liquidate their shares to raise the deposit for the investment property. They decided to put down a 20 per cent deposit plus costs on a new two-bed room apartment and take out an 80 per cent loan.

The deposit came to **$100,000** leaving a further **$38,500** to cover stamp duty and other expenses while a **$400,000** loan covered the rest of the purchase price.

Now that Dan and Jessica had a bigger loan on their home their repayments had gone up, but they were pleased to discover that the repayment on their investment property was almost covered by the tenant. In addition, they were able to claim tax deductions from the new apartment against their income.

Overall, using the rental income and tax savings to pay down the investment property.

Is 2018 the year you would like to make a change and leave a legacy for the kids?

Australia's underinsurance problem

WE EXPLORE WHY AUSTRALIANS ARE SO READY TO PROTECT CARS AND HOUSES, BUT NOT LIVES AND INCOMES

Researchers have known for some time about the **chronic underinvestment** in life insurance in Australia, but just how big is the problem - and what should you be doing about it?

Stephen Woodcock, a senior lecturer in the school of mathematical sciences at the University of Technology, Sydney, says Australia consistently falls short of our international peers when it comes to life insurance.

Woodcock says Rice Warner data reveals a clear pattern of underinsurance reaching back more than 15 years. It's most recent report, *Underinsurance in Australia 2015*, found a staggering **$1.8 trillion gap** between current levels of insurance and the cover Australian families would need to maintain their quality of life until retirement if affected by death or disability.

According to Woodcock, the gap is particularly large when it comes to **income protection,** with a 2016 report from Zurich and Oxford University concluding that **Australians have some of the lowest levels of cover in the world**.

The report found that just 27 per cent of Australians had insurance against a serious illness or disability, compared to 40 per cent of Americans and 63 per cent of Malaysians. And while Australians can rely on government assistance for healthcare and basic living expenses, Woodcock says this lack of cover leaves us vulnerable to a severe impact on quality of life when accident or illness strike.

> *"But what's most concerning is that roughly one third of Australian families have no insurance at all" - Woodcock.*

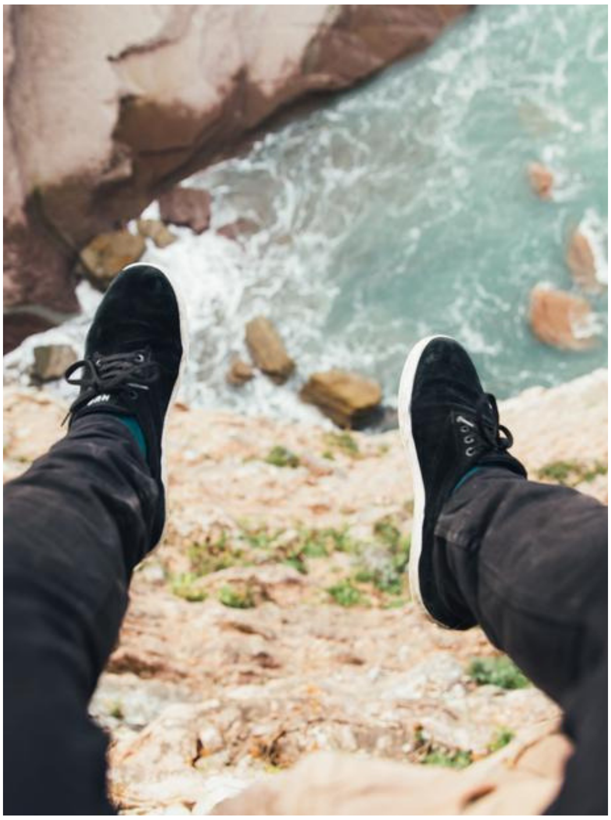
So why does Australia have such an intractable problem with life insurance? ANZ Wealth head of life insurance Gerard Kerr says while it's difficult to point to a single cause, cultural factors do come into play.

"Australians are notoriously optimistic and confident people – and while those are good characteristics to have, they can lead us to underestimate the risks we all face," he says.

That perception is confirmed by the Oxford University and Zurich survey, which found that almost one in two Australians believed they had a less than a 10 per cent chance of lost earnings due to disability or illness. The real risk is estimated to be around 25 per cent.

"Understandably, many people may simply assume that the cover they have through their super is enough, even though that is often unlikely to be true," he says.

So what can you do about protecting your family? Researchers agree that education is key, so taking advantage of resources like the AWS Knowledge Centre is a positive first step. An ongoing relationship with a financial adviser will ensure your families changing needs are always covered by an appropriate insurance policy.



What legacy do you want to leave?

ESTATE PLANNING IS ABOUT MUCH MORE THAN PREPARING A WILL

Thorough estate planning involves putting in place strategies that address all aspects of your situation.

Often, we assume this simply involves making it clear in a Will who we would like to inherit assets if we pass away. If you die without a valid Will, your estate assets will be distributed by a Court appointed administrator, according to the intestacy laws (which will rarely reflect your wishes).

However, while a Will can help ensure your estate is distributed according to your wishes, it may not be effective in dealing with a significant portion of your wealth.

For example, the proceeds from superannuation funds and life insurance policies don't automatically form part of your estate, which means that addressing these investments in your Will may be ineffective unless you take some important additional steps.

A well-prepared and executed estate plan can ensure the right assets go to the right people at the right time, in an efficient and tax-effective manner.

It can also ensure that if you're unable to make important financial and lifestyle decisions for yourself, the right person is able to step in on your behalf.

But before you take any action, you should speak to your financial adviser.

You and your adviser can then work with appropriate legal and taxation professionals (where necessary) to implement the strategies that best meet your needs.

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