Financial Freedom

QUARTER I 2011 NEWSLETTER

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Insurance and disaster recovery

From Ben Burnett, fire and general specialist, Financial Independence, Tauranga.

The devastating Christchurch earthquakes are having a real impact on people's lives in many ways. The nature and precision of the insurance cover that has been put in place is now going to alleviate or exacerbate this stress in so many of those ways.

As a fire & general Broker I review many insurance covers and must emphasise how important it is to have the right covers in place. The difference between being well insured and underinsured can often be only a small difference in premium.

Following are the common areas of underinsurance and how certain areas of the fire & general insurance industry are responding.

EQC and domestic insurance covers

In the event of an earthquake, the Earthquake Commission (EQC) will cover the first $100,000 + GST for your house and the first $20,000 + GST for your home contents, with the insurers paying the difference over these amounts, up to the amount of cover the policies are agreed to. The EQC collects premiums for these covers through insurers for each dwelling insured. The EQC's definition of a dwelling is "a habitable dwelling including a kitchen and bathroom". This means that where a house has a granny flat or self contained unit two, sets of EQC levies must be paid (except in rare circumstances).

An insurer will only pay out on the event of an earthquake if the EQC accepts the claim for the first portion of the loss. Therefore, if a house has two dwellings and is only insured for one, neither the EQC nor the private insurer will pay out on the second dwelling.

Other common issues are not including garaging, swimming pools or other permanent buildings within the area insured for the house. Not including these items will likely result in an uninsured loss.

The issue of quality

House and contents covers provided by insurers range dramatically in terms of quality. Cheaper covers are commonly more restrictive so the difference at claim time can be significant.

House insurance policies are generally insured for replacement however, a quality cover will also allow for landscaping costs, the addition of sustainable products such as insulation and solar heating in the event of a total loss, a stress payment and alternative accommodation costs whilst undertaking the repairs.

The cover for alternative accommodation costs can vary dramatically from 6 to 12 months cover. Who would have thought that some of these Cantabrian earthquake sufferers were going to be out of their houses for up to 3 years? If you have rental property, the loss of rent following damage to your property can have a significant financial effect.

Many cheaper policies depreciate all contents items over a certain age, including the carpets. For example, the replacement value of carpet can be significantly higher than the current value of carpet, which may be over 10 years old, leaving the owner with the shortfall.

The importance of advice

Every individual has a different exposure to a potential loss and the way policies respond to protect those individuals can vary. For peace of mind, a good insurance broker will review the policies you have in place and make recommendations of how you could mitigate any shortfalls.

Ben Burnett is a Fire and General Insurance Adviser for Financial Independence, Tauranga. His Disclosure Document is available free of charge by contacting Financial Independence.

Have you planned your trip to France?

Kiwis love to travel and with the dollar being relatively strong against the Euro it is a good time to go to Europe. A friend was at a barbecue recently where holidays were the topic of discussion. One couple, in particular, were excited about their forthcoming three week trip to France. They had read Lonely Planet Guides, Michelin Guides, brushed up on high school French and consulted with friends and acquaintances who had also been. As this particular couple enthusiastically described their meticulous planning my friend couldn't help but remember how little interest they had in their financial matters. They had even once described their hallway drawer where everything, that vaguely fell into the money category, was fired into after it was read, KiwiSaver statements, bank statements and even car registration reminders.

For most of us the short-term gratification of holidays will always be more enticing than long term planning for the financial future.

If the France bound couple had shown the same disregard for their holiday, maybe just showing up at the airport hoping to catch a plane somewhere, not knowing if visas were required, not knowing what the currency or language of France was and with no accommodation booked, it's easy to imagine the disasters that would have awaited them at the other end of their long haul flight.

Apart from putting our financial house in order for our own benefit, there are our loved ones to think about too. We all heard the tragic story of the policeman killed on duty who failed to update the will he had made in 1985 at the age of 23, leaving everything to his adoptive father. Since then his circumstances had changed dramatically. He amassed an estate worth $2million and his parents had split up. He hadn't ever updated his will. The consequence of this situation is his elderly mother, who survives on a pension and the odd day paid relief teaching, has received nothing.

Our appeal to readers in this first part of the year is to simply , if you have not already done so, please start giving some thought to your long term financial future. Find all those lost papers and consult an expert.

Get organised.

Do what you can with what you have where you are.

Theodore Roosevelt

Making sense of a disaster's impact

It seems the disasters in our part of the world are not letting up—the Australian floods, the Christchurch earthquakes and now the massive earthquake and tsunami in northeast Japan. At this stage the full extent of the damage in Japan is unknown, but it is clear it has resulted in terrible human tragedy. Right now the focus must be on the rescue efforts and our thoughts are with the Japanese people and all those affected.

Media headlines are currently sensationalising crisis-style sharp sell-offs within the stock markets, high anxiety, and volatility in the world's share markets.

