



# Financial Freedom

QUARTER 3 2012

NEWSLETTER

## OUR SERVICES

- Full financial planning
- Retirement planning
- Personal insurances
- Investments
- Employer group insurance schemes
- Health insurance
- UK pension transfers
- Business protection insurance

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## Have You Protected Your Business?

What would happen to your business revenue and any debt, if you as the owner were unable to work in the business for any period of time due to illness or injury?

Similarly, maybe you have people that you employ in your business that are important to its financial security. Perhaps they are great sales people who bring in new business, or they may be specialists in their field and you would find it difficult to replace their skills if they couldn't work due to sickness or injury.

As business owners, have you taken legal advice to ensure you have the right agreements in place, that dictate what happens to your shares if you die or unable to work in the business for any period of time? Effectively do you have an exit plan should the unfortunate happen?

Some owners established these agreements at the outset when they set up the business, whilst others have done so later on. Others however, have no agreements in place. Many agreements that are in place don't deliver what the owners expect and some haven't actually been signed as they're still in 'draft' mode which would probably make them invalid.

It's important that when you're in business with other shareholders, these agreements are established and reviewed every now and then or when changes occur. You may know of these agreements as shareholder agreements and buy/sell deeds. Many shareholder agreements have what is known as a 'pre-emptive rights' clause, saying that if one shareholder wishes to sell their shares, they have to offer them to the other shareholder(s) first at the same price they would offer them to anyone else. However, the other shareholder(s) have no obligation to buy and there is usually no mechanism or funding vehicle to enable the other shareholder(s) to actually purchase the shares. Therefore, it's important that alongside a shareholder agreement, a 'Buy/Sell Deed' is established. This enhances the shareholder agreement and says that in the event that you as a shareholder need to sell your shares, the other shareholder(s) have to buy

them, and vice versa. It also helps put in a funding mechanism to pay for the shares.

Let's look at an example:

Joe and Eddy are mates and are 50% shareholders and directors of their engineering business, ABC Engineers Ltd. Joe is mainly responsible for the operations of the business and helping generate new business whereas Eddy is a specialist on the tools and helps supervise and train their engineering staff. They have 6 engineers working for them, one being an expert in his field. They also have an administrator helping Joe run the operations, plus they have a great sales and marketing person working with Joe to build up new clients and look after their existing client relationships.

Joe and Eddy put in place a shareholder agreement and buy/sell deed when they established the business 8 years ago, which covers many areas however, in general, this was to agree on the structure of the business, how it operates and importantly, what would happen should either of them wish or need to exit the business through ill health or injury and what would happen with their shares upon death. They have not reviewed these agreements since then. They both put in \$50,000 seed capital to help them buy the equipment they needed and they also owe the bank \$150,000 in loans that they've taken out over the years to help them grow the business. Their shareholder agreement has what's known as a 'pre-emptive rights' clause and their lawyer also established a buy/sell deed alongside this.

The buy/sell deed is important, particularly if we say Joe were to die, then his estate, now being passed to his wife Sally, would own Joe's 50% shareholding in ABC Engineering Ltd and Eddy would now be in business with Sally. Sally doesn't know anything about the business and all she really wants is the cash value of Joe's shares. The pre-emptive rights clause means that Eddy has first right of refusal to buy Joe's shares as Eddy doesn't really want Sally to sell them to an

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## G3 Financial Freedom Editorial from the desk of Cathy Fletcher (G3 Office Manager)



I decided to do something a little different this quarter. I thought it might be timely to remind everyone about scams and in particular, investment scams. The information here is from the NZ government regulatory body the Financial Markets Authority (FMA) brochure and website [www.fma.govt.nz](http://www.fma.govt.nz) "**How to spot an investment scam**". The Financial Markets Authority's main objective is to promote and facilitate the development of fair, efficient and transparent financial markets. This in turn should help protect investors however there are still scams out there. Here is the FMA advice on what to watch out for.

Every year New Zealanders lose millions of dollars in investment scams, so learn how to identify some of the tricks scammers use and protect yourself

### Hallmarks of a scam

#### An 'investment' is likely to be a scam if you are:

- 1) Promised very high returns with little risk. These promises are often too good to be true.
- 2) Given little information in writing. All legitimate investments must have documents explaining the investment.
- 3) Told the offer is known only to a select few. This is often a ploy to make you feel special.
- 4) Not told who is behind the offer or given a physical address. Legitimate businesses give names and full addresses.
- 5) Promised access to 'secret' overseas banking markets supposedly offering very high returns. These markets don't exist.

-Continued on back page



Then one day

you find ten years  
have got behind you.  
No one told you  
when to run, you  
missed the starting  
gun.

