REDE ADVISERS
PROFESSIONAL FINANCIAL ADVICE

Newsletter December 2015

In This Issue *Page*

Steve's Soap Box

The following is yet another contentious piece of opinion Steve has written for the newsletter. As we have warned previously, these pieces are on current issues affecting New Zealand and will be hard hitting and sometimes controversial. Steve is not known for his diplomacy and political correctness, and we have given him an opportunity to say it as he sees it. The opinions stated in these pieces will be his own and not necessarily those of the company or other staff members. We hope you enjoy them as much as Steve enjoys writing them.

Level Premium Life Insurance

The other day while driving home, I heard an ad on the radio which raised the old blood pressure somewhat. When considering how frustrating driving in Christchurch is currently this is no mean feat. The ad was selling life insurance and their marketing strategy concentrated on the phrase "Life Insurance when you need it most". Now I am not critical of level premium insurance policies, they do have a place in our risk management toolbox, however I am somewhat concerned at the marketing strategy.

'The claim that you need life insurance the most when you are older is incorrect'

This ad claims that by paying a level premium (the same dollar size premium over the life time of the policy) you will be able to afford the life cover when you get older and need it the most. Normal annually renewable policies have premiums based on age (when you are young the premiums are cheap as the chances of dying are small, and when you age the premiums go up in line with the chances of death increasing). Given that level premiums do not rise with age, why did my blood pressure rise? Well, for a number of reasons:

"If I let myself get bitten by a vampire so I become immortal and only a wooden stake can kill me, can I get a better rate on my life insurance?"

Firstly, the claim that you need life insurance the most when you are older is incorrect. In my experience you need life insurance the most when you are young, and have dependent family, large mortgages, little in the way of savings and are commencing your career. When you are older your children are mostly independent, your debts are gone, often your partner has returned to the workforce, your income and career has advanced, savings have increased and you may have even inherited wealth from previous generations.

To have level premiums over the life of a policy you first have to pay higher premiums **than the risk** in the first half of the policy, so you can pay lower premiums **than the risk** in the second half of your policy. You effectively have to pay more premium in advance so you can enjoy the smaller premium later. Now my problem with this is twofold. Firstly, younger lives do not have surplus income to "pay in advance" their life premiums - remember the big mortgages, dependent family, and lower paid careers! Secondly, if the younger lives could afford to pay more premium then surely it would be best directed to buying higher levels of cover and protecting your family better – when they need the most protection?

I have found that we need the largest cover, and the smallest premium, when we are young. Our needs are greater and although the risks are less the consequences are significant. As we age and reduce our mortgages and our children cease to be dependent then we can commence the process of reducing the cover. By reducing the cover in the later years you are aligning the potential pay-out to your needs and paying less premiums. This would seem to be to the best of both worlds – better cover and cheaper premiums.

Retirement – How Much Do You Need To Live Comfortably?

We are often asked this question from clients that are about to retire – how much do I need to live comfortably? Until recently we have always answered this question with information based on our experience with our own clients and on feedback from our retirees. Now we can refer to a report which provides a guide to retirement expenditure.

'There is a gap between what you need to spend to live in retirement, and the level of NZ Superannuation'

The report is "The New Zealand Retirement Expenditure Guidelines 2015". Workplace Savings NZ and the Fin-Ed Centre have combined to produce the retirement expenditure guidelines from information sources from the most recent Household Economic Survey. These figures have been updated to 2015 using inflation data.

These guidelines have been produced for two geographic-related groupings (Metro and Provincial), for two types of households (one person retirees and two person retirees) and two types of household budget (**No Frills** and **Choices**). The **No Frills** guidelines reflect a basic standard of living that includes few, if any, luxuries. The **Choices** guidelines represent a more comfortable standard of living which includes some luxuries and choices.

These guidelines are not recommended levels of expenditure – these are actual costs incurred, inflation indexed, to reflect actual expenditure today. Income for all retired households has been divided into five segments (quintiles).

The **No Frills** guidelines are based on the average expenditure of the 2nd quintile, and the **Choices** guidelines on the average expenditure of the 4th quintile. So what do the guidelines tell us for Metro retirees?

Total weekly expenditure		
One Person Household	***No Frills** – Metro*	*$489.77*
One Person Household	***Choices** – Metro*	*$754.03*
Two Person Household	***No Frills** – Metro*	*$522.93*
Two Person Household	***Choices** – Metro*	*$1,091.77*
NZ Superannuation	*Single – living alone*	*$374.53 net M tax*
NZ Superannuation	*Couples – both qualify*	*$576.20 net M tax*

For One Person Households who wish to live a **No Frills** retirement the shortfall between NZ Super and average expenditure is $115.24 per week ($5,992.48 per annum). The **Choices** average expenditure sees an average shortfall of $379.50 per week ($19,734.00 per annum).

