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MONEY PLANNING & BUDGETING FAMILY FINANCE

'I feel a million times lighter': why we all need a financial Plan B

By Emily Chantiri
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Over the past two decades, Melinda Young and her husband amassed a portfolio of five properties, including their family home.

Melinda Young, 42, had a financial plan with her husband, but their quality of life was suffering.

Young and her husband Arif Thaher, 47, planned to offload two or more of their investment properties along with the family home, and buy a larger property in Sydney's eastern suburbs. The downside would be an even bigger mortgage.

But the toll of many years of mortgage repayments caused the couple to rethink their investment strategy when Young's contracting job came to an abrupt end last Christmas. Instead the couple plan to move into an apartment.

"Initially, we were looking to buy a larger $3 million-plus home," says Young. "Unfortunately, this would mean a further 30-year commitment, in addition to the years of commitment we've had with our other properties. When my job ended suddenly, I felt beholden to continue working if we upgraded to a larger mortgage."

Young , 42, says the job break gave her the much-needed downtime to think about her lifestyle and put Plan B into action.

“[Losing my job] was a situation that forced our hand. I was on the treadmill of working on auto and I was divorced from my real feelings,” she says, “I didn’t have the space to think about what our family needed. “

The couple decided to keep the three currently tenanted properties; the rent on these more than covers the loans. They sold their small family home in Sydney’s eastern suburbs, offloading a significant mortgage, and paying down the remaining apartment they plan to call home. Part of the funds will go towards Thaher’s new vehicle purchased for his hire car business.

“I have choices now, whether to work or pause between jobs, rather than feeling pressured to take whatever comes my way,” Young says. “We’re almost mortgage free. I am so happy with the outcome. I feel a million times lighter!”

Young can now look forward to holidays with her husband and son. “In the past they went on holidays while I kept working. I earn good money as a change management consultant, but I couldn’t stop because of our financial commitments,” Young says. “Why am I doing all this if I have no quality of life?”

Freeing up the debt has helped her at work. “I’m more creative and perform better. Nobody can work in a pressure cooker environment forever.”

While Young and Thaher are able to take a breather from their mortgage stress, the reality for many is that mortgage stress continues and is on the increase.

Escaping the rat race

Across Australia, more than 966,000 households are estimated to be in mortgage stress, according to the May 2018 mortgage stress and default analysis update released by Digital Finance Analytics (DFA). More than 22,600 of these are in severe stress, up 1000 from the previous month.

DFA principal Martin North says there is pressure on households due to flat incomes, rising expenses such as childcare, electricity, fuel, health insurance and school fees.

“Australians have very large mortgages with high debt ratios,” North says. “On average a loan-to-income ratio is five, six times or more, particularly in the eastern states. The expectation is that in the next few months stress will continue to rise as mortgage rates rise.”

North adds lending standards are tighter with new loans requiring a relatively greater income and lenders focusing on expenses too. “The average borrowing power is down 20 to 25 per cent compared to a year ago,” he says. “This means that many people are stuck in mortgages they cannot refinance and they could struggle to get ahead.”

So how might a Plan B work for people without the resources of Young and Thaher?

It’s essential to have enough insurance – such as income protection insurance or total and permanent disability cover – in case poor health forces you to adopt a Plan B.

But it's about having a plan that is flexible enough to scale back if your needs or life goals change.

Mortgage broker Rebecca Morgan says the questions she asks her clients are: "What is your plan? What do you want to be doing for the next 20 years and why are looking to buy property?"

Building a property portfolio with the intention to sell and reduce personal debt is a strategy her clients often take up and work towards. She encourages her clients to think about a range of ways they can repay their home loan and says this should be the aim.

"There are ways or tools people can use to reduce loans, it depends on their comfort level with risk and debt," Morgan says.

"With such slow wage growth it's very difficult for people to reduce their mortgages through salary only. The cost of living means that most people don't have extra cash lying around to plug into mortgage."

She recommends rentvesting, whereby people rent in the area they want to live and buy an investment property in markets expecting high capital growth and at a more affordable price point and using property investment as a long-term strategy to reduce owner-occupied debt.

Everyone needs a Plan B in case the unexpected happens or you reevaluate what you want out of life. SHUTTERSTOCK

"Although that wasn't the plan for Young and Thaher, it is a strategy that will alleviate the pressure to always earn more money," Morgan says. "It can allow people to gain a better work-life balance or put their money towards lifestyle choices and holidays."

Other options could be to sell assets or move in with family and rent out the home - it really depends on the individual and their goal. The idea behind a Plan B is to plan a safety net or exit plan, regardless of whether it's a mortgage or job.