The economic impact of this and the ensuing events will slow Japan's economic progress in the short term due to a range of factors, such as damaged factories, power supply, transport, infrastructure and diverted resources to rescue, repair and recovery.

However, as history would show us with disasters, economies recover.

Our investment strategies continue to be grounded in risk management. This means being broadly diversified across all markets and asset classes - including Japan's - as the only proven means of mitigating risks. It is important to remember our risk-balanced portfolios also embrace defensive assets, such as cash and fixed interest.

It is inevitably tempting to succumb to emotions and react to falling market prices. In fact, it is typically an adverse decision to alter your long-term strategy at the wrong time for short-term reactionary reasons, such as when disasters occur. Selling investments at such times would be even worse. Further, by then waiting until markets recover before re-investing almost always means missing out on substantial recovery growth. Adverse conditions are inevitable and unpredictable.

Volatility - or risk - is one reason assets such as shares and properties have greater long-term returns. The only proven way to capture those returns is to endure the short-term volatility.

In that way you will increase the probability that you'll achieve your long-term financial objectives, which is what is most important to you. This is why we deliberately design, and when appropriate, amend our clients risk profile by repeatedly testing their unique circumstances and situation with our personal financial modelling.

If you would like us to discuss our personal financial modelling philosophy with you in mind please call us.

In the meantime, our thoughts continue to be with Japan and all those affected by the recent disasters.

If you are worried about your investments, take a deep breath, make a cup of tea or coffee, have a lie down , and then give us a call to talk it through.

strategi

KEY FINANCIAL DATA FOR 2011

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All data and information is current as at 1 January 2011 and subject to change and verification

Individual income tax rates (including sole traders)			
PAYE rates from 1/4/2010 to 30/9/2010 (excluding ACC earners' levy)		PAYE rates from 1/10/2010 onwards (excluding ACC earners' levy)	
Income to $14,000	12.5%	Income to $14,000	10.5%
$14,001 - $48,000	21%	$14,001 - $48,000	17.5%
$48,001 - $70,000	33%	$48,001 - $70,000	30%
$70,001 and over	38%	$70,001 and over	33%
No notification	45%	No notification	45%

1. Maximum income ACC earnings' levy is charged on is $110,018 or 'maximum ACC earners' levy is $2,244.36.
2. ACC earners' levy rate for the tax year 1 April 2010 to 30 September 2010 is 2.0 %($2 per $100). Please note the ACC earners' levy rate for the period 1 Oct 2010 to 31 March 2011 is 2.04%.

Goods and Services Tax (GST)	
GST rate	15%
GST registration	
• Compulsory if turnover (taxable supplies) is: – >$60,000 for last 12 mths – expected to be >$60,000 for next 12 mths – <$60,000 in a 12 month period where GST is included in the prices (e.g. taxi drivers) • Must apply within 21 days of becoming liable	

Company and trust tax rates	
Company rate	30%
Trust income and minor beneficiary income (exemptions may apply)	33%
Widely-held super fund, unit trust, GIF	30%

Fringe Benefit Tax 2010-2011 (FBT)	
Income range	Tax rate
$0 - $12,390	12.99%
$12,391 - $39,845	23.84%
$39,846 - $54,915	45.99%
$54,916 or over	55.04%
Option: pay 61% on all fringe benefits for quarter 1 & 2 of 2010 -2011 tax year and 49.25% for quarter 3 &4 rather than applying multi-rates	

Residents Witholding Tax (RWT) - on interest income		
Annual total income range	1/4/2010 to 30/9/2010	1/10/2010 onwards
Must provide a certificate of exemption from IRD	0%	0%
$0 - $14,000	12.5%	10.5%
$14,001 - $48,000	21%	17.5%
$48,001 - $70,000	33%	30%
$70,001 or over	38%	33%
Companies	The issuer may apply a RWT rate of 30%	The issuer may apply a RWT rate of 30%
Dividend income	33% less imputation credits	33% less imputation credits
If no IRD number	38%	33%

Prescribed Investor Rate (PIR)	
NZ tax resident individuals	1/4/10 – 30/9/2010: **12.5%, 21% or 30%** 1/10/2010 onwards: **10.5%,17.5% or 28%**
Non-NZ tax residents	28%
Registered Charities, companies, PIE Proxy, or trustees who notify this rate	0% is only available where the investor notifies the investment manager of this rate and where the investor's IRD number is provided
NZ Resident Trusts/Trustees	Elect 0%,17.5% or 28%
Testamentary trusts can also choose the 10.50% PIR	
CAPPED AT 28% - unless an incorrect PIR is notified by an investor	

KiwiSaver Contribution Rates	
Contributor	From 1 April 2010
Employees	• New employees: 2% of gross pay • Existing employees: choose 2%, 4% or 8% of gross pay
Employers (compulsory)	2% of gross pay
Self-employed, Contractors, Unemployed, Beneficiaries	As per contract with scheme provider
Government	• Up to $1,042.86 pa to employees as tax credit • $1,000 kick-start for new accounts