For Two Person Households who wish to live a **No Frills** retirement the shortfall between NZ Super (both qualify) and average expenditure is $53.27 per week ($2,770.04 per annum). The **Choices** average expenditure sees an average shortfall of $515.57 per week ($26,809.64 per annum).

Rede Clients and Retirement Expenditure

It is unlikely that a **No Frills** retirement is what our clients have in mind. Having said that, we are continuously reminded by the few clients we have that are on very limited budgets how well you can live if you apply yourself. Generally our clients fit into one of two categories:

1. **Choices** – forth quintile spending up to $20,000 a year above NZ Super (One Person Household) or up to $30,000 a year (Two Person Household).

2. **Choices Plus** – fifth and top quintile spending up to $30,000 a year above NZ Super (One Person Household) or up to $50,000 a year above NZ Super (Two Person Household).

As expected, this report has confirmed that there is a gap between your living costs in retirement and the level of NZ Superannuation. Also the report has confirmed what Rede Advisers already knew – how much our existing retired clients are spending in retirement. How do you bridge the gap especially when only one qualifies for NZ Super? KiwiSaver is assisting greatly in this area however its lack of flexibility and its tie into the age of eligibility to NZ Superannuation are limiting factors. We also need an unlocked, accessible bucket of diversified assets. The challenge is planning ahead and saving enough to ensure you can bridge that gap. If you want to know where you stand with your retirement goals – contact Steve or Michael.

Staff Changes – Jasmine and Julie

After a number of years of no staff movements we are very sorry to announce that both Jasmine and Julie will not be returning in the New Year. Both have been with us for a number of years working part-time. It is always a sad time when great staff leave and we will miss their friendly enthusiasm in the office. We have taken this opportunity to review our staff requirements and we have employed a full time replacement who will commence employment in the New Year. On behalf of the Rede Team, and all our clients, we wish Jasmine and Julie the very best for the future.

Key Indicators and Rates

OCR (official cash rate)	2.50%	UDC Finance Deposit – 12 mths	3.65%
90 day Bank Bill	2.80%	Mutual Credit Finance Deposit – 18 mths	5.75%
Enhanced Cash Portfolio	2.75%	Heartland Bank Deposit – 12 mths	3.70%
Income Securities Portfolio – Call	3.25%	Income 18 Portfolio *(estimated)*	4.30%
Income Securities Portfolio – 3 mths	3.50%	Income 28 Portfolio *(estimated)*	4.90%
Income Securities Portfolio – 6 mths	3.75%	Income 50 Portfolio (*estimated*)	6.30%
Income Securities Portfolio – 12 mths	4.00%	Corporate Bond Portfolio (*estimated)*	3.30%

Christmas Period Transactions

Grosvenor will be closed from Thursday 24th December until Tuesday 5th January, so the following will apply:

- Regular withdrawals and direct debits due between 24th and 31st December will ALL be processed on 31st December.
- Last day for one-off withdrawals from Grosvenor portfolios (not BNZ accounts) are:
  - 10.00am, Tuesday 22nd December where trading is required
  - 2.00pm, Wednesday 23rd December where cash is available
- Payments from BNZ Cash Manager Accounts will continue as normal on business days.

Our office will close for the Christmas break at 3.00pm on Wednesday, 23rd December 2015 and re-open on Monday, 18th January 2016. Both Ona and Steve will be in the office on occasions from Monday 11th January.

As always, both Michael and Steve are available on their mobiles in the event of an emergency. If you require urgent assistance, please call and leave a message and they will get back to you as soon as they can.

We wish you a happy holiday season
and a New Year of health, happiness and prosperity.
from Steve, Michael, Ona, Julie, and Jasmine

OUR CONTACT DETAILS

Office	Tel: 03 964 4207		Email: office@rede.co.nz
Steve Benton	DDI: 03 964 4209	Mobile: 027 205 2130	Email: steve_benton@rede.co.nz
Michael Shears	DDI: 03 964 4222	Mobile: 021 310 241	Email: michael_shears@rede.co.nz
Ona Mackonyte	DDI: 03 964 4208		Email: ona_mackonyte@rede.co.nz

Office location: Level 1, 567 Wairakei Road, Harewood, Christchurch 8053
Mailing address: P O Box 39 100, Harewood, Christchurch 8545

Visit our website at www.rede.co.nz

Disclosure Statements are available on request and free of charge.