

KiwiSaver Newsletter – March 2014

The Real Cost of a Cup of Coffee!

Recently we met with a young client who argued he couldn't afford to join KiwiSaver. After been shown how KiwiSaver worked, and hearing the coffee story, we both concluded he couldn't afford not to join KiwiSaver. We have therefore dusted off an old article on the real cost of a cup of coffee that we wrote some time ago, updated the figures to allow for today's interest rates, today's average size mortgage, and today's cost of a flat white. We hope you find the article interesting, even the second time around?

Coffee vs Mortgage

The average house value in Christchurch today is \$455,000.00. If we assume our model clients, Mr and Mrs Average, purchased a home for the average price and used the average financing percentage of 66.00%, then the mortgage Mr and Mrs Average would have is \$300,000.00.

The very average terms of this mortgage are:

- Mortgage Sum \$ 300,000.00
- Mortgage Term 25 years
- 2 Year fixed rate 6.30%
- Repayments \$ 918.00 per fortnight



Mr and Mrs Average love their daily flat white coffee. Their local café sells a great cup for \$4.50. If they both purchased a flat white every day of the week, they would have bought 14 coffees at a cost of \$63.00.

Mr and Mrs Average have a financial adviser who said to them "why don't you drink the coffee provided in the staff room by your employer free, and place the \$63.00 saved per week into your mortgage?" Our model clients followed the advice and decided to increase their regular fortnightly payment from \$918.00 to the new payment of \$1,044.00 (this is the extra \$63.00 per week saved by not buying coffee).

So, what did Mr and Mrs Average achieve by doing this?

1. The term of the mortgage reduced from 25 years to 19 years.
2. Total interest reduced from \$296,490.00 to \$214,752.00.
3. The weekly saving in mortgage interest over the 19 years is \$82.73.
4. If we spread the weekly savings over the 14 cups of coffee then the real cost of that flat white is not \$4.50, it is **\$10.40** - a staggering \$5.90 extra per cup!

This is not a new concept. In this case we have used a simple flat white as our example. Imagine the saving if we used a packet of cigarettes, or even a couple of glasses of wine!

Coffee vs KiwiSaver

Now, what does this have to do with KiwiSaver? Remember the young saver who claimed he couldn't afford to join KiwiSaver and we argued he couldn't afford not too? If that young saver was on the average wage of \$57,000.00, and had no mortgage, we could apply the following:

- Annual Salary \$ 57,000.00 (+ 3.50% increase per annum)
- KiwiSaver Contributions 3.00%
- Employer Contributions 3.00% (*less Employer Superannuation Contribution Tax*)
- Govt. Contributions per week \$10.00
- Earnings Rate (after tax & fees) 3.10% net
- Savings time horizon 25 years

The 3.00% contribution from our young saver is \$32.88 per week. This is approximately the same cost of one flat white per day for the week. If our saver prudently decided not to buy his coffee, and instead placed the savings into starting a KiwiSaver account, after 25 years he would have accrued \$229,652.00 for a total cost from his own contributions of \$42,750.00. The gain over and above his contributions is \$186,902.00. If we divide this by the 25 year term, and by the 7 cups of flat white per week, the real cost of that coffee is not \$4.50, but **\$25.00!**

Anyone for Coffee?

(Calculations made via Sorted website)

Grosvenor KiwiSaver Scheme now a Default KiwiSaver Provider



Following the first seven years of KiwiSaver, a review has been carried out on the default KiwiSaver providers. Default providers were assessed by an independent panel according to a range of criteria, including the provider's organisational and investment capabilities and fee levels.

Previously, there were six providers and KiwiSaver members who started a new job without actively choosing a scheme were randomly allocated to one of these providers.

Following the review process, there will be nine KiwiSaver default providers in the next seven-year term commencing 1 July 2014 including our preferred KiwiSaver provider, Grosvenor. The default providers for the next seven years will be AMP, ANZ, ASB, BNZ, Grosvenor, KiwiBank, Mercer, Fisher Funds and Westpac. For more information, click here to read the [Government's Q&As](#).

Overseas Superannuation Schemes

We have assisted many clients recently in relation to their overseas superannuation schemes, particularly following changes to trans-tasman portability and the taxation of other (non-Australian) pension schemes. If you have worked overseas and have superannuation still there, please contact Michael or Steve today to discuss your options and obligations.

Who to Contact?

You can speak to anyone in our team in relation to your KiwiSaver, however Michael is our KiwiSaver specialist adviser. While you may have dealt with Jasmine in the past, she is on maternity leave following the birth of her daughter Emily in January, so Michael is available for any of your queries or advice. His contact details are listed below:

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OUR CONTACT DETAILS

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[Check out our website at www.rede.co.nz](http://www.rede.co.nz)

Disclosure Statements are available on request and free of charge.

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