

Investing in knowledge

Education is the ability to listen to almost anything without losing your temper or your self-confidence – Robert Frost.

Q2/12

Who owns the ASSETS

IN OUR ROLE AS FINANCIAL ADVISERS, IT IS COMMON TO SEE A BLURRING OR DEGREE OF CONFUSION AROUND WHO OWNS THE ASSETS.

Frequently they may be recorded on an assets/liabilities schedule as all being owned by the client when in reality they could be assets owned by your family trust, your company, your spouse or a partnership.

Correctly defining and documenting who or what entity owns what assets is important in the event of a death, matrimonial split, litigation, creditor claim and eligibility for benefits both today or in the future.

The most common situations that we see and their implication are listed in the table below.

Please contact us if you are in doubt regarding any of the scenarios listed, or if you have queries around the ownership status of some of your assets.



SITUATION	IMPLICATION
You have a family trust but your spouse is the owner of your life insurance policy.	In the event of your death the proceeds go to your spouse and not the trust. Depending on the dollar value this may negate your spouse's ability to obtain a benefit.
You inherit a valuable family heirloom and it is not placed in a family trust that is separate from your spouse.	In the event of a matrimonial separation the value of the family heirloom becomes part of the matrimonial settlement. This could mean it is sold and leaves the family.
You have a family trust and you are on the highest tax rate yet your investment portfolio is held in your personal name.	Depending on the individual investments, you could be paying a higher amount of tax than if the portfolio was owned by the family trust.
You have sold the family home to your family trust but the insurance policy is still in your personal name.	An insurance company may decline to payout as the family trust does not have the house insured.

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KiwiSaver top ups

If you belong to a KiwiSaver Scheme and are a voluntary member or self employed we encourage you to check if you need to top up your annual contributions.

KiwiSaver scheme managers will apply to add Government tax credits to eligible accounts. In order to qualify for the maximum tax credit of \$521 members will have to have contributed \$1,042 through either wages or personal savings to their account between 1st July 2011 and 30th June 2012.

If you would like assistance to confirm your approximate amount of top up, then please contact us.

Inside

- ... A change of lifestyle may mean a change of life insurance.
- ... Will your life savings die before you do?
- ... Refresh your financial plan this Autumn.

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Your insurance policy needs to be dynamic

NOT SET & FORGET



IT IS OFTEN DECADES AFTER WE PURCHASE AN INSURANCE POLICY BEFORE WE COME TO MAKE A CLAIM.

The insurance policy terms and conditions may have remained static but your personal situation may have changed, resulting in the insurance company declining your claim. This results in premiums having been wasted and in some instances, financial ruin for the policy holder.

A recent Strategi Institute document outlines just how easy it is to have a policy that may not meet your needs and why it is important to keep your insurance company and adviser informed of any changes to your circumstances. Here are just a few of the scenarios from Strategi Institute:

- Being a smoker significantly increases life insurance premiums. We met a new client who had given up smoking nine years earlier and was paying premiums \$850 per annum more than he needed to now he was a non-smoker.
Our message: tell us if you give up smoking. We may be able to save you money.
- A female professional had income protection insurance with annual premiums of \$2900 per annum. She gave up work four

years ago to have children and has not returned to the workforce, is not generating any taxable income and had continued to pay the insurance premiums.

Our message: tell us if you stop working and are not returning to the workforce. There are different insurance policies that will better meet your needs that have a lower premium.

- A Christchurch resident had car insurance and stated the car is garaged nightly. After the earthquake, the car owner moved to Auckland. Nine months later the car was burgled and badly damaged whilst parked on the street outside the new home. The car owner had not informed the insurance company of the change of address or less secure parking arrangement for the car. As a result the claim was not paid.

Our message: inform the insurer of any change in address.

Contact us for more details on these and other situations where your insurance may not be doing what you are paying for it to do. Constantly review all your insurances. We can give you a checklist to help you identify what changes to your circumstances may trigger a requirement to inform your insurer.