Time lyrics, Pink Floyd

## Have You Protected Your Business? continued

external party that Eddy doesn't know, as he's taken 8 years of hard work to build up this business and doesn't wish to see someone else come in and potentially 'upset the apple cart'. Eddy wants to take on the 100% shareholding so needs to buy Joe's shares from Sally and having asked to buy the shares, Sally is now obliged to sell them to Eddy as per the buy/sell deed. The business is valued at \$800,000 – Eddy therefore needs to find \$400,000 to pay Sally for Joe's shares.

Eddy can do one of 4 things:

**Use his own personal cash in the bank.** This depends upon Eddy having this amount of cash readily available

**Sell some personal assets he may have.** This is a difficult option unless Eddy has sufficient property or investments that he's built up personally and that wouldn't compromise his own family's lifestyle and financial security. Furthermore, he may be forced to sell these assets when the markets dictate it might not be a good time, like a type of 'firesale'

**Go to the bank and ask for a loan.** This may be viable, however, the bank may decide to impose restrictions or high interest rates on such a loan which would affect the cashflow of the business, or may even decline to provide Eddy a loan now that Joe is no longer in the business. The business may not look like a rosy investment without Joe.

**Claim upon an insurance policy.** This is dependent upon whether Joe and Eddy took financial planning advice and established shareholder protection insurance cover. If they did, and the cover was sufficient, the claim would release \$400,000 so that this can be paid to Sally

and the shares can be transferred to Eddy, as per the buy/sell deed and 'pre-emptive rights' clause. It is a good idea to consider an independent trustee to facilitate the exchange of shares and cash.

Other things to consider:

As well as ensuring Joe and Eddy have adequate insurance cover for themselves as shareholders, they also need to consider how the business revenue and any debt or contingent liabilities within the business, would be affected if either of them as key people, or their expert engineer and sales person, were to be off work through illness or injury for any length of time. ABC Engineers Ltd revenue is basically driven by Joe and Eddy's individual skills, plus the skills of their expert engineer who would be difficult to replace, and their salesman who knows their trade extremely well and brings in a good deal of their new business and keeps their existing clients relationships strong.

Taking out insurance to protect revenue and repay contingent liabilities or debt upon one of these key individuals not being able to work in the business through ill health or death, is vital to ensure the continued financial viability of the business going forward.

Although I've only touched on the importance of taking care of the shareholders and key staff within a business, the knock-on effect to that individual's personal financial situation and staff morale, from someone of importance being unable to work through illness, injury or death, is another area that also needs to be carefully planned for. Considerations including ACC cover should also be looked at.

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# Your Money in Retirement

The Financial Education and Research Centre (FinEd Centre) jointly with Westpac and Massey University released their Retirement Expenditure Guidelines in mid August. It made for some sobering reading.

A report produced in conjunction with Workplace Savings NZ found that nearly half of New Zealand's retirees feel they are not in a strong enough financial position to meet their retirement needs. It also showed that 33 per cent were not satisfied with their retirement and 46 per cent said retirement was not meeting their expectations.

FinEd centre director Pushpa Wood described the survey as "a wake-up call" for people who needed to consider what sort of lifestyle they would like to have in retirement.

The report showed what surveyed retirees were actually spending so the examples are real people in real life. Almost half of those surveyed said they spent more than 60 per cent of their income on basic living costs.

More than one third of retirees surveyed said they almost never ate takeaways. Two thirds said they visited a restaurant only a few times a year, and 22 per cent said they never travelled overseas.

Around half of retirees had income in addition to their NZ superannuation and more than a quarter

topped up their income with some type of paid employment.

Ten per cent said they had a very comfortable standard of living and had no concerns about their financial situation.

At the other end of the scale, six per cent said they struggled to find sufficient income to meet their basic living costs

Claire Matthews, Massey University senior lecturer, said comments also suggested a significant number of retirees were supplementing their income through borrowing, often for one-off costs like surgery.

The table below summarises the breakdown of how those surveyed said they spent their money. Of course this does not include their rent, rates or any housing costs as these can vary so much. Those that would qualify for Accommodation Allowances would have this as extra income to help meet their basic housing needs. Some people would also have Community Services Cards to offset medical costs, possibly why some said that they spent nothing on health.

This all shows that retirement living could be fraught with money strain. Talk to us now to find out how your retirement money is likely to see you through those years of what should be fun and freedom.

Now is the time to start saving to ensure you are in the 'Choices' category—much more fun!

