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A NZ COUPLE SEEKING ADVICE REGARDING THEIR RETIREMENT AND CONCERN REGARDING THEIR POSSIBLE LACK OF INCOME

Key data as provided:

(a) Both aged 65 years - she retired five years ago, and he has just retired.

(b) Both like gardening and growing their own food.

(c) He is capable of making and fixing things.

(d) Own their own home worth, they think, about $600,000 - latest rating valuation capital value is $585,000.

(e) Both in good health with a personal insurance cover which pays for 85% of any surgery costs but nothing else - annual cost of $3,200.

(f) Two children (38 and 36) and four grandchildren - married 40 years.

(g) Lent their children $20,000 each regarding housing some years ago – Interest free at this point.

(h) They have $260,000 in their KiwiSaver account and their bank account and they are currently earning an average of 4%.

(i) If they leave things as they are, then the $260,000 will generate $10,400/year

But they estimate they will lose of this total:

- in income tax	$1,820	
- inflation loss on the bank term deposit of $130,000 of, say, 1.25%	(*)	
		$1,820
(*) In real terms perhaps $1,625/year but not allowed for.	***Actual cash surplus***	$8,580
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This estimated $8,580 represents a return on the $260,000 of 3.3% - if you allowed for an inflation loss of, say, 1.25% on the bank term deposit of $130,000 then the true return would come back to 2.69%.

(j) This couple were invested in the NZ Sharemarket Crash of 1987 and lost $40,000 and could not cope with going back in again, although the KiwiSaver account is effectively invested in the Sharemarket.

(k) A house on their street (32 years old) with three bedrooms, a sleepout, two toilets, which is some 17 years old, is for sale at $545,000 including furniture. The rental agency says they could rent it out for $530/week. They feel they could cope with the admin and repairs and maintenance themselves for anything but major issues. What they don't like is the feeling that they are purchasing a second house which is unfair, they feel, on young couples trying to purchase their first home.

(l) The problem is that they can't live on just National Superannuation, and either they purchase a second house like this or one of them will need to get at least a part time job. Neither of them like the idea of one of them going back to work, even part time.

What's interesting here is that they started with next to nothing 40 years ago (she inherited $28,000 from her parents) but they have saved over a lifetime to date:

A freehold house	$600,000
A bank deposit and KiwiSaver account	$260,000
One car	$12,000
Loans to children	$40,000
Furniture and chattels	$30,000
	$942,000

But they are struggling financially regarding lack of income, with perhaps 25-30 years ahead of them - a good financial planner would suggest that one of them could/should reach 93 years of age.

(m) They feel if they purchase the second house referred to, that the income and expenses exercise would look like:

Rent (for, say, 48 weeks at $530/week)		$25,440
Expenses:		
Rates and insurances	$6,000	
Bank loan ($295,000 at 3.8%)	$11,210	
Repairs and Maintenance	$2,000	
Allowance for Unforeseen (say)	$2,000	
		$21,210
Estimated Surplus Annual Cash		$4,230

(n) This house to purchase would involve them both in some gardening and lawn moving, which though is work, they enjoy.

(o) After allowing for Income Tax the two alternatives look like having a net cash return of:

(1)	Leaving it in the bank and KiwiSaver	$8,580
(2)	Purchasing the house to rent out	$4,230

The residential purchase option does not produce what they had anticipated despite the extra risk and the extra work - but there could be some inflation gain with the second house.

(p) You could take the approach that the house to purchase may increase in value by, say, at least 1% a year, which may amount to $5,450/year, which would improve the net asset position - but the problem here is lack of cash income, not lack of net assets.

(q) Perhaps the real answer here is simply that:

(1) The bank deposit rates are painful for a lender.

(2) The possible alternative of a second house (excluding any inflation gain) would involve more risk and more work for a lesser cash return.

(3) The true estimated return is nothing wonderful from either investment.

(4) The couple have been good savers over the years, but the next 25-30 years looked potentially stressful for them.

(r) We spent some time with this couple looking hard at their income and expenses and came to the following being the most workable outcome for the next few years:

Estimated Income:

(1)	Gross National Superannuation		$36,500
(2)	He getting some casual work with his old employer, (say, two half days per/week for 44 weeks) for the next two-three years		$7,040
(3)	Gross interest bank and KiwiSaver, (say $260,000 at an average of 3.5%) (allowing for interest rates slipping further)		$9,100
			$52,640
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Estimated Expenses:

Income tax	$7,250	
Car running expenses	$2,500	
Car replacement fund	$3,000	
Telephone	$1,500	
Power	$2,200	
Health insurance	$3,200	
Rates	$3,000	
Insurances	$3,200	
House repairs and maintenance (35 years old)	$3,000	
Newspaper and subscriptions	$800	
Holiday	$2,000	
Allowance for unforeseen	$1,200	
Other personal drawings ($1,500/month)	$18,000	
		$50,850
Estimated Surplus Cash		$1,790
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Suggested Overall Summary

(1) Other than the Sharemarket and the Banks, the investment options are limited for this couple – right now there is something of a resurgence of well structured Finance Companies which could be an option perhaps after he can't work any longer.

(2) The bank term deposit option is poor and may get poorer - you should, though, get your capital back which has a value in today's world.

(3) Everybody would probably alter the overall estimated expenses of $50,850 in point (r), but we did not feel there was much room to move.

(4) We felt there would be many NZ couples already in this group and many who will in the future potentially fall into this group.

(5) Once the casual work option or ability to cope with it falls away, this couple will potentially struggle cash-wise.

(6) Without their National Superannuation income their financial estimates would be a shambles.

(7) The $7,040 of casual work income cannot go for ever, but it looks crucial until he is 70 years - after that their children may need to top up their income as it is hard to see how you will be able to reduce the overall expenses by $7,040/ year.

(8) What we found frustrating with the exercise is that this couple are almost millionaires and have saved well, but still look vulnerable from the age of 65 years onwards.

(9) One could almost suggest from this analysis that for some NZ couples their standard of living is fine up until they stop work and from then on their standard of living will become under severe financial and affordability pressure.

(10) It is impossible to see how even one of them could afford to ever go into a retirement home at an annual cost of say $50,000/yr.

(11) They will leave their two children probably at least $500,000 each but may not for 25 years.

(12) This exercise could make a good case for the concept of reverse mortgages – the children would ultimately probably get less but the parents would have a much more sound and secure income from (in our example) from 65 years of age until their death.

(13) The data here is a good example of how sound net assets is only a part of the story when you are looking at your income stream upon retirement.

(14) We didn't like this exercise – a genuine couple in all respects who started with next to nothing but are almost certainly going to struggle financially – she thought that selling the house and living six months each with their two children looked a last resort option but this had not been discussed though at this point.

Interesting times – don't hesitate to comment back to us re this exercise with any thoughts and comments –for an average NZ couple in financial terms looks as though this is getting to be a more and more difficult issue.

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PS: The couple concerned here have suggested that there may be many other couples like themselves in the same financial situation and many perhaps leading into it. They were quite happy consequently for us to make this article available to others.