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Saturn Advice

Auckland

Sunday, August 11, 2019 (Room 7)

8:30 - 9:25 WS #151: Retirement Planning

9:35 - 10:30 WS #161: Retirement Planning (Repeated)

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Retirement Planning

The Prognosis for a Medical Practitioner

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August 2019

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About Saturn Advice

Originally founded in 1988, Saturn Advice is a financial advisory business helping people make the **right financial decisions**. By doing this we also help them create a **richer life**.

Our business model enables us to provide impartial advice because we are not aligned to any fund manager or broker and staff are paid salaries, not commissions.

Our services include;

- Financial advice and investment planning
- Design and implementation of investment strategies
- Discretionary investment management
- Advice on UK pension transfers

We have offices in Auckland and Christchurch serving clients throughout New Zealand. Our clients include individuals, families, trusts, estates and companies.

Collectively the Saturn Advice team has more than 300 years of financial services

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What we'll cover

- The Diagnosis
  - Why we don't plan for retirement and why we should
  - Unique considerations for doctors
  - Key factors to consider
  - Mind the gap - how much will you need to retire?
- The Prescription
  - The power of compounding returns
  - Why Kiwis favour term deposits and residential property
  - Alternatives and the importance of diversification
- The Road to Financial Well Being
  - Setting financial goals and implementation
  - Why get financial advice from a professional

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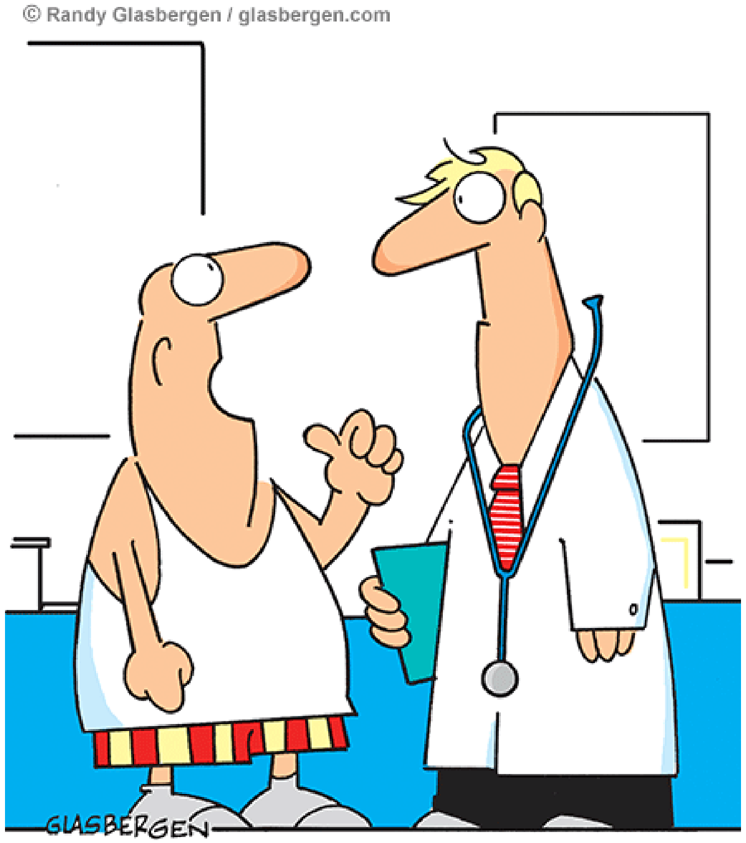
The Diagnosis



“I could be a healthy person if you’d stop finding things wrong with me!”

- Why we don’t plan for retirement and why we should
- What’s unique about doctors
- Key factors to consider
- Mind the gap - how much will you need to retire?

