MacKay ON MONEY

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY

Here's a few "money 101" thoughts for 2016.

This is not for the 62 people who own as much wealth as half the world's population. I've got a feeling they already have a handle on it. But it's good common sense for 95 per cent of Kiwis.

If you are still working, spend less than you earn. Remember Wilkins McCawber's (of David Copperfield fame) famous recipe for happiness: "Annual income twenty pounds, annual expenditure nineteen and sixpence, result happiness. Annual income twenty pounds, annual expenditure twenty pounds ought and sixpence, result misery".

If you are in business, same deal. Profit isn't a dirty word. It's what keeps our economy going.

If you are retired, the formula can be a little refined. Spend less than your cash flow. Cash flow can include realising some of your capital, your nest egg. Current philosophy regards depleting one's capital as one gets older as perfectly acceptable. Martin Hawes, the financial author and columnist, puts it something like this. You should spend all your money so on the day you die, it's all gone, and in fact that last cheque to the undertaker should bounce. There are a few fishhooks with this school of thought.

Luckily we haven't got crystal ball so don't know when "D day" will be so we could end up using up all the dough well before we depart for good. We may want to ensure there are a few shekels to the whanau or our favourite charities. And of course if everyone did this, our mortician mates wouldn't make a profit, would go out of business and well, you know the consequences. We'd end up digging big holes in the vegie garden.

If you are a retired person you need to be thinking of where to invest the money you have. A low interest rate regime appears to be with us for some time yet. Bank term deposit rates at present are around three per cent after tax which is not exciting.

It's generally accepted wisdom to have Growth (versus Income) assets in the mix. Shares in public companies in New Zealand, Australia and overseas and NZ and international property are the most usual vehicles for Growth assets. Shares and property outperform Income assets over time despite providing a bumpier ride. The NZ Super (Cullen) Fund for example has 65 per cent of its portfolio invested in global shares notwithstanding its volatility (ups and downs). It's part of the whole diversification argument. Don't have all your eggs in one (asset class) basket.

Some financial advisers recommend you have the same percentage of Income assets (fixed interest and cash/on call money) as your age. For example, if you are 70, you have 70 per cent in Income assets and 30 per cent in Growth assets. But this depends on the investor and the circumstances. The

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CHRIS MACKAY
Managing Director
AFA, BCA, CLU, CFPcm,
Fellow IFA, FNZFAA
Authorised Financial Adviser
Certified Financial Planner

IAN JORDAN
Contractor to Chris MacKay Financial Planning
AFA, Dip FA, Cert PFS CeMAP
Authorised Financial Adviser
UK Pension Transfers

CHRIS CORNFORD
Contractor to Chris MacKay Financial Planning
AFA
Authorised Financial Adviser

BLAIR BENNETT
Contractor to Chris MacKay Financial Planning
AFA, MBS, Dip Bus & Admin,
Dip Banking, F Fin.
Authorised Financial Adviser

Level 5, MacKay House, 92 Queens Drive, Lower Hutt

570 2233

office@mackay.co.nz | www.mackay.co.nz

info@britishpensions.co.nz | www.britishpensions.co.nz | www.plus4.co.nz

Disclosure statements are available on request and free of charge.

Todd family didn't make the Rich List by having their money in the Post Office. One of the major banks has a KiwiSaver portfolio which changes its mix depending on one's age. I think it's verging on negligence that at 65, the whole portfolio goes automatically into a cash portfolio. This, for people who may live to 95! It's crazy and another reason why people should use an Authorised Financial Adviser (AFA) to access financial advice and not a bank teller.

Talking of KiwiSaver, if you have young working kids who haven't joined KiwiSaver, encourage them to see an AFA to assist them with the process.

If they are already members, and they don't own a home, motivate them to up their contributions to eight per cent so they can get to that deposit figure even quicker. Get them to ask an AFA if they are in an appropriate portfolio.

Back to the Mr McCawber theme of spending less than we earn. Another essential precept is to pay yourself first. If you are self-employed, the variation on this is to put aside your tax before doing anything else. If you are a PAYE employee where tax has been deducted and as a self-employed person as above, take a few minutes to set up a few regular payments. First KiwiSaver. Then a savings account or two or three. Aim for one of those accounts to be tucked away eventually building up three months living expenses as a cash reserve. One savings account may be for holidays and presents. Another may be for something special you are saving for. Then work out what your expected regular expenses are even if they are only annual (rent, mortgage, rates, insurances, car maintenance and registration, phone, internet, loans etc).

Calculate how much you need to set aside per pay cycle and put it into an account that will automatically pay all these things or be available to pay for them e.g. car registration which is usually only annual. Then have money going into a separate eftpos type account to pay groceries, petrol, entertainment, haircuts etc.

I don't have much truck with the concept of trying to save what is left at the end of the pay cycle. For most of us even with the best of intentions, there's usually nothing left, unless of course you're an Auckland surgeon or very disciplined. I cannot overemphasise that paying yourself first is essential.

I noted insurance as a regular payment. I'll cover this in another article, but in short most of us want to know if the house burns down, or we get burgled or have a prang, we are not too much out of pocket.

Likewise while we are generating an income for the family unit or looking after kids, if we drop dead, or get some serious illness, we want there to be plenty of do re me for the whanau. Cash gives you options. As I write this article, I'm about to organise a large cheque for a widow whose darling husband and loving father died early January in his 40s. Lung cancer. Never smoked.

So, have a review of your insurances with your AFA or insurance broker. If you haven't got one, look up www.plus4.co.nz or www.tripleA.org.nz or www.ifa.org.nz. Again, forget the bank teller. They've only got one company they deal with and their knowledge is pretty limited too from my experience. Likewise, you don't get any professional advice from buying online. And you're on your own at claim time.

"Martin Hawes, the financial author and columnist, puts it something like this. You should spend all your money so on the day you die, it's all gone, and in fact that last cheque to the undertaker should bounce."

Finally, just remember inflation. It's not a big problem at the moment. NZ's annual CPI change from the December 2014 quarter to the December 2015 quarter was an increase of only 0.1 per cent. Miniscule. But it has been an issue as those of us who bought stuff in the 1980s well know.

I wanted to see what Mr McCawber's money in May 1849 when David Copperfield was first serialised, would be worth today. Not as much as I thought. Twenty quid would be worth 2,140 pounds. That's, an annualised 2.84 per cent so inflation hasn't always been a biggie.

Since 2000, NZ CPI has averaged around 2.7 per cent. This compares with averages of 2.4 per cent in the 1990s, and averages of over 11 per cent for the previous two decades. Since September 2002, the inflation target has been to keep inflation with a range of 1 – 3 per cent on average over the medium term. (Source: RBNZ website).

Inflation is another reason to beware of having all one's retirement nest egg in bank accounts. If the inflation target is 1 – 3 per cent, then getting a net 3 per cent return in term deposits is going to give one a real rate of return of minus 2 to zero per cent. Which is why owning Growth assets is so essential.

Happy 2016!

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0800 70 22 11

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