



NAME: Glenn Groves

STATUS: Recently moved to, and bought a house in, a regional town in Victoria.

QUESTIONS: How do I build a group of people around me with an interest in money and investing? How should I reduce my mortgage debt and build up my retirement savings in the next 20 years? Do I have the right insurance for my needs?

ANSWERS: Get your investment property renovated and rented and use the income to pay down your debt. Salary sacrifice extra to build up your super. Change your salary continuance and TPD insurance to policies with more suitable options.

Timing your entry into the property market can be tricky. If you wait for it to go down but it keeps going up you can be locked out because it is too expensive.

Glenn has given up on buying in Melbourne, where the average house price is \$740,000 and it takes 9½ years of median household income to pay it off. Glenn ran

his own business for 16 years and much of what he earned went into that, so he has few savings. Now he is on a mission to build his housing assets and wealth.

He bought a dilapidated house, which he is renovating, on a large block three hours out of Melbourne in the pretty town of Horsham. He would like to eventually develop a number of units on the site to build equity and income for retirement. Then he bought a two-bedroom house in Ballarat Glenn intends to retire in the Ballarat house.

All up he has paid \$300,000 for the two properties and has interest-only loans with only 10% deposit. Two-thirds of the mortgage on the Ballarat home is at a fixed interest rate for the next three years while one third is variable. What is the best strategy for interest rates?

He recently moved into his Ballarat home and commutes 100 kilometres one way to Melbourne. For the amount he paid for his previous Melbourne rent, he can fund his Ballarat mortgage, pay rates

and utilities plus cover his travel costs. He is renovating the other home and plans to rent it out for more than the mortgage repayments. He has a budget of \$25,000 for the renovation.

One challenge with moving to a new area is finding a community to connect with. What steps should Glenn take? A few years ago he visited a financial planner about his insurance needs but was sceptical about their advice and fees. He wants to meet people who are interested in investing. "I would like to build a social circle of people who are great with money," he says.

His superannuation balance also needs a boost after years of being self-employed. How does he juggle his mortgages and super? He has insurance through his super fund, Hostplus, but wonders if it is appropriate for him. Does he need death and TPD if he doesn't have any dependents? Does he have the right income protection insurance (90-day wait) to cover his bills if something happens to him?

SUSAN HELY



Protect the income 'engine room'

ROY AGRANAT

Roy has 35 years' experience assisting people with their insurance needs and is a director of Fairbridge Financial Services, which specialises in insurance and corporate superannuation.

Glenn aims to build assets to fund future income needs for when he enters his retirement years. His plan includes taking on debt against the investments being made. His ability to generate income from employment will ultimately determine the success of the investment strategy. As the income "engine room" he understands the consequences for his investment strategy and lifestyle if he could not work, temporarily or permanently. Because he is single, life cover does not hold the same priority as disability protection.

For income protection

In addition to being insured for the monthly benefit amount, there are a few additional product features that Glenn should consider:

- Monthly benefit indexation – policy benefit amount increases each year with CPI.
- Claim indexation – while on claim, monthly benefit being paid increases each year by CPI.
- Agreed contract – locks in insured benefit amount at application stage (even if income reduces later on).
- Specific illness or injury benefit – pays a benefit, for example, if diagnosed with a medical condition such as cancer or heart attack, even if not disabled and working still. Helps with unexpected medical expenses.
- Lump sum benefit – allows the insured to commute future claim benefit into tax-free lump sum. Useful if the insured prefers to take a lump sum to retire debt, for example on an asset that could provide a long-term income.

Total and permanent disability

At a minimum, Glenn needs to ensure he is insured for a lump sum benefit to repay all his debt. There are at least six variations of lump sum disability cover. Glenn should consider "own occupation" as it is the most qualitative definition with greatest probability of a benefit payment in the event of a claim. The premiums are not tax deductible, with the proceeds tax free in the event of a claim.

Why not use his super fund's products?

- The income protection product under super does not provide the same qualitative definitions as a personally held policy, would not accommodate any future changes Glenn might make to his work arrangements, and he could find himself underinsured or, even worse, uninsured. Furthermore, there is no capability to include the agreed benefit, specific illness or injury benefit, lump sum benefits or monthly benefit indexation, all of which are important for consideration.
- The TPD lump sum definition of "unlikely to return to work" is too risky to rely on if totally disabled and expecting a claim to be paid.
- No control over trustee's decision to change disability definitions in the future.
- No opportunity to continue the cover if leaving Hostplus as cover is embedded.

When seeking advice, Glenn should not focus solely on price or tax deductibility but give greater weighting to how policies would perform in the event of a claim.



Focus on rental cash flow

STEVE GREATREX

Steve is a financial planner and founder of Wealth on Track, based in Adelaide. wealthontrack.com.au

Glenn, my biggest concern is your long commute from Ballarat to Melbourne. You are OK with it now but it is not sustainable.

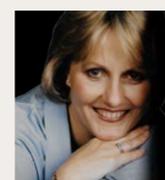
The prospects for both Ballarat and Horsham seem reasonable. Ballarat is really a satellite city of Melbourne now. Horsham appears to have low vacancy rates. It has a base hospital and important transport links.

Once the Horsham house is finished you believe you could rent it for \$170-\$200 a week. I suggest contacting an agent (not the one who sold you the property) and finding out the bare minimum you need to rent it, and what you would get. Then you can focus on what needs to happen soon and get some cash flow happening. It does not need to be perfect, just rentable – you can upgrade later.

Then start paying off your home loan. This debt is inefficient – you don't get a tax deduction on it.

Consider salary sacrificing into super. You are close to the \$80,000 tax threshold (39% rate) so this may keep you below that. You could save 19.5% tax on every dollar you put into super – so \$100 a month would mean a tax saving of \$234 a year.

I would be wary about finding people on a social basis who are good at investing. Sometimes this can lead to dodgy investing schemes. Keep your social life and your business life separate.



JILL WEEKS

Jill is a retirement speaker and author of *21 Ways to Retire* and co-author of *Where to Retire in Australia* and *Retire Bizzi*.

Seek professional help

Although there are many ways to get to know the local community, Glenn would be wise to seek professional help (financial and legal) in becoming involved in an investment group. ASIC's MoneySmart website may also prove helpful.

Networks and organisations that may be of interest include Business Ballarat and Commerce Ballarat, which run numerous events. BisNet breakfasts have been running for over 16 years; there's an interesting speaker each month.

Regarding a renovation group, why not visit the

local hardware store? Many such stores run DIY events and you may meet other renovators.

Sue Ellson, the founder of Newcomers Network, suggests that before you join a group or start your own network you should check out the existing networks in the area. Ask the organisers if you can attend without joining, go at least twice, work out the top three networks and only go to those.

For an outline of services provided by the council, contact the City of Ballarat within three months of moving to receive a new resident's kit.