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Why we don’t plan for retirement and why we should

Why we don’t plan	Why we should plan
It’s a long way off. I just want to enjoy life now.	The earlier you start…the easier it will be
It’s too hard.	Fail to plan - plan to fail.
I just can’t save as I spend every dollar I earn.	Many people upgrade their lifestyle instead of saving for the years ahead when they will no longer be earning
New Zealand Super will be enough, won’t it?	For most of us, New Zealand Super won’t be enough
I’m in KiwiSaver so I’m sorted!	KiwiSaver is a great scheme but it may not be enough. You need to have an idea of what you will need to live off in retirement and plan accordingly.
I don’t intend to retire.	Most people want to retire at some point and they may not have a choice!

Unique considerations for doctors

Study/train for longer than most skilled workers[1]

GPs: 8+ years

Specialists: 11-16+ years

Enter the full-time work force later

High earning potential[3]

GPs: $120,000 – $186,000+ pa

Specialists: $160,000 – $240,000+ pa

Start off with higher levels of debt[2]

$90,000+

Time poor – greater stress

Long and stressful hours

Literally face life and death daily

1 – Taking the temperature of the public hospital specialist workforce – Association of Salaried Medical Specialists – August 2014

2 – Rising levels of New Zealand medical student debt – Antonia Verstappen, Phillippa Poole – The New Zealand Medical Journal Vol 130 N. 1457

3 – Multi Employer Collective Agreement 1 July 2017 – 31 March 2020

Key factors to consider

- Your largest capital –> You!
  - Specialisation or GP
  - DHB employee versus private practice
- What are your life goals?
  - What makes you happy?
  - What would you like to do everyday?
- What sort of life style do you want in retirement?
  - Penthouse overlooking the harbour or a cottage in a rural town
  - Overseas cruises or renting a beach house
  - The new Ferrari or just a reliable car
  - Fine dining or home-cooked family dinners
- Financial support for family
  - Help children buy their first home
  - Education fund
- When do you want to retire or semi-retire?
- When can you retire?

Mind the gap – how much will you need to retire

Scenario A	• Start saving from age 35
Scenario B	• Start saving from age 45
Scenario C	• Start saving from age 55

