# Financial Freedom

QUARTER 4 2011 NEWSLETTER

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- **Retirement Planning**
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## INSIDE THIS ISSUE:



# Why Avoid New Year 'Stock Picks'

Open the personal finance pages of newspapers around this time of the year and chances are you'll find a number of stock market experts giving their 'tips' for hot stocks in 2012. These pundits, may not have a financial interest in people buying some of the stocks they mention, however, the chances are, in twelve months time, few will have kept their predictions from a year ago, much less take them to task for any hot stocks that in fact, turned out to be feather dusters.

In volatile times such as these it's only natural for investors to seek guidance about the future. And who better to provide a well-informed opinion than someone who has been educated and trained in this specialist field and who has worked for years, perhaps decades, managing others people's wealth?

It's at this point that we need to be very careful. The kind of expert who can help us is indeed a qualified professional - but not all experts are the same. The kind of expert we should not be listening to is the variety that, unfortunately, most often catches our attention.

Now don't get me wrong. Everyone is entitled to their opinion - including the experts. But to illustrate the dangers of setting too much store by what one person says, let me quote the views of three men, each of whom were clearly expert in their own field:

"There is no reason anyone would want a computer in their home," Ken Olson, President, Chairman and Founder of Digital Equipment Corporation in 1977. "Airplanes are interesting toys but of no military value," Marechal Ferdinand Foche, Professor of Strategy, Ecole Superieure de Guerre, France.


And closest to home, "Stocks have reached what looks like a permanently high plateau," Irving Fisher, Professor of Economics, Yale University, 1929. Yes, and we all know what happened soon after the good professor said that.

The point is that just because you're an expert doesn't mean you can see the future. Your guess may be better informed than other people's but it is still a guess. Quite apart from the guesswork, there's another reason not to listen to stock market pundits: their predictions should not be used to guide the investment decisions of individuals about whose personal financial affairs they know nothing.

The kinds of experts we *should* be seeking out are those who are properly qualified and accredited wealth management professionals. Ideally they will charge for their services on the same 'fee for service' basis as accountants or lawyers, thereby side-stepping the conflict of interest problems inherent in commissions. They will take the time to properly understand our particular financial circumstances, objectives and risk profile and will develop a properly formulated investment strategy tailored to our particular needs. Most of all, they will understand the cyclical nature of asset classes of all kinds and they will be available, in times like these, to keep us true to our long term goals - because as investors, rather than traders or speculators, our time horizon should always be at least five to seven years.

Seen from this longer term perspective, the dramatic troughs of recent months appear somewhat less frightening, and the massive volatility we are experiencing, less relevant. Instead of getting caught up in panic about the latest 'hot stock' predictions, we can rest easier in the knowledge that we're in this for the long haul, and that markets, just like the seasons, follow an on-going pattern.

Expert advice is indeed a wonderful thing, and can help us sleep more soundly at night. The important thing is to be very careful what experts we listen to.

Success is the sum of small efforts, repeated day in and day out.

*Robert Collier*

# G3 Financial Freedom Editorial

from the desk of Cathy Fletcher (G3 Office Manager)

While the financial crisis is continuing in Europe and America here at G3 there are lots of New Zealander's who want to avoid a crisis with their retirement by having professional help with their planning. This year has been one of continued strong growth for G3. Tracey is working in Auckland at least one day a week meeting up with new and existing clients. She is often accompanied by Charlene to share the work load. Jane works very hard writing the plans and doing the financial modelling which gives clients an indication of how their savings plans will pan out with their hoped for retirement age and income. Both Jane and Charlene have quite a number of UK pensions in the process of being transferred for UK migrants and Kiwis who have worked in England. It is all go here. Me, well I am busy ensuring that the back office is running like clockwork.

We have had Charlene take some annual leave in September and October making a trip back to England with her husband and two children for the first time since they all migrated to our fair shores in 2006. It was three weeks of full on visiting family and friends. As you can imagine it was hardly a holiday for them. On the way back to NZ they took a long promised trip to Disney World in Florida. They spent 3 weeks soaking up all things USA including a stop off in Los Angeles - this was the holiday part of the trip. And they loved every minute of it. Charlene returned to her desk in the first week of November and I am sure that it took a little bit of settling back into being in one place on a daily basis.