GIVE YOUR FINANCES AN AUTUMN MAKEOVER

We are now into shorter daylight hours and longer nights. The temptation to spend the balmy evenings socialising or exercising is diminishing. The world financial situation is stabilising and investment returns have become positive once again. Now is the time to take a fresh look at your finances to ensure you are on track to achieve your financial goals. Talk with us about your financial plan but before doing so, consider the following:

- **Are you getting the best from your mortgage?** Interest rates are likely to stay low until 2013 so do you fix a low rate or continue to float? Are you interest only or interest and principle and how many years will it be before the mortgage is paid off?
- **Power and telecommunication costs.** Have you reviewed these in the past 12 months to ensure you are getting the best deal possible based upon price, service and functionality. Can you bundle your phone, cell phone and data plans to maximise discounts?
- **Do you need all the credit cards you currently own?** If you are paying an annual fee for these cards, then can you rationalise to one or two?
- **Calculate how much your car(s) cost to operate over a 12 month period.** Include depreciation, fuel, tyres, petrol etc. The IRD mileage rate is 74 cents per km and factors in all of these things. Multiply this rate by the number of kms you do to estimate what it costs to run your car. Consider catching the bus, car pooling, combining tasks when you go out etc.
- **Do you have the ability to save more money so it can compound for future goals?** If so, how much? What is your current investment risk profile and are you aware of the implications that has on your investment performance?
- **How much are you spending on your insurances each year?** Do you have enough cover and of the right type? Can you bundle to achieve added discounts?
- **How much are you spending on the kids?** Is this absolutely necessary and can it in some way be reduced?

Summing up

- ... Now is the time to define who owns what in your household.
- ... Insurance companies do not pay out if you have given wrong information.
- ... Ask your adviser for our insurance review checklist.

How long WILL YOU LIVE?

THE TOPIC MANY OF US
AVOID ADDRESSING IN ANY
SERIOUSNESS IS THAT OF
LONGEVITY OR HOW LONG
WILL EACH OF US LIVE.
IT CAN BE AN EMOTIONAL
AND SENSITIVE TOPIC
ESPECIALLY IF A LOVED ONE
HAS RECENTLY DIED OR YOUR
OWN HEALTH IS FRAGILE
AND YOUR LONGEVITY IS
POTENTIALLY LIMITED.



However, we all need to seriously address it – both before and during retirement, as longevity is one of the largest determinants of the amount of retirement savings you will require and the potential quality of life you will have.

When planning for retirement, you want to ensure that you have enough money to cover your living expenses for every year you are alive. The problem is that you have no way of knowing how long you will actually live.

According to the U.S. Census Bureau, in 1900 there were only 3.1 million people aged 65 and older. Today, that number is 44 million and growing rapidly. The average life expectancy in the U.S. is over 78 and that figure is expected to creep up to 85 by 2065, according to Ronald Lee, an economic demographer at the University of California, Berkeley.

However, these life expectancy numbers are misleading. Life expectancy numbers are averaged for all deaths regardless of age – so they include infant and other young person deaths – making the average deceptively young.

More useful statistics* include these facts:

- In 2010, life expectancy for people aged 65 was 84 years old.
- In 2010, for those aged 75, life expectancy was 87, nearly a whole decade higher than the general life expectancy of 78.
- People aged 100 and older are the fastest-growing segment of the United

THERE IS A
GREATER THAN
50 PERCENT
CHANCE THAT
AT LEAST ONE
PARTNER FROM A
COUPLE IN THEIR
60S WILL LIVE TO
THE AGE OF 95.

Life's tips/1

“A 90 year old man was asked to what he attributed his longevity. I reckon, he said, with a twinkle in his eye, it was because most nights I went to bed and slept when I should have sat up and worried.”

– Garson Kanin

States population, and this pattern is expected to continue.

- There is a greater than 50 percent chance that at least one partner from a couple in their 60s will live to the age of 95.

It is important to understand that you have a good chance of living a long time – to 85 or longer. Good health and good genes contribute to a long life. The average person is born with a set of genes that would allow them to live to 85 years of age.

People who take good care of themselves may add as many as 10 quality years to that. People

who smoke, are overweight or fail to practice preventive medicine may subtract substantial years from their lives.

