Alexanders
Accountancy & Advice for Agribusiness

Pita Alexander
BCOM, CA, DIP AGRIC, DIP VFM, FNZIPIM, ANZIV REG VALUER, SPINZ, ONZM

DDI: 03 364 9330
F: 03 365 9880
E: pita@alexanders.net.nz
W: www.alexanders.net.nz
A: Level 4, 7 Winston Ave
Papanui, Christchurch 8053
PO Box 5394, Papanui
Christchurch 8542

4 February 2020

RETIREMENT ISSUES

YOU ARE BOTH 65 YEARS AND ONE OF YOU COULD GET TO 90 YEARS

In December 2019, Pita was approached by a 65-year-old couple seeking financial advice for their future - we reported to this couple on 11 December 2019 - from this report, there has been a lot of feedback - this couple gave us authority to place the report on our website which has been picked up by a wide range of people.

The key comment that has come through to us is firstly, many couples are in the same situation - that is, they own their own home with no mortgage at their retirement but have very little other savings and lack enough income to get through perhaps for another 25 years - the second comment is that a big number see themselves coming into this same situation in due course.

What have we learnt from our original report and the significant feedback:

(1) From 1 April 2019, the gross National Superannuation income for:

- A couple is $37,484.
- A single (living on their own) is $24,721.

(2) The Income Tax due for (1) will depend upon other income, but for many the Income Tax cost would be around:

- For the couple, $4,600 (leaving a tax paid $32,884).
- For the single, $3,346 (leaving a tax paid $21,375).

(3) The average cost for house rates and house insurance and contents insurance is all over the place but an overall combined average as at 1 January 2020 is around $5,650.

(4) Many couples or at least one of the couple will probably need to work through if they can to 70 years of age.

(5) Many couples will have worked very hard to have no mortgage by the time they retire, but many have very little at that point in savings and investments.

(6) Quite a number will need some or all of the loans (if any) they have advanced to their children repaid - interest from those loans will not be enough - it is the loan principal itself that they will need back.

(7) Their National Superannuation income is increasing at present at around 2.8% a year - that is around $1,050 per year for the couples and $700 per year for the single - useful but not an answer, as you will see.

(8) At 65 years of age for many couples, Income Tax is the least of their problems - their main concern will be lack of disposable income.

(9) It may be a last resort for some, but a hip operation now done privately has a cost of around $17,000 - $20,000 - even a conservative-type health insurance cost for a 65 year old couple is now around $2,500 per year - these couples have reached the stage where they cannot afford the actual health costs as they arise, but they cannot afford the annual health insurance cost either - Pita has now been into the USA five times over the last ten years and advises that this issue is exactly the same in America except that the problem is much worse because the medical costs are all much higher. The bottom line here is that this couple will tend to start to rely heavily on the NZ national hospital and health system - this will be their default option quite early on.

(10) Pita has now talked to a number of people in this group and people and organisations who advise and help this group both in NZ, Australia and America, and the core of the problem is the same throughout. That is:

(a) Fixed income.

(b) No, or little, chance of increased income.

(c) Health costs that are high and rising.

(d) Food costs that are high enough.

(e) Housing costs that are high and rising.

(f) Mental and emotional stress and strain with no relief.

(11) In putting this report together, we are in no way trying to undermine the government, members of Parliament, country councils, Work and Income Department, or social workers. The government is already paying out approximately for:

NZ Superannuation	\$15.5 (Billion NZD)
Other welfare	\$12.3 (Billion NZD)
Health	\$19.8 (Billion NZD)
Education	\$12.6 (Billion NZD)

There is a limit to what government can do - financial issues after retirement are a combination of government and people's thinking, planning and actual actions.

(12) It does look as though a good vegetable garden really does have a place.

(13) The present average sale value for a house and section in NZ is around \$607,500 - Auckland is much higher again.

(14) The average value of a section with the house and section of \$607,500 is apparently around \$255,000 - \$285,000 (somewhere between 42% - 47%)

(15) Any change to the eligibility age to receive NZ National Superannuation (presently 65 years) would need to be triggered well in advance by Government so people could cope with it - a move to say 66 years would need advance warning from the government of probably at least 10 years.

(16) The present life longevity tables for NZ men and women from birth are:

Women	83.2 years
Men	79.5 years

Once, though, a couple gets past, say, 70 years of age, that is, past the first 70 years of life's risks, then their longevity will increase to just on 86 years and this figure is increasing by around one month a year, so in 25 years the expectancy figure will be close to 90 years.

(17) A couple in the situation outlined in our report of 11 December 2019 cannot, on the face of it, afford to pay:

House rent;
Life assurance;
Health insurance;
Pay much to their grandchildren;
Holiday overseas; and
Replace their car.