Then it was my turn for some R and R. Two weeks in Perth visiting my daughter. I was promised and packed for at least 37 degrees but instead it was just like NZ with cool winds and drizzly rain. I froze! Luckily retail therapy in the malls and borrowing clothes from my daughter was my saviour. Whilst there, we all visited the Margaret River region for four days. This would have to be one of the loveliest parts of Aussie I have been to. I am sad to say the fabulous accommodation we stayed in was burned to the ground in the bushfires that engulfed that area just a few weeks ago. Insurance - we need to remember that the unexpected can, and does happen.

How quickly this year has come to a close. Christmas is just around the corner. Christmas brings with it all the temptations of gorgeous food, too much alcohol, holidays and gifts, along with spending too much on the aforementioned. I am one of the Christmas nuts who love this time of the year. I love all the beautiful decorations, the shops brimming over with pretty , sparkly and lovely smelling things, the fabulous food and the extra effort we all make to catch up with family and friends. I go crazy and put up lots of decorations at home, and have a real tree for the smell of Christmas and the memories that brings back to me. Christmas is about the children and they definitely make it fun, even more so if they are still young enough to believe in the magic of Santa. There is nothing like a bit of escapism now and again...well once a year anyway. Merry Christmas and Happy New Year to you all.

# Who Wants To Be A Millionaire?


We can give you the advice to help you maintain and grow that million dollars.

Probably most of us! Quite a few of us will buy a lotto ticket this weekend in the hope that it could happen sooner rather than later and the easy way, rather than having to work for it.

According to the 2008 World Wealth Report, more people are living the good life than ever before. There are 22,000 New Zealand millionaires - and most of them are self-made. The number of millionaires will soar by more than 70 percent in the world over the next decade.

When you think about what a stereo-typical millionaire looks like you might think of Paris Hilton, living a decadent lifestyle we can only dream of.

In truth, the Paris Hiltons of the world represent only a tiny minority of the millionaire population. According to the book The Millionaire Next Door by Thomas Stanley and William Danko, the key to making money is a simple lifestyle. The millionaires featured in the book are referred to as 'compulsive savers and investors' and most do not have high powered jobs.

Many modern millionaires live in middle-class neighbourhoods, go to work and shop in discount stores like the rest of us. What motivates them isn't the material possessions but the choices that money can bring.

In fact millionaires will probably have these five things in common:

- They live below their means
- They allocate their time, energy and money efficiently, in ways that build wealth
- They believe that financial independence is more important than splashy status symbols
- They were not born wealthy and did not receive a financial 'leg-up' from their parents
- They choose the right occupation (most are self-employed)

The millionaire in the crowd is probably not driving a flashy car, or watching the latest widescreen TV. He is not running up debt buying boats and watches or living from pay day to pay day to afford a $900 pair of shoes. The key to living like a true millionaire it seems, is to live a beer lifestyle - albeit with a champagne budget. So make like a millionaire and, who knows, you might become one!

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# KEY FINANCIAL DATA FOR 2011

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All data and information is current as at 1 July 2011 and subject to change and verification

## NZ Superannuation and Veterans Pension Rates*

| Category | * Check eligibility criteria | Weekly rate (net) | Weekly rate (net) | Weekly rate (net) | Weekly rate (net) |
|---|---|---|---|---|---|
| *Effective from 1 April 2011* | | "M" tax code | "S" tax code | "SH" tax code | "ST" tax code |
| Single, living alone | | $339.92 | $321.07 | $272.44 | $260.77 |
| Single, sharing | | $313.78 | $294.93 | $250.30 | $239.59 |
| Married person or partner in a civil union or de facto relationship | | $261.48 | $242.63 | $205.88 | $197.06 |
| Married, civil union, de facto: both qualify | Total | $522.96 | $485.26 | $411.76 | $394.12 |
| | Each | $261.48 | $242.63 | $205.88 | $197.06 |
| Married, civil union, de facto: non-qualified partner including on or after 1 Oct 1991 | Total | $497.02 | $459.32 | $389.82 | $373.14 |
| | Each | $248.51 | $229.66 | $194.91 | $186.57 |
| Married: non-qualified partner incl. **before** 1 Oct 1991 | Total | $522.96 | $485.26 | $411.76 | $394.12 |
| | Each | $261.48 | $242.63 | $205.88 | $197.06 |
| Partner in rest home, with non-qualified partner | | $251.73 | $232.88 | $197.63 | $189.17 |
| Hospital rate (always taxed at the "M" rate) | | $41.64 | $41.64 | $41.64 | $41.64 |

