

Strategy Brief

Strategy	Offset account
What is involved?	Moving all your cash savings and directing all your income to a standard bank account that is linked to a loan account (typically your home loan).
Why it works	You pay less in interest over the term of your loan (so you can pay it off sooner). The balance of the bank account offsets the balance of the linked loan account. As a result you only pay interest on the net balance between the loan account and bank account on a daily basis.
Who can benefit from implementing this strategy?	✓ Anyone with a non-deductible debt (such as a home loan)
Issues to be aware of	<ul style="list-style-type: none"> ■ Beware of imitation offset accounts that have restricted features. ■ Beware of case studies provided by some lenders that are misleading. ■ Before implementing this strategy, you should discuss your situation with a trustworthy mortgage broker (we can refer you to one).
Related strategies	<ul style="list-style-type: none"> ■ Efficient cash-flow strategy
Our advice will ensure that:	<ul style="list-style-type: none"> ■ You remain on track to achieve your goal to repay your home loan in the set time frame. ■ You are referred to a trustworthy mortgage broker who can go through the finer details with you.

Case Study

Jack earns \$100,000pa, has \$15,000 in a cash management trust (earning 6%pa) which is earmarked for a holiday in 18 months time and his home loan is \$280,000 (interest rate of 8.5%).

Jack wanted to know what the benefit would be if he transferred the \$15,000 in his cash management trust into an offset account:

	\$15,000 in a cash management trust	\$15,000 in offset account
Taxable income	\$100,900	\$100,000
Tax and medicare levy payable	(\$28,974)	(\$28,600)
Interest payable on loan	(\$23,800)	(\$22,525)
Net income after tax and interest on home loan	\$48,126	\$48,875
Net benefit		\$749

Jack earns 6%pa on his cash management trust but this income is taxed at 41.5% so after tax, he's only earning 3.57%pa. By transferring these funds into an offset account he does not have to pay interest on \$15,000 at 8.5%pa, but misses out on 3.5%pa of interest income. The net result is a saving of 5%pa on \$15,000.

The benefits from this strategy can be increased even further if Jack has his salary paid into the offset account and if he uses a 55 day interest free credit card to pay for living expenses. A detailed analysis of this strategy will be posted on our website shortly.

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