(18) Quite a number of people who currently receive National Superannuation are still working - we couldn't ascertain any official benchmarks in this regard but there has been reference to this figure being 15%.

(19) Let's now have a look at the original couples' budgeted income and expenses for their year to end 31 March 2021, bearing in mind they have a freehold home valued at $600,000, no mortgage, one car and $50,000 of KiwiSaver savings in a balanced fund earning on average 6%, two children they have made loans to of $20,000 each, a good vegetable garden and a good grip on money - what does their cashflow budget look like:

<u>Estimated Cash Receipt</u>

Combined National Superannuation (net of tax)	$31,884	
Withdrawal from KiwiSaver each year	$3,000	
		$34,884

<u>Estimated Cash Withdrawals</u>

Car running expenses (or transport)	$2,500	
Car replacement fund	-	
Telephone (mainline and cell)	$1,500	
Power	$2,200	
Health insurance	-	
Life assurance	-	
Rates and insurance	$5,650	
House repairs and maintenance (35 years old)	$3,000	
Newspaper and subscription	$600	
Overseas holiday	-	
Grandchildren payments	$200	
Allowance for unforeseen ($100 per month)	$1,200	
Holiday	$1,000	
Food, clothing, household effects, bowls costs, medical costs, pharmacy costs, gas supply and administration ($2,000 per month)	$24,000	
		$41,850
Estimated Cashflow (Deficit)		($6,966)
		========

(20) With both aged 65 and let us say both get to 90 years of age - this means there is a deficit of 25 years x $6,966 (plus an allowance for this deficit increasing by, say, $1,000 per year) - this suggests there is a potential (deficit) for the years from 65 years of age to 90 years of age of approximately ($200,000)

How could they offset that deficit:

(a)	One of them working 15 hours a week for five years at, say, (net of tax)	$64,350	
(b)	Monthly principal repayments from their two children of $67 per month for 25 years	$40,100	
(c)	Sale of car	$10,000	
(d)	Withdraw $40,000 from KiwiSaver (leaving $10,000 as an emergency fund) in, say, 15 years' time	$40,000	
(e)	Loan from their two children at $100 per month for 25 years	$60,000	
			$214,450
	Estimated Cash Surplus at 90 Years of Age		$14,450
			========

(21) There are several possibilities that would help cope with point (20):

(a) At 65 years of age, it may not be unrealistic to expect perhaps an inheritance from their parents - maybe perhaps $100,000 each.

(b) If both died before they reached 90 years of age.

(c) A reverse mortgage, perhaps, when they are, say, 85 years of age may be worth looking at.

(22) What are the real lessons here:

(a) A big number of NZ couples who turn 65 years of age will find even if they have completely repaid their house mortgage that they will need a lot of further savings/investment - at least, probably, $1,000,000 to be completely self-sufficient financially.

(b) We would guess that this issue will be a major financial one for some couples over 65 years right now and be a major problem within say 10 years - probably 50% of all couples above 65 years old will be effected.

(c) If interest rates stay low, then this overall problem will compound further.

(d) There is nothing wrong with living on your capital - you have earnt it - it is yours to spend - leaving more to your children is nothing like as important as you living well in your retirement.

(e) Our couples' children will still inherit at least $300,000 each in due course.

(f) At present, the annual increase in the National Superannuation is not enough to cope with the overall problem as outlined.

(g) Perhaps 50% of the NZ population at present is not saving anything like enough by 65 years of age to live on in retirement along with their National Superannuation.

(h) Michael Cullen deserves credit for getting KiwiSaver created and operational some 13 years ago.

(i) If at 65 years of age a couple who stop work and do not own a house debt free (or close to it), then adding an annual rent cost in point (19) of say even $18,200 ($350 per week) is just not going to work. They would need to consider living with their children as is common in Asia. The other possibility is that if they have rented for many years they may have saved/invested a sum sufficient to purchase a house or continue renting.

(j) We need to be talking to all school children at their last 1-2 years at high school, as to just how money can work for them and just how, if they are not looking, how it can work against them - financial management taught at a young age is crucial and getting more crucial. Much of this learning should be across the kitchen table but in many cases this does not seem to be happening – as a society we are letting many of our children down.

(k) If it was not for National Superannuation, then for many NZers (maybe 50%) when they turn 65 years of age, their financial position would be an absolute shambles.

Pita Alexander
PS Alexander & Associates Limited
DDI: 03 364 9330
M: 021 465 426
E: pita@alexanders.net.nz

Alister Stevenson
PS Alexander & Associates Limited
DDI: 03 364 9332
M: 021 843 820
E: alister@alexanders.net.nz

Karen Prue
PS Alexander & Associates Limited
DDI: 03 364 9344
M: 027 535 3191
E: karen@alexanders.net.nz