

Mackay

ON MONEY

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY

I like Winston Peters. He's controversial and adds colour to the Parliament. I admire his stamina too. He must have or have had a great constitution if tales are true of him being spotted, fag in mouth, out seriously late in Courtenay Place and then being up and all perky for an early morning radio interview the next day.

Mind you, his namesake Winston Churchill could also stay up half the night drinking, smoking Romeo y Julieta cigars and leading the Brits in their finest hours. The difference was Sir Winston would get up late, do some dictation while having a leisurely bath, chew on a stogie, polish off a half bottle of Pol Roger or a large whisky and water before heading off to the Cabinet War Rooms where he might have another cat nap during the day.

So our Winston is pretty unique. He even dresses beautifully. David Lange once

quipped Winston would have been present at such and such a function but had been detained by a full length mirror.

My superannuitant clients love Winston's SuperGold card and the free public transport that results. He was also instrumental in getting rid of the superannuation surcharge a decade or so back. Lange and Douglas brought in this particularly nasty socialist tax that signalled to Kiwis that saving for retirement or working past 65 was bad.

For those of you who can't remember, National and Bolger in opposition vowed to get rid of the surcharge once elected in 1990. They reneged on their promise. But then MMP changed our political landscape. Enter Winston in 1996 as one of 17 New Zealand First MPs including his "tight five". Legend has it that over a bottle of Johnnie Walker, Jimmy and Winston did a bed-getting-into deal with the NZ First leader emerging as Deputy Prime Minister and Treasurer. Part of the negotiation was for National to honour what they should have done six years earlier and to scrap the socialist surcharge. This was very good but then, towing the party line, Winston as Treasurer flogged off Auckland International Airport, with foreigners getting large allocations of shares on which huge profits were made as they progressively got sold back to Kiwis. Good that Kiwis bought them. Very bad that the process allowed the foreign middle men to make a killing.

In 1998 after Jenny Shipley staged a coup and ousted Bolger, she also got rid of Winston. But in 2005 he was back enjoying the baubles of office in Helen Clarke's Labour Government [outside Cabinet but Minister of Foreign Affairs and also of Racing]. You'll

recall he lost his seat in the 2008 elections, but like the come back kid (he's only 68) he is, Winston bounced back in 2011.

He's probably a good bloke to have in opposition, but I'm not so sure as an MMP coalition partner. Recently he's had a rush of blood to the head and is promoting the Government running its own KiwiSaver scheme. Mike Hosking summed it up on *News Talk ZB* when he hypothesised if this happened, it would be disastrous. He painted a picture of "Gliding On" type civil servants in cardigans looking after your and my financial future. Scary. Furthermore, it sounds like Winston would like to direct the fund as to where it would invest. It's ironic to those of you who recall the National Party 1975 election advertising. Do you remember those TV adverts with the Cossacks dancing? The guts was if you let them run your super scheme, then an unscrupulous and far left (perhaps a Green) Government could end up controlling everything. Like in Cuba. I travelled there a few years ago. With one or two exceptions, every hotel, restaurant, shop and tourism outlet was run and owned by Fidel. And boy oh boy, was the standard and service crappy. Out of 10, maybe a two.

Winston also reckons the current KiwiSaver providers are making a fortune in fees versus fees charged via the NZ Superannuation Fund, the "Cullen Fund". Carmel Fisher from Fisher Funds put it in perspective in a *Sunday Star Times* article on October 27 2013. She said ...

"More than two million Kiwis will tell you there is not a lot wrong with KiwiSaver ... But no, Peters tells us that KiwiSaver needs to be changed, well nationalised actually, because



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greedy private-sector fund managers are “riding a \$22 billion gravy train” having “sucked \$325 million in fees from KiwiSaver accounts over five years”.

As a KiwiSaver provider, I think I can be forgiven for being appalled at these comments, and for being even more dismayed at Peters’ suggested solution.

Peters says that a Government-sponsored KiwiSaver fund – the KiwiFund – should be established, managed by the NZ Super Fund and with a low fee structure that will give the private-sector fund managers a run for their money.

There are so many things wrong with Peters’ idea that it’s hard to know where to start.

Why would Government (using taxpayers’ money) provide a guarantee and assume all the risk associated with the retirement accounts of hundreds or thousands of KiwiFund members?

Why would one Government-employed fund manager necessarily be better than 20 competing fund managers – are public-sector workers automatically superior to their private-sector counterparts? How will KiwiFund maintain “world-class” investment talent to manage diversified portfolios holding low-risk and higher-risk assets, without paying for that talent?

The NZ Super Fund website shows its investment management fees in the 2012 year alone were \$113.7m (for managing \$19b, which is about the size of the entire KiwiSaver industry). The private sector doesn’t look all that expensive by comparison, having charged \$325m over five years.

Also, the long-term benchmark or reference portfolio for the NZ Super Fund is invested 80 per cent in growth assets (with 70 per cent in global equities) and 20 percent in low-risk assets.

This portfolio clearly wouldn’t be suitable for the vast majority of KiwiFund members, so the Super Fund will need to establish a whole lot more funds in order to give KiwiSaver members a broad range of investment options, which will have cost implications.

This is one Kiwi that definitely won’t fly.”

I agree completely!

One simple thing that could happen when the default KiwiSaver providers’ seven year appointment finishes on June 30 2014, would be for more Kiwi owned firms to be given that right. At present it’s three Aussie, one American and only one NZ owned company.

There are plenty of NZ owned KiwiSaver providers in the market and so hopefully the foreign ownership bias will be rectified.

One area of concern is the lack of quality professional financial advice that most KiwiSaver clients are receiving or actually – not receiving. Anecdotally, the banks are being very aggressive at signing up or transferring unsuspecting people to bank-

owned KiwiSaver schemes. Very little quality advice appears to be being delivered. The king hit question the teller asks is “would you like to see your KiwiSaver balance when looking at your other accounts?” That’s not quality financial advice folks! The banks are filled with these tellers who are required to flog so many KiwiSavers, so many new bank accounts, credit cards, personal loans, mortgages, etc and if they don’t, they’re in trouble. “Don’t come Monday” trouble. What the banks are lacking in spades are enough Authorised Financial Advisers to provide one on one financial advice to their existing KiwiSaver clients and the ones they are pinching from their opposition.

But their lobby power is huge and it seems to some in the industry that whatever the Aussie owned banks tell the powers that be, then it shall be done or not done! Maybe they are too close. It is fascinating to some cynical observers, that Simon Power, the Cabinet Minister who drove most of the regulatory changes around Authorised Financial Advisers and the advice process regarding Kiwi Savers, is now the General Manager Business Bank, Private Bank, Wealth and Insurance at Westpac.

Winston’s hare brained idea won’t solve any of these “providing advice” problems either.

These cardie wearing public servants in walk shorts and socks won’t be able to give personal financial advice unless they are

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qualified and of course they won’t be.

KiwiSaver and our retirement funds are not something for politicians like Winston, who should know better, to play political football with.

Michael Cullen who created KiwiSaver came up with an excellent concept. Tweak it and make it even better if you must but it ain’t broke so don’t fix it.

These are generalised comments only and should not be taken as personalised advice. Disclosure Statements are available on request and free of charge.

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