<u>Assumptions</u>

Retire at 65 with no debt

Draw down retirement savings over 25 years

After tax and fees earnings of 2.5%, 5% and 7.5% pa

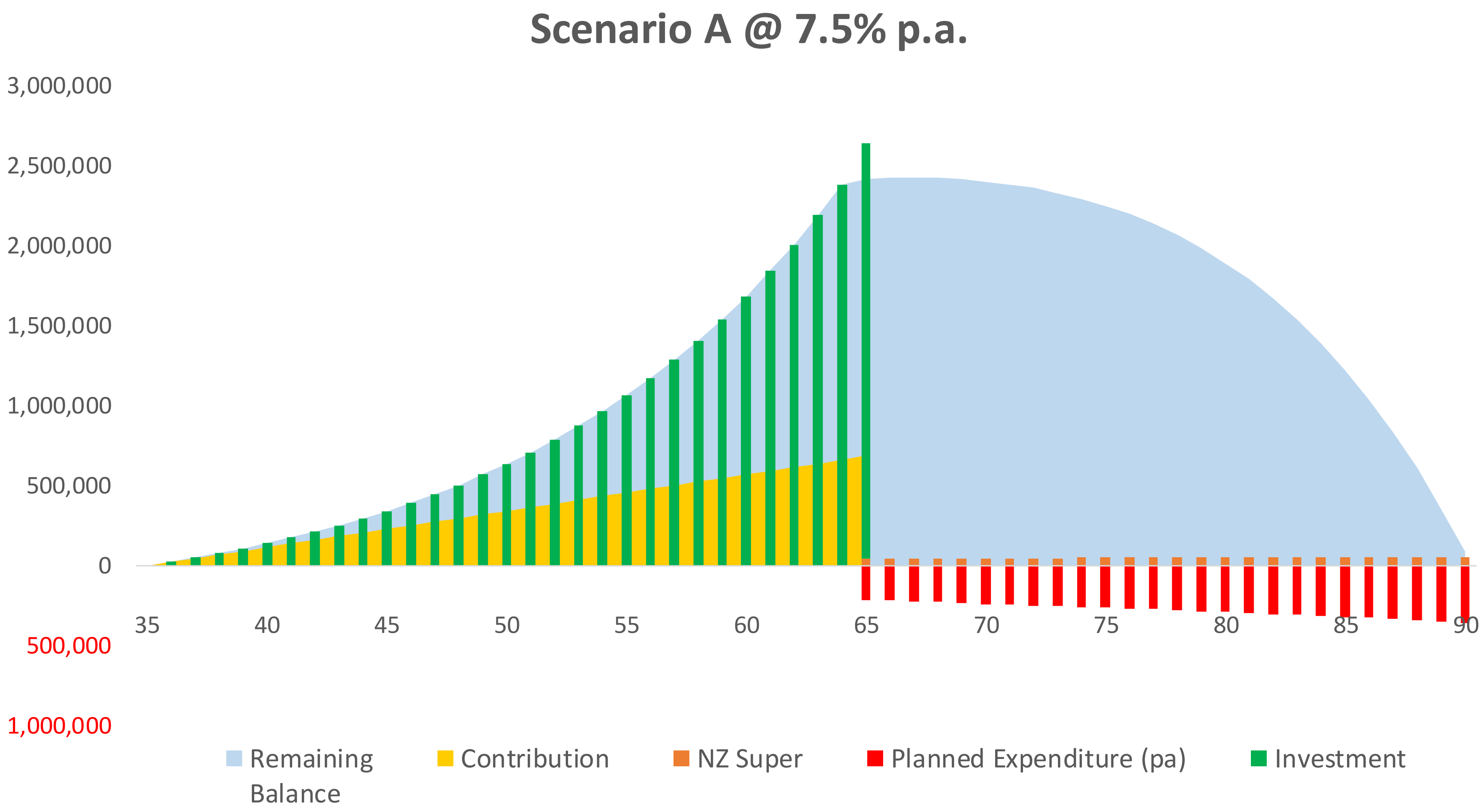
CPI and wage inflation of 2% pa

Inclusive of NZ Super

Summary of Scenarios

Scenario	Years of saving	Contribution p.a.	Investment return p.a.	Total contributions at 65	Accumulated Wealth at 65	Draw down from age 65 p.a.	Key Takeaways
A	30	$98,400	2.5%	$2,952,000	$4,399,234	$120,000	**Start Early** **Choose the right strategy**
		$46,800	5.0%	$1,404,000	$3,274,509		
		$22,800	7.5%	$684,000	$2,595,652		
B	20	$135,600	2.5%	$2,712,000	$3,518,747	$120,000	
		$76,800	5.0%	$1,536,000	$2,649,270		
		$44,400	7.5%	$888,000	$2,071,197		
C	10	$247,200	2.5%	$2,472,000	$2,806,950	$120,000	
		$162,000	5.0%	$1,620,000	$2,107,907		
		$110,400	7.5%	$1,104,000	$1,650,668		

Mind the gap



Scenario A @ 7.5% p.a.
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
500,000
1,000,000
35
40
45
50
55
60
65
70
75
80
85
90
Remaining Balance
Contribution
NZ Super
Planned Expenditure (pa)
Investment

The Prescription

"Right now I take a blue pill, a purple pill, an orange pill, a white pill, and a yellow pill. I need you to prescribe a green pill to complete my collection."

- The power of compounding returns
- Why Kiwis favour term deposits and residential property
- Alternatives and the importance of diversification

The Power of Compounding Returns

- Its not magic but it can make a huge difference over time.

Portfolio Title	Number of Years	Annual Return	Monthly Deposit	End Value	Your Contribution
Child's first home deposit	10	6%	$ 1,000	**$ 163,879**	$ 120,000
Children's education	15	6%	$ 500	**$ 145,409**	$ 90,000
Retirement - Early planning	30	6%	$ 3,000	**$ 3,013,545**	$ 1,080,000
Retirement - Late planning	10	6%	$ 9,000	**$ 1,474,914**	$ 1,080,000