Tax codes (up to 31 March 2011)	
Code	Applies to
M	• Main source of income • When ML or MSL do not apply
ML	• Main source of income • Work more than 20 hrs/wk in all jobs and do not qualify for Wrking for Families tax credits • Income < $9,880 • Does not apply to a child or attending school
M SL	• Main source of income • Student loan borrower AND • Total income is > $19,084
ME	• Main source of income • No student loan • Income between $24,000 and $48,000 & qualify for Independent Earner Tax Credit
ME SL	• Income between $24,000 and $48,000 and qualify for Independent Earner Tax Credit • Student loan borrower
S	• Secondary source of income • When other 'S' rates do not apply
SB	• Secondary source of income • Total income is < $14,000
SH	• Secondary source of income, no student loan • Total income is > $48,000 and not > $70,000
SH SL	• Secondary source of income • Total income > $48,000 and not > $70,000 • Student loan borrower
ST	• Secondary source of income • Total income is > $70,000 • No student loan
ST SL	• Secondary source of income • Total income is > $70,000 • Student loan borrower
WT	Scheduler payments
CAE	Earnings of casual agricultural employees, shearer or shearing shedland
EDW	Earnings of election day workers
NSW	Employer under the Recognised Seasonal Employers scheme
STC	Special tax code

Secondary tax thresholds – with no student loans. Tax codes are excluding ACC earners' levy – from 1/10/10		
Annual income range	Tax code	Tax rate
0 - $14,000	SB	10.5%
$14,001 to $48,000	S	17.5%
$48,001 to 70,000	SH	30%
$70,001 or over	ST	33%

Above you will find a table of financial data providing the current, as at 1 January 2011, tax rates, tax codes, PIR rates and Kiwisaver contribution rates. We hope you will find this useful. We will include some others in our next newsletter in June

Key Financial Data for 2011 reproduced with the permission of OnePath NZ Ltd.

What is Financial Planning - A Case Study

from Gail's desk (names have been changed to protect privacy and identity)

If you cannot do great things: do small things in a great way .

J F Clarke

Joe is self employed and Mary works full time outside of the business. Joe and Mary came to us a couple of years ago wanting to get their financial affairs on track for retirement. Both are in their early 40's and on good incomes with a young family.

An initial appointment, which is at our cost, was set up. My primary job is to see clients, complete financial analysis and make proposals not only on how they can achieve their retirement and investment goals but also on how to plan for any unforeseen circumstances, like death, disability and severe illness.

Areas where I could add value were immediately identified and the formal information gathering process began i.e. current lifestyle, incomes, spending habits, asset ownership structures, insurances, taxation and much more. The list is quite endless when appropriate recommendations are required to be made.

All information gathered was analysed and financial modeling carried out. A Statement of Advice setting out a strategy for Joe and Mary on how to achieve their goals was presented. After getting the "green light" from the clients, I accompanied them to a solicitor and a Family Trust was formed to ensure that what they had achieved so far was protected, and for future asset protection purposes also. Their Wills were also reviewed and Powers of Attorney were set up. Changes to, and the ownership of, existing insurance policies were undertaken. Fire and general insurances were reviewed by our specialist in that area and additional covers put in place specific to Joe's occupation. A full review of Joe's ACC cover was carried out in conjunction with his accountant and an ACC consultant. A personal savings plan effected which involved properly defining their appetite for risk and risk management, long-term objectives, investment outcome modeling and appropriate market diversification to ensure that their personal and lifestyle goals and objectives were achievable.

Joe and Mary, being the busy people they are, now have total peace of mind that **all** of their financial affairs are in order. The financial journey to meet their goals and objectives of enjoying a comfortable retirement by Joe's age 60 with an annual income of $60,000 has now begun.

However, as economic conditions, government legislation and a range of issues, including personal circumstances will change over the course of the journey, it is important that their plan is annually reviewed to ensure they remain on track. I intend to be there for them every step of the way.

What I enjoy most about my role is meeting new people from all walks of life and applying my knowledge of 37 years industry experience. I like making a positive contribution in order to improve their lives and futures.

G3 FINANCIAL FREEDOM

Goals + Guidance = Growth

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G3 Financial Freedom Ltd - We Make Every Day Count

We are the financial advice company that can help you create the financial future you desire with peace of mind, security and confidence. We operate under the rules of the Securities Markets Act 1988 and abide by the Financial Advisers Act 2008. We are voluntary members of the New Zealand Institute of Financial Advisers.

We are a group of Certified Financial Planners, Chartered Life Underwriters, Accredited Investment Fiduciaries and we are, or will be, all Authorised Financial Advisers.

Talk to us about your financial future now. It is never to late to begin.

Easter Closure

The office will close 4pm Thursday 21 April 2011 and reopen on Wednesday 27 April 2011.

Left to right. Jane Benton, Tracey Coxhead, and seated, Charlene Overell and Gail Seddon