| ESCT rate for contributions | from 01/10/2010 |
|---|---|
| Income levels | Rate of tax |
| 0 - $16,800 | 10.5% |
| $16,801 - $57,600 | 17.5% |
| $57,601 - $84,000 | 30% |
| $84,001 and over | 33% |

### Budget 2011 changes to ESCT

The option to pay ESCT at a flat rate of 33 cents in the dollar remains, however, from 1 April 2012 the option to use this flat rate is removed. Instead, the rate applied will be based on the individual's total income and contributions.

The current 2% minimum employer KiwiSaver contribution will become a gross rate as the contribution will now be subject to tax. The net rate will vary between 1.34% and 1.79% depending on the employee's tax rate. These rates will apply for one year until the new 3% minimum employer contribution applies.

## Important Dates

| | |
|---|---|
| 7 July 2011 | • 2011 income tax returns due if you have a March balance date and do not have an extension of time or a tax agent. |
| 29 Aug 2011 (28th falls on weekend) | • 1st instalment for 2012 Provisional tax and student loan interim payments are due for people and organisations who have a March balance date |
| 30 Sept 2011 | • Deadline for existing LAQCs to apply for LTC status. |

### Redundancy tax credit

A tax credit of 6% (up to $3,600) may be claimed for redundancy payments paid between 1 December 2006 and 1 October 2011.

### Use of money interest (UOMI)

Generally paid by IRD on overpayments of tax and charged by IRD on underpayments of tax. UOMI rates from 16 January 2011:
- 8.89% on underpayments of tax (deductible)
- 2.18% on overpayments of tax (assessable)

### Depreciation

- Additional depreciation loading of 20% on new assets has been removed for assets acquired from 21 May 2010.
- From 2011/2012 income year no depreciation can be claimed on buildings with a useful economic life of 50 years or more.

## Determining your PIR (based on NZ taxable income received in previous two tax years)

**NZ TAX RESIDENT INDIVIDUAL INVESTORS**

*In either of the two income years before the current tax year*

| *Was your taxable income…* | *And your taxable income and PIE income…* | *From 1/10/2010, your PIR is* |
|---|---|---|
| $14,000 or less | $48,000 or less | 10.5% |
| $48,000 or less | $70,000 or less; and you do not qualify for 10.50% rate | 17.5% |
| If you do not qualify for 10.5% or 17.5% rate | | 28% |
| No notification of IRD number | | 28% |
| No notification of PIR | | 28% |

**INVESTORS LEAVING OR ARRIVING IN NZ**

| *If you are…* | *…and…* | *Your PIR is* |
|---|---|---|
| an investor who has become a NZ resident | you have not previously invested in a PIE | 10.5% (for 2 years only). A Bill currently before Parliament proposes that for the purposes of determining PIRs, the worldwide income of migrants must be taken into account. This change is to apply from the 2012/13 income year. |
| a NZ resident invested in a PIE | who ceases to be a resident | 28% rate would apply for the whole year, unless the investor withdraws and re-invests. (PIE systems may not be able to cope with residence rate change during the year.) |