Our longer life spans mean that we must have vastly more retirement assets than previous generations. Our ability to save larger percentages of our income is harder for the majority of the population so we need to become more disciplined and lateral thinking in our approach to retirement planning.

We recommend you seriously consider your longevity then talk to us about undertaking analysis to identify whether your retirement plan is on track to achieve your potentially longer life span.

* Source: New England Centenarian Study, 2010.

Life's tips/2

“Circumstances are beyond human control, but our conduct is in our own power.”

– Benjamin Disraeli

Summing up

- ... You or your partner could live to 95. Will your savings survive this long?
- ... Cut costs and increase your potential to save more.
- ... Plan to take advantage of the end of the recession.

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A LOOK AT GLOBAL RESOURCES

OVER THE NEXT 25 YEARS, IT IS ESTIMATED THAT THE WORLD WILL CONSUME MORE COPPER, ALUMINIUM, NICKEL, STEEL AND IRON ORE THAN THROUGHOUT ALL OF HISTORY.⁴

Looking shorter term this means:

- The growth of 600 cities to populations of over one million.¹
- Cars on the road reaching the one billion mark.²
- A more than doubling of China's already expansive rail network.
- 100 new airports in China alone.³

Where is the world right now?

The global economy is experiencing a shift in power. Emerging economies like China, India and Brazil are growing at breakneck speed, while the US and other historical strong economies are beginning to slow down.

Demand is increasing. The continuing industrialisation and urbanisation of China, India, South East Asian countries and parts of South America is creating this demand.

Supply constraints: Many companies delayed new mining projects due to a global shortage of capital brought on by the global financial crisis. As such, supply is already stretched and there is no new supply to meet any increase in demand.

Where is the world headed?

Changes to the global economy over the coming decades will be dramatic and significant – possibly even more so than we have experienced in the past 200 years.

With population growth a huge driver of resource demand, the United Nations predicted that the world's population will increase 41% by 2050 to 8.9 billion people, with nearly all of this increased growth coming from developed countries.

What is going to be in demand?

The International Energy Agency's 2008 forecast had global energy demand rising by 45% between 2006 and 2030.

Astonishingly, China and India alone are forecast to contribute more than half of this total rise with other Asia Pacific economies contributing a further 10%. The widening gap between energy consumption and production means these countries will become increasingly dependent on imports to meet their power, food and infrastructure requirements.

Where is the demand coming from?

By 2016, the International Monetary Fund predicts that China's economy will almost double in size, with a forecast of over US\$1 trillion. By 2020, it is estimated that China will have six provinces with an annual GDP equal to six countries the size of Canada (greater than USD 1 trillion).⁵

With economic growth and industrialisation comes massive urbanisation. Today, China dominates commodities demand, reflecting the construction frenzy currently underway. Currently, every five years, China's urban population increased by the equivalent of the population of Australia and Canada combined. This equates to 70 million people moving to cities every five years!

This process of relocating workers will result in huge demand for infrastructure such as transport, power, water, schools, factories and hospitals.

In summary

The continued industrialisation and urbanisation of China, India and other

rapidly growing economies around the world is increasing demand for commodities. Your portfolio managers are actively taking advantage of these trends and our recommended portfolio construction guidelines have a portion of most clients growth allocation invested in a specialist commodities fund. Source: Perpetual

1. The Guardian. No City Limits. 2. As at 2011, the Bureau of Transportation Statistics US Department of Transportation estimates that there are 600,000,000 cars on the road. The Wall Street Journal. One Billion Cars. 3. Chinese government announcement reported in Chinadaily.com.cn. 4. BHP Billiton. 5. A speech by the Hon Kevin Rudd MP, 22 May 2011, Australia-China 2.0, the next stage in our economic partnership



THE CONTINUED INDUSTRIALISATION AND URBANISATION OF CHINA, INDIA AND OTHER RAPIDLY GROWING ECONOMIES AROUND THE WORLD IS INCREASING DEMAND FOR COMMODITIES.

Life's tips/3

"I have been impressed with the urgency of doing. Knowing is not enough; we must apply. Being willing is not enough; we must do."

– Leonardo da Vinci

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Next step

... See us about the best investment options for you.

GENERATION
WEALTH MANAGEMENT