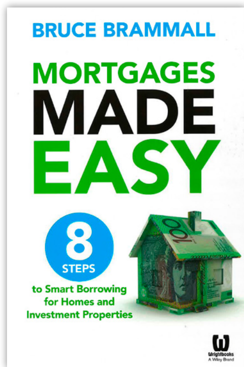
BOOK OF THE MONTH



MORTGAGES MADE EASY

Bruce Brammall

WILEY RRP $29.95

Author and personal finance columnist Bruce Brammall maintains that if you want to buy property, debt is a necessity. "You can't buy real estate without it. Well, most of us can't," he says. "And the 1% who can do it without borrowing know how financially smart debt can be, so they usually buy with debt anyway."

He explains how debt relates to property mortgages, how it helps you create wealth with property and how you can get financially fit for your first mortgage. He takes you through the process over eight chapters.

Brammall discusses goals and what "getting it right" really means when it comes to property. He looks at mortgages and discusses the concept of buying the "great Australian dream", which then leads us into building wealth. He writes about how to structure your loan and then gets into the nitty-gritty of purchasing a property. EMI BERRY

Ten readers can win a copy

In 25 words or less, tell us how you found or are trying to find the right mortgage for you. Send entries to Book of the Month, Money, GPO Box 4088, Sydney, NSW 2001 or email money@bauer-media.com.au. Don't forget to include your name and postal address. Entries close May 6, 2015.

THE BUZZ

Longevity has a downside

As we age, future generations will foot the bill

One of the more startling predictions to emerge from the recently released Intergenerational Report is that by 2055 there could be around 40,000 people aged 100 and over. Who born in 1950 would have imagined they would work for 50 years and then live another 35 in retirement? More importantly, did they ever consider during their working life that they would outlive their retirement savings? Actuaries have been highlighting this issue of "longevity risk" for many years.

While the government will ponder whether its economic policy proposals will eventually produce budget surpluses, individuals will consider what these major demographic changes mean for their standard of retirement, their health in later years and, importantly, the financial burden that will fall to their children and grandchildren in supporting them.

Consider the report's analysis that the number of workers (people aged 15 to 64) for every person aged 65-plus has declined from 7.3 in 1975 to 4.5 in 2015 and is expected to drop to 2.7 by 2055. That's less than three workers supporting one retiree – something has to give. The elephant in the report is the issue of who will pay to look after our ageing population? Can the younger generations afford it? Is there intergenerational equity in our retirement income system? One obvious solution is that governments will either have to lower benefits for retirees or increase taxes on younger generations to sustain support for pensioners. But there are some alternatives.

The Actuaries Institute believes government must encourage the community to focus on funding retirement income, not on lump-sum payouts. We support the Murray inquiry recommendation for super fund trustees to establish default retirement income products and to remove regulatory barriers that stifle innovation in annuities. We encourage policymakers to establish an agreed set of objectives for the superannuation system so that the impacts of any proposed changes take into account the effects on age pension, aged care and health systems.

One thing is certain: policy direction and implementation needs to start now. Baby boomers may have many years left to enjoy their retirement but younger generations will start to demand a fairer share of the nation's past and future prosperity.

ESTELLE PEARSON, PRESIDENT, ACTUARIES INSTITUTE

THE BURNING QUESTION

Will the sharemarket boom or bust in 2015?

Roger Montgomery, founder and chief investment officer of The Montgomery Fund

The direction for the stockmarket in 2015 depends on the same two factors that it will always depend on: earnings and the price investors are willing to pay for those earnings.

Earnings depend on economic growth, which is slowing dramatically – thanks to China's artificially fuelled infrastructure growth coming to an end. Earnings are also driven by profit margins and for many sectors any recent expansion has been due to cost-cutting. Margin pressure may now emerge from a lower Australian dollar, higher wage costs and deflation prompted by online competitors. The other driver is the multiple of earnings investors are willing to pay. The single biggest driver of this is interest rates.

Low interest rates and abysmal returns have driven baby boomers out of cash and term deposits into a narrower and narrower band of quality companies with stable dividends. When the prices of these securities rise (as they are likely to do) to such a point that the yields are too low to compensate for the risk of a bump to the underlying company's earnings, or an eventual increase in interest rates, the rally will end and investors will momentarily believe share prices have reached a new and safe plateau. As always, only a false sense of security will be offered.