**OTHER INVESTORS**

| *If you are a…* | *…and…* | *Your PIR is* |
|---|---|---|
| Non-resident individual, company, partnership or trust | | 28% |
| Company, incorporated society, PIE or portfolio investor proxy (PIP) | | These entities must all choose 0% and therefore include the PIE income in their tax return. However please note a PIE does have the ability to elect either 28% or 17.5% |
| Trustees (excluding charitable trusts) and Super funds. | | Trustees can choose a PIR of 0%, 17.5% or 28%. If they choose 0% or 17.5%, they must include PIE income and pay any applicable tax themselves and will receive a credit for tax satisfied by the PIE. However, these trustees cannot include PIE losses in their trust's tax return. Note: A testamentary trust can choose a PIR of 10.5%. |
| Registered charitable trust | | 0% Tax exempt (provided a tax exempt certificate is obtained. Do not have to declare PIE income. |
| Joint investment, partnership or unincorporated society | Each partner has the same individual PIR (for example 17.5%) | 17.5% |
| | All partners have different individual PIRs | 0%, 10.5%, 17.5% or 28%. Split investment and provide individual PIRs and IRD numbers to the PIE. |

Above you will find a table of financial data current, as at 1 July 2011.We hope you will find this useful.

*Key Financial Data for 2011 reproduced with the permission of OnePath NZ Ltd.*

*If you don't know where you are going you will end up some place else.*

*Yogi Berra.*

# Succession Planning - A Case Study

**From Charlene's desk** (names have been changed to protect privacy and identity).

Succession Planning - how can we exit our business and ensure we remain financially independent in retirement? This case study is very common amongst businesses owned by a parent(s) with a younger child who wishes to take over yet also has other children outside of the business. This is typical of many family businesses and in fact, is a very real problem within the farming community. How can the younger child in the business afford to buy their parent's share, ensure the parents remain financially independent during retirement, and ensure that the other siblings will also receive their share of their parent's estate?

Joe is nearing his chosen retirement age, having run a successful and growing SME business for many years. His daughter Sally joined him in the business several years ago. They have both been discussing how he could exit and still remain financially independent in his retirement, whilst at the same time, Sally being able to take over full ownership.

One of the unanswered questions Joe had was, if Sally just takes over the business, how can he equalise the total assets in his estate so that his other children can receive a similar financial 'windfall' when he departs this world?

We were able to help Joe and Sally gain clarity on the options open to them both through using very clever financial modeling, so when they and us worked alongside their other professional advisers, all parties were clear about what Joe and Sally's aims and concerns where. We all worked together for Joe and Sally's best interests.

A joint meeting with their business adviser was held so as to gain a thorough understanding of their current circumstances, their concerns and problems and find out what they wished to achieve.

At the next meeting with Joe and Sally we talked though a 'blue print' of the financial plan we put together and introduced the various financial modeling outcomes. Some of the issues we discussed and clarified for them were:

- How long the business can sustain paying Joe an income whilst he no longer worked in it. This would enable Sally to buy out his shareholding over a period of time without her having to take on personal debt to buy the shares outright
- What if Joe's income from the business ceased immediately on retirement? How would he be able to achieve the income he needs to live on from his other personal assets and for how long?
- How long would Joe's personal capital remain intact if he drew on it to sustain his income needs in retirement?
- How would Sally sustain payments to Joe to purchase his shareholding?

These are only a few of the modeling scenarios we worked through however, they were all extremely helpful in being able to demonstrate what Joe's life could be like financially.

We hope you have a wonderful Christmas and a very Happy New Year.

Our Christmas & New Years Office Hours are:

Closing 4pm 22/12/2011
Reopening 09/01/2012

Merry Christmas
From all the Team at G3

G3 FINANCIAL FREEDOM
Goals + Guidance = Growth

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### G3 Financial Freedom Ltd - We Make Every Day Count

We are the financial advice company that can help you create the financial future you desire with peace of mind, security and confidence. We operate under the rules of the Financial Markets Authority and abide by the Financial Advisers Act 2008. We are voluntary members of the New Zealand Institute of Financial Advisers.
We are a group of Certified Financial Planners, Chartered Life Underwriters, Accredited Investment Fiduciaries and we are all Authorised Financial Advisers.
Talk to us about your financial future now. It is never to late to begin.


*Directors, left to right -* Tracey Coxhead, Jane Benton and Charlene Overell