

Mackay ON MONEY (AND OTHER THINGS)

BY AUTHORISED FINANCIAL ADVISER CHRIS MACKAY



Funologists insist the ages of 60 – 75 are the happiest years of our lives. Scientists tell us that along with physiological input, there's a whole lot of other factors for this. Too many for this article to discuss.

If you were born in 1951 there are no prizes for correctly calculating you are now 65, and of course – very happy! Well done!

You probably didn't know your life expectancy when you were born was 82.5 (females) and 77.5 (males). But now you've survived to 65 and picked up Winston's

Super Gold Card and Uncle Bill's NZ Super, your life expectancy is now 88.9 (females) and 86.2 (males) according to Associate Professor Susan St John from the Retirement Policy and Research Centre, Auckland Business School, speaking at a recent conference I attended. If you are now 65, you can expect to live a further 20 to 25 years.

Our population is getting older. The number of those over 65 will double from 700,000 to 1.4 million by 2050.

And while there are now about four people working for every 65-year-old, by 2030 it will be three and by 2050, it will be two.

This puts more than a bit of a strain on funding the old age pension which is why the Cullen Fund was originally set up.

John Key is on record as saying as long as he's PM, he won't tinker with NZ Super or its current start age of 65.

But politicians will have to, when they have an objective and bi partisan look at our population projections.

Australia is lifting their age and we will have to follow. It's a matter of time.

But I'll predict if any politician reduces the dollar amount of NZ Super, how to calculate it, or introduces a means or income test, they'll be booted out.

At the moment, we've got a crazy system rewarding people who have been here for five minutes.

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Disclosure statements are available on request and free of charge.

To collect NZ Super you need to be:

Aged 65 or over, a NZ citizen or permanent resident, have been resident and present in NZ for at least 10 years since you turned 20, including five years since you turned 50, and you need to live in NZ at the time you apply.

You never have to have worked or paid any tax. You could be a multi-millionaire.

So a paltry 10 years in the “club” buys you a likely 20 to 25 years of Super – possibly longer.

Now this is nuts and there wouldn't be a logical Kiwi who disagreed with any politician who made moves to remedy this.

Ten years in NZ should give you a quarter of NZ Super. Twenty years – half. Thirty years three quarters and 40 years – bingo – the jackpot.

How much is the jackpot? A married couple on normal tax rates receive about \$30,780 each year and a single person living alone gets about \$20,000 in the hand.

Back to Susan St John. She went on to tell us the chance of living from age 0 to age 100 has increased from zero per cent in 1875 to over 16 per cent for a female born today and about 11 per cent for a bloke.

So those of you with newly born kids or grandkids, there's a fair chance they'll be getting a telegram from their fellow centurion – King George VII or his eldest who themselves will be about 70.

Healthcare costs are expected to hike up from 6.8 per cent of nominal GDP to 10.8 per cent by 2060. NZ Super will increase from 4.3 per cent to 7.9 per cent of GDP. That's why moving the age out, and why the Cullen Fund is most important.

There are 60,000 dementia sufferers today but – and try to remember this – that number will increase to 180,000 by 2050.

We can expect 330,000 – 400,000 Kiwis being in long-term care by 2050 including one in four of those aged over 65.

What does all this mean folks?

It means we need to save plenty for old age and to anticipate the fact that “old age” may last for a long, long time. NZ Super for most of us, on its own isn't enough. In addition to owning one's own home, we need a lot of capital to provide ongoing cash flow to top up the pension.

There's a famous book “The Richest Man in Babylon” written by George Samuel Clason in the 1920s.

Its lessons about financial acumen are still completely relevant today.

The most important message is “a part of all you earn is yours to keep”. And how much? The magic number is 10 per cent.

It goes on – if you pay rent to a landlord

all your life, at the end of your life you'll have nothing to show for it. If you can instead pay a mortgage on a house, at the end of your life you'll have a house to show for it. Own thy own home.

The central character Arkad instructs his students to prepare for retirement (save 10 per cent of your income) and also to buy insurance so their family will be provided for if they die.

Furthermore, a person must set concrete goals and work to achieve them. These goals should not only be to advance in one's career or one's position, but also to become wiser and more knowledgeable.

Further, if a person respects themselves, they must do the following:

- Pay their debts promptly and not stay in debt (pay off your credit card)
- Take care of their family (earn more than you spend and buy insurance)
- Make a will (we're all going to die)

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Have compassion upon those who are injured and smitten by misfortune and aid them within reasonable limits. Do deeds of thoughtfulness to those dear to them. (Be a nice person and remember the golden rule).

Ninety years later, this is still wonderful advice to us all.

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Back to the prescient Professor. Susan St John says we are probably going to be around for a long time so **we need to prepare for it**.

If you need a hand see an Authorised Financial Adviser (AFA).

And by the way – leaving all your investments in the bank with our low interest environment, isn't the smart way to ensure you don't outlive your capital. Don't end up in the situation where you have too much month for your money! See an AFA and get some advice.

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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The IRD have changed the tax rules on UK Pension transfers. If you have a Personal or Company UK Pension then you need to seek urgent advice if you want to reduce the risk of a large tax penalty.

Also, the NZ Superannuation Scheme rules are changing on 1 December 2016. You need to act now to avoid the effects of these changes.

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