

TIDYING UP YOUR FINANCIAL BACKYARD

We are all affected by the current situation differently. Some of us will still be required to continue working due to being involved in essential services, some of us will be continuing to work but in newly designated home offices (like the Rede team), others may now find themselves with the ability to catch up on some of those long outstanding jobs at home.

I have family members taking the opportunity to complete family trees, finishing the writing of a book, knitting teddy bears for the children's ward and sorting out the chaos of digital photos.

We at Rede have put together a list of tasks that we often find are neglected because life takes over. If you find yourself in a position where you have some time to yourself, perhaps the following list may provide some guidance regarding getting the foundations of your financial house in order.

Financial Planning 101

Over the next few weeks, you may find yourself with the opportunity to tidy up some of your 'financial backyard', especially if the current weather pattern holds out.

We have put together a list of basic financial planning ideas that may help you focus on some of those areas that may currently be lacking a bit of attention or just need a quick dust off. There is a checklist at the bottom if you want to give yourself a challenge.

Estate Planning

Financial planning should often start with the end in mind. So, using this as a basis, we suggest you begin by reviewing your estate plans. This includes wills, trusts, powers of attorney and ownership of your assets and liabilities.

Wills

If you don't have a Will or it is no longer valid, then legislation will decide how your assets are divided. If you have children, this may cause more of an issue than you realise. So, make sure you get one written up sooner rather than later.

If you do have a Will, make sure it is up to date and reflects your current wishes.

Trusts

If you have a Trust, there are significant changes coming to how Trusts operate in New Zealand under the new Trusts Act 2019. The change has prompted many Trust settlors to consider the purpose of the Trust, and whether there should be as many beneficiaries named. From January 2021, you will be required to provide information on the Trust to beneficiaries over 18 years of age. For more information, [click here](#) to read the article we prepared on the changes

If you are comfortable with your Trust, then ensure you have a Memorandum of Wishes to guide your appointed Trustees on the purpose and desired outcome for your Trust assets. While it may not necessarily be binding on the surviving Trustees, they will usually follow it.

Because a Trust continues after your death, a Memorandum of Wishes is important as it outlines your intentions for the Trust assets. It's a personal document that doesn't need to be written by a lawyer. You should write it yourself, in plain English, and update it whenever circumstances change.

Powers of Attorney

There are two types of Powers of Attorney: general and enduring. A general Power of Attorney is appointed to help you look after your affairs and you can choose what it covers, e.g. money and property. A general Power of Attorney ceases to be valid as soon as you no longer have the mental or physical capacity to instruct them.

An enduring Power of Attorney (or EPA) allows your nominated person to act for you if you become mentally incapable but must be arranged while you are mentally capable to make that decision. You can nominate an EPA for your personal care and welfare, and for your financial affairs and property.

If you don't currently have an EPA, now is the time to think about who you could nominate and the types of authority they'll have. Remember, it must be arranged prior to you becoming mentally incapable or it will be invalid.

Ownership structures

As simple as this sounds, we sometimes do not update the ownership of our assets and liabilities to ensure they fit with our overall estate plans.

Check the ownership of your assets; are they owned by the right person or persons? How will this ownership structure affect your final wishes, are the two co-ordinated? This can become a complicated area and further advice may be required, however in the meantime you could put together a summary and draw a diagram of who owns what.

An area that is often overlooked is the ownership of our bills. For example, if only one member of the household is registered on the power account and then becomes incapacitated, it can prove challenging to update or change any details with that provider. Either updating these providers to joint billing or load authorised persons to act on the account can alleviate this issue.

Just in Case Folder

A *Just in Case Folder* is a place where you safely store all your important documents and information which can be easily located by the person who will deal with your affairs if you become incapacitated or pass away. A *Just in Case folder* should include the following;

- Contact details for your professionals such as accountant, lawyer, financial adviser, executor and doctor.
- Copies of your latest
 - Year-end accounts summary
 - Tax Returns
 - Investment statements
 - Insurance policies
 - Will
 - Trust deed
 - Powers of attorney
 - Wishes and requests
 - Bank accounts

Let close friends and family including your executor know where this folder is stored, *Just in Case* it is needed. It will also make the ongoing management of your affairs so much simpler.

Cashflow

Whether you are in business or running a household – cash is king. Understanding your cashflow is one of the most important aspects within financial planning. An eye-opening exercise you can complete is to review your cashflow over the past 3 months. Use it not to blame or shame but to become aware of where your money goes. Awareness creates the opportunity for change – if change is required.

So, when you complete the exercise ask yourself – Is my current spending aligned with what is most important to me? If so, great. If not, what needs to change?

While you are reviewing your expenditure, take the time to review all of your service providers, such as power, phone and internet. Go online, see if you are on the best plans for your current situation. Are there other offers out there from your current provider or is it time to switch. A place to start for your power is here <https://www.powerswitch.org.nz/>

Debt

Often our biggest opportunity to get ahead financially is the strategic and successful management of debt. We will all have varying degrees of comfort with debt, but in general our ultimate goal is to be debt free.

You can review your debt repayment time horizon using the Sorted mortgage calculator <https://sorted.org.nz/tools/mortgage-calculator> Use the slider to adjust your repayments and look at the compound effect this has on the overall interest you will pay and the amount of time saved.

When reviewing your debt, consider the options you have in speeding up the repayment of a portion of your mortgage rather than viewing it as a whole. Once you have a plan, consider how best to structure your mortgage with a combination of floating and fixed terms. Having different mortgage terms can also help to manage interest rate risk.

Insurances

Insurance is our line of defence against catastrophic financial events. As we build our financial plan having insurance ensures our long-term goals and objectives are not derailed by an unforeseen event.

Over time our insurance needs will change as we accumulate more wealth (or debt), our children grow up (or we have more), or our income changes.

Collate your insurance policies and review the amounts of insurance you have. Are they still relative to your current situation? It is important to understand both why you have various types and levels of cover and what the triggers will be to reduce them over time.

Summary

Now is an opportune time to review your basic financial needs. Some of the above you will be able to tick off yourself. Others may require some further information or advice from a specialist in that area.

If there is anything we can help you with, please do get in touch, we're here for you.

TIDYING UP YOUR FINANCIAL BACKYARD CHECKLIST

Estate Planning	Who	Done
Review your wills		
Review your Trust		
Consider the purpose of your Trust, and if still appropriate given law changes		
If appropriate, review or prepare a Memorandum of Wishes		
Prepare a Trust file with all documents relating to the Trust		
Review your Powers of Attorney		
If you don't have Enduring Powers of Attorney - research		
Review your ownership structures		
Who or what owns your assets and is this still appropriate		
Who owns or has control of your liabilities		
Create a Just in Case folder		
Cashflow		
Review the last 3 months of cashflow (ins/outs)		
Establish a spending plan going forward		
Review your current service providers		
Electricity / power		
Gas		
Phone		
Internet		
Mobile phone plans		
Pay TV options		
Debt		
Review your current debt repayment plan		
Fixed v Floating portions		
Insurances		
Review your personal insurance (under/over or just right)		
End of life cover		
Protecting your income and mortgage repayments		
Suffering from a critical illness		
Becoming permanently disabled		
Requiring private medical care		
Review your general insurance (are sums assured accurate)		
House replacement		
Contents up to date		
Vehicle sums assured relative		