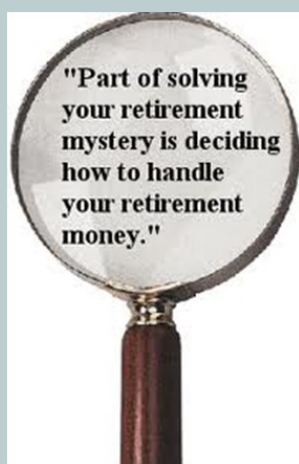
## What are retirees spending? : (dollars per week)

	One - Person Household				Two - Person Household			
	No Frills		Choices		No Frills		Choices	
	Metro*	Prov*	Metro	Prov	Metro	Prov	Metro	Prov
<b>Food</b>	<b>55.95</b>	<b>52.43</b>	<b>107.52</b>	<b>96.23</b>	<b>93.67</b>	<b>96.34</b>	<b>216.75</b>	<b>170.51</b>
Alcoholic drinks, tobacco &	0	0	6.82	10.80	0	0	18.19	26.38
Clothing/ footwear	0	0	14.77	8.86	0	0	24.61	12.31
Household Energy	17.87	17.65	33.30	41.17	30.41	34.52	51.05	51.94
Household contents & services	1.00	2.40	16.43	18.44	6.71	6.91	46.39	46.99
Health	0	0	20.14	21.44	3.59	5.77	41.58	48.32
Transport	4.70	5.49	41.32	33.71	27.89	28.78	103.59	137.30
Telecommunication	9.55	10.63	24.15	21.09	15.20	16.40	42.20	28.50
Recreation & Culture	8.59	8.68	37.21	44.81	35.19	22.57	104.39	89.82
Misc. goods & services	15.72	15.93	45.23	53.56	28.69	32.95	102.80	70.27
Other Exp.	0	0	2.90	0.80	0	0	10.00	11.50
<b>TOTAL</b>	<b>113.38</b>	<b>113.21</b>	<b>349.79</b>	<b>350.91</b>	<b>241.35</b>	<b>244.24</b>	<b>761.55</b>	<b>693.84</b>

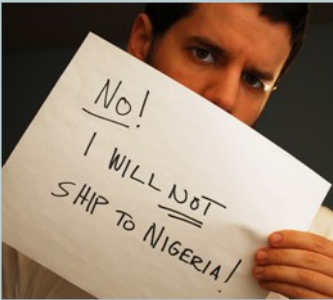
\*Metro = Metropolitan (Wellington, Auckland)  
 \*Prov. = Provincial towns/regional areas  
 517 people surveyed, 60% from Westpac customer Voice panel and remainder from a Camorra Research panel

**Single living alone NZ Superannuation = \$348.92 pw**  
**Two person both qualify NZ Super. = \$268.40 ea. pw**

Figures are net as at April 2012 Work and Income NZ website



## How to Spot An Investment Scam *continued from page 2*



6) Asked to keep the investment a secret. This is to stop the authorities hearing about it.

You should be wary of transferring money to internet based foreign exchange dealers as you may have no redress if they take all your money.

### Common scams and frauds

#### Telephone share scams and “Boiler Room” scams

One particularly common scam is callers who ring to offer bogus share deals. Often these calls come from ‘boiler rooms’ - businesses that use high-pressure sales techniques to sell ‘sure thing’ investments with the promise of massive returns. Frequently, shares offered don’t exist, or they turn out to be worthless and can’t be sold. Often people get a second call from a new ‘broker’ claiming to have a buyer for the shares, and wanting money to pay for the new transaction. This money too is lost.

These callers are clever and persuasive. They might suggest they can prove they are genuine by referring you to impressive looking websites or fake agencies with official-sounding names. This is all part of the scam. Don’t engage with these callers. Hang up.

#### Advance fee fraud

This is the classic ‘Nigerian scam’ where the victim is contacted by email and pays up front for something that never arrives. Delete these emails. Sometimes this scam comes in the form of a telephone call offering you money for shares you already own. You may be offered an excellent price but be told you just need to pay an advance or restriction fee. This is also a scam.

#### Prime bank instrument fraud

People are invited to take part in a secret market,

and are offered ‘prime bank’ notes or debentures supposedly paying high returns. This market does not exist. Money sent to these schemes is lost.

#### Affinity fraud

Affinity fraudsters prey on people who trust each other, like members of religious, social, or cultural groups. They use the trust that exists within these groups to help steal money.

#### Ponzi schemes

Money from new investors is used to pay ‘interest’ to earlier investors to give the illusion the investment is successful. *If you want to know more about Ponzi (named after Charles Ponzi) just Google Bernie Madoff for information on the largest Ponzi Scheme busted in American history. Recently in NZ Jacqueline Bradley, Director of B’On Financial Services was prosecuted for running a ponzi type investment scam.*

#### Protect yourself

Asking to see the investment statement is one of the best ways to protect yourself against scams. Almost all legitimate investments offered in New Zealand must have this document. But scammers rarely put things in writing.

If there is no investment statement, seek advice from an Authorised Financial Adviser **before** handing over any money. Never send money to someone you only know from an unsolicited phone call.

If you want to buy or trade shares, you should contact a New Zealand broker who is responsible under New Zealand law.

*All of the above is sage advice from the FMA. If you are worried or have any doubts please feel that you can contact us to discuss your concerns.*



*It’s easy to be wise  
after the event*

*English proverb*



**G3 FINANCIAL  
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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 Financial Markets Authority 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 all Authorised Financial Advisers. Talk to us about your financial future now. It is never too late to begin.

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