Pay extra for a future you can bank on

Noel Whittaker

LAST week I took the Commonwealth Bank to task for encouraging its customers to pay back their loans at a slower rate. Today I want to expand on that theme because it affects almost every Australian who is trying to build a solid financial future.

A home loan is probably the biggest loan commitment most people ever take out, and because of the way the mathematics works, the term of the loan makes a massive difference to the amount of non-deductible interest borrowers pay.

Think about the Kim family, who borrowed $400,000 at 6 per cent over 30 years. The monthly payments were $2398 — and total interest over the life of the loan a staggering $463,000. After 15 long years of repaying $2398 every month, the debt was still $284,000.

Their friends the Taylors also borrowed $400,000 at 6 per cent over 20 years, but increased repayments by just $468 a month to $2866 from the day the loan was taken out. Their loan term dropped to just 20 years, and they saved $247,000 in interest. At the 15-year mark they owed just $148,000.

As the Taylors were in the second-highest tax bracket, a saving of $247,000 of after-tax money is equivalent to earning an additional $405,000 in salary or bonuses. This is serious money. And getting the loan balance down quickly also gives you other options to save money. Right now, the papers are full of articles urging you to ring your bank and bludgeon them into giving you a cheaper rate.

That's fine if your equity is better than 20 per cent of the value of the home, but if you are one of the many people who bought the loan with less than 20 per cent deposit, you will still be stuck with mortgage insurance. This is not transferable between lenders and may well cost at least $15,000 if you try to change lenders and have to take out fresh mortgage insurance.

Getting the loan balance down quickly — below that crucial 80 per cent loan-to-value ratio — gives you the flexibility to shop around and potentially save tens of thousands of dollars.

It can be difficult for a family to look at investment alternatives while coping with big home loan repayments, as well as all the other costs that go with raising a family. But once the home-loan payments are under control, a whole new world of investment opens up.

Let's pretend the parents in the two families were all aged 30 when they took out their initial home loan, and that they embarked on an investment program when their loan was paid off, using the repayments no longer needed for the loan.

The Taylors would have their home loan paid off at age 50, the Kims at age 60. If the investments earned 9 per cent a year, the Taylors, who started at age 50 and invested $2866 a month, would have just over $1 million in their portfolio at age 65. The Kims, starting their investment at age 60 and investing $2398 a month, would have just $172,000. The difference is more than $800,000.

The latest estimate from the International Institute of Finance is that total world debt has now reached $293 trillion.

Australia's national government debt exceeds $600 billion and is increasing at $100 million a day, or $3 billion a month. Given these horrifying figures, and the fact that people are living longer, there has never been a clearer signal that people need to provide for their own retirement.

The most effective way to do this is to accumulate as many assets as you can. I think the message is clear: paying your home loan back faster saves substantial interest and clears the pathway to many strategies for building wealth.

Noel Whittaker is the author of *Making Money Made Simple* and other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions.

replicate the adviser's stated portfolio for fees of less than 0.10 per cent, and under $100 a year in administration fees.

Sniff, sniff!

Tithing for the church

Janice asks: I am a single mum of three. I earn $86,000 a year, pay $624.10 per fortnight in child support (my ex-husband doesn't work as he is a stay-at-home dad to our teenage kids), and owe $275,000 on the mortgage. I am a teacher and tithe 10 per cent of my salary each fortnight to the church (non-negotiable commitment). But I just cannot fill my buckets — what would you suggest?

Barefoot responds: When you factor in your non-negotiables — child support, mortgage repayments and the tithe — you're already coming close to spending 60 per cent of your take-home pay! And that's before you pay the other non-negotiables, like electricity, food, fuel, council rates and toilet paper.

If I were in your situation, I'd seek guidance from your pastor. If you're a teacher, maybe you can pay your tithe by working for the church? Or perhaps you can do some tutoring? Either way you need to increase your income (or decrease your outgoings) until your teenage kids are off your hands.

The Barefoot Investor: The Only Money Guide You'll Ever Need (Wiley) RRP $29.95

ASK THE EXPERT

Send your questions to Noel Whittaker noelwhit@gmail.com or tweet @NoelWhittaker

Q I am 68 and have been retired for seven years. I have a term deposit reaching maturity soon and wonder whether I can add it to my allocated pension without paying tax.

A You cannot add to a fund in pension phase — all you can do is start a separate accumulation fund and contribute to that. When appropriate, that accumulation fund can be transferred to pension mode. I note you are 68 and retired, therefore you cannot contribute to super at all unless you pass the work test, which involves working 40 hours in 30 consecutive days

Scare the ghost away from job applicants

WORKPLACE MATTERS

Gary Martin

EVER been on a romantic outing? Things appeared to be going smoothly and you talked with your date about seeing them again.

To avoid appearing too keen, you wait a couple of days before sending a text message suggesting a follow-up date. No answer. You wait another day and send a second SMS. No answer. You make a third attempt two days later. Still no answer.

You have been ghosted, and it's not a nice feeling.

The term "ghosting" is thought to have originated in the dating world, and describes a particular phenomenon when one person in a relationship is cut off from the other, usually in a sudden way and without explanation.

This same concept has crept into human resources departments and, according to some HR experts, is becoming more frequent.

Let's consider the area of recruitment. A position is advertised, you submit your application, and you receive a standard response acknowledging your application.

You wait, filled with both excitement and anxiety, for a response to what you consider was a first-class application.

A month goes by and you have heard nothing. You decide to ring the key contact in the organisation's HR department but are told the person "is in a meeting". You ask for a return call.

Three days pass. Nothing. You have been ghosted.

You decide to call again, in case the HR contact did not receive your message. You give the contact the benefit of the doubt. But after two days, you realise you have been ghosted. You never hear again from the organisation — not even a note to say your application was unsuccessful.

Now some HR professionals would argue the volume of applicants is often so big that it is impossible to respond to each individually.

But the reality is that not returning a call or message is unprofessional and reflects badly on the organisation.

And here's the rub.

Those who are ghosted in a recruitment process often feel disrespected, used and betrayed. Ghosting, regardless of the context, creates considerable ambiguity for the person who has been "cut off". It can cause the individual to question their self-worth and professional capability.

It may sound extreme but if you have been ghosted during a job application process you will most probably agree.

Job applicants will remember how well they are treated and share the experience with their friends and professional contacts. Over time, this will damage an organisation's employment brand, and discourage even talented people from applying for vacant positions.

The concern for organisations is this: once ghosting creeps into an HR department, it can quickly embed itself within the organisation. Ghosting tactics can then take over other areas of HR, including the way this vital department interacts with existing employees.

The fix is simple but requires a firm commitment: be up-front and responsive in your interaction with existing and potential employees.

Professor Gary Martin is chief executive at the Australian Institute of Management WA