Why Kiwis Favour Term Deposits

✓ Easy to understand

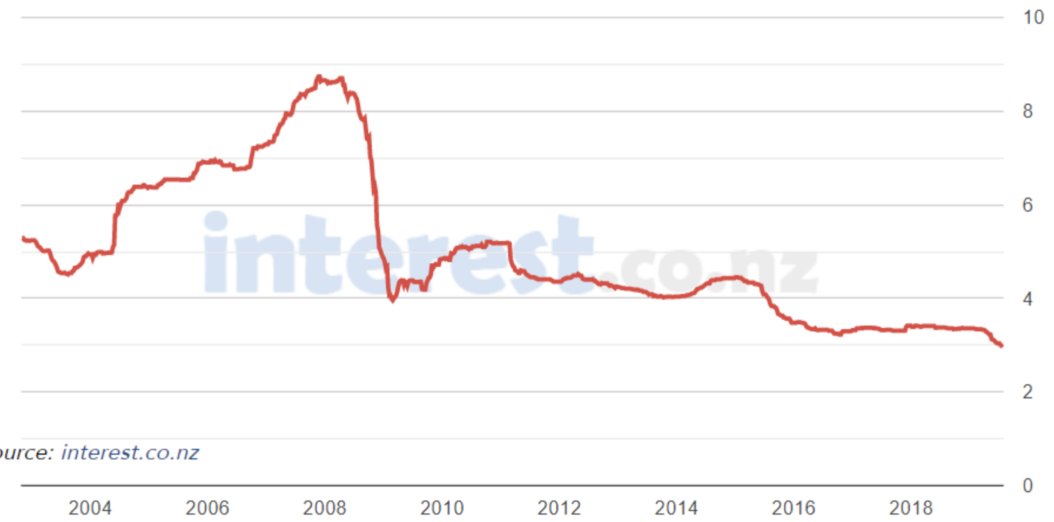
✓ Easy to transact

✓ No need for advice

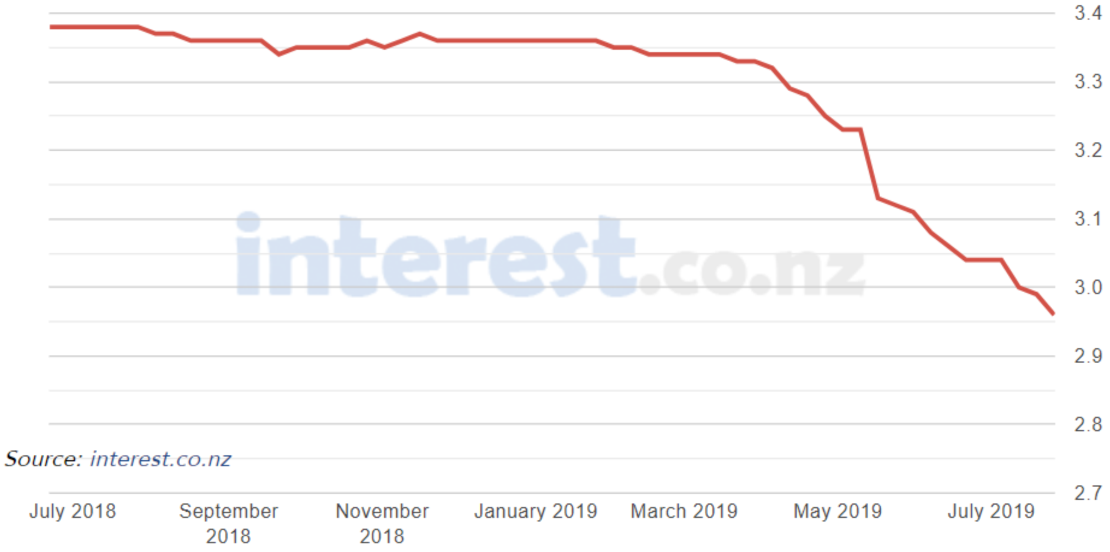
✓ Return is known in advance

✓ Generally safe

…but interest rates are now at historical lows providing investors with less return on their capital invested.



Source: *interest.co.nz*



Source: *interest.co.nz*

Despite this, RBNZ statistics show that NZ households have more than $180bