

Marching to a different upbeat



Gareth Costa

Sometimes the need to believe in better economic times is so overpowering it completely overwhelms common sense, even when the negative case is well argued.

It's not unique to Australia but cognitive dissonance reigns supreme here.

Once again blinkered optimists are playing down or ignoring the potential risks from the bludgeon of interest rate increases on a heavily indebted economy.

Gloom from stagnant wage growth was swept aside and market pricing for a rise in the official interest rate next year kicked up over the past week.

This followed another solid jobs report, which showed the economy created 54,000 new jobs in August. The jobs-growth trend has been strong for the past six months but as yet has shown no sign whatsoever of ending the steady slide in wages to record low pace of growth.

Nevertheless, the Reserve Bank board remains hopeful wages will rise eventually. "Upbeat" is the word Reserve watchers have used, and so economists are climbing on board.

Last week ANZ economists amended their interest rate forecast to expect two official rate rises of 0.25 per cent next year with one of the most timid, cautionary cases one could imagine.



SO MUCH FOR THE RETURN TO THE 'AVERAGE' INTEREST RATE LEVELS GROWTH BULLISH ECONOMISTS KEEP PROMISING.

The change to their view reflected an outlook for growth that is "a touch more positive" and an "easing to the downside risks" to growth and inflation.

That's hardly reads like a bullish outlook on growth warranting rates to rise.

But after laying out their reasoning, they also warned that 50 basis points of rate hikes would be enough to take the average repayment on the median dwelling price close to previous peak levels, assuming an 80 per cent loan-to-value ratio on mortgages.

"While this overstates the aver-

age burden, it does highlight the impact on new entrants in particular, and economics always operates at the margin," they warned.

"Even if the RBA does enter into the cycle with the expectation that it will tighten by more than 50 basis points, we think the reaction of households to the move will quickly persuade the bank that this will be enough for now."

What this means is that the economy — which requires a never-ending flow of credit-created money — is so fragile that at most it can withstand a 0.5 percentage point rate hike without being at risk.

And even then they're not so sure.

So much for the return to the "average" interest rate levels growth bullish economists keep promising.

Long-term graphs of interest rates in Australia and most other countries show a steady down trend from about 1980 precisely because, without fail, borrowers at the margins become distressed during every interest rate cycle.

That's the fact of life in credit-dependent economies and no amount of wishful thinking will change it.

Super helps in tough times

DIY SUPER

Monica Rule



Due to members controlling their self-managed super fund's bank account, the temptation is there to pull money out when they are unable to make mortgage repayments or provide food and care for their family.

This temptation has resulted in people illegally accessing their superannuation nest egg.

Yet, if they had known the requirements of the superannuation law, they may have been able to access their super legally to help them through an emergency.

Although the objective of superannuation is to provide members with retirement income, the law does recognise that certain exceptional circumstances may justify the early release of superannuation to members.

They may be able to access their superannuation under severe financial hardship grounds or compassionate grounds.

Members also need to be aware that though it may be possible to access their superannuation under the superannuation law, there may

be restrictions under the rules of their SMSF trust deed.

Members need to check the types of benefits they can access from their SMSF under their SMSF's trust deed first.

An SMSF trustee, first and foremost, must comply with the rules of their SMSF's trust deed, a document that sets out the rules which govern the effective functioning of the SMSF. If a trustee fails to act in accordance with the deed, other members of the SMSF have a right to take legal action.

Trustees must also comply with taxation and superannuation laws. Failure to comply means risking the SMSF becoming a non-complying superannuation fund and losing its tax concessions. Trustees can also face individual penalties.

To access superannuation under severe financial hardship grounds, members must apply directly to their SMSF trustee.

Different conditions of release apply, depending on whether the member is under or over the age at which they can access their full super.

For a person below the preservation age, these conditions of release require the person to have been receiving Centrelink income support payments continuously for 26 weeks and being unable to

CONDITIONS OF RELEASE

BELOW PRESERVATION AGE

- Receiving Commonwealth income support payments continuously for 26 weeks (excludes Austudy and Youth Allowance)
- Unable to meet reasonable and immediate family living expenses

ABOVE PRESERVATION AGE

- Income support payments for a cumulative period of 39 weeks after reaching preservation age
- Not gainfully employed on a full-time or part-time basis at the time of applying for their benefit

COMPASSIONATE GROUNDS

Grounds for release. Unable to pay:

- For medical treatment for a life-threatening illness or injury, acute or chronic pain, acute or chronic mental illness
- For transport costs of necessary medical treatment
- Mortgage payments and lender has threatened to sell home
- Disability costs or palliative care costs for themselves or a dependant
- Or, the member needs to modify their home or car or buy aids to help with severe disability

SOURCE: DEPARTMENT OF HUMAN SERVICES
BIT.LY/SUPERDHS

meet reasonable and immediate family living expenses.

A person who has reached their super preservation age has different Centrelink payment rules and must not be gainfully employed when they apply for the benefit.

The full rules are detailed in the table above.

The member is able to access their entire superannuation savings if the trustee is satisfied that the member meets the full requirements for their time of life.

If the member is unable to access their superannuation under severe financial hardship grounds, then they could consider applying to the Department of Human Services for early release of their superannuation under compassionate grounds.

The department may allow access to superannuation to cover reasonable costs where a person is unable to pay for medical treatment for a serious medical condition.

The treatment must not be readi-

ly available through the public health system and must not be covered by private health insurance or by workers compensation.

There can also be compassionate release of super to meet mortgage repayments and for home modifications, as well as for costs related to the death or serious illness of a partner, child or other dependant.

Be aware that the early release of superannuation is only for unpaid costs. Members cannot get access to super to pay for costs already paid even if they used a loan, a credit card or money from family or friends.

Members also need to be aware that any early release of superannuation money to them could affect their entitlement to government pensions and allowances.

There may also be tax payable on their superannuation lump-sum benefit based on their age and the components of the lump sum.

Monica Rule is an SMSF specialist
www.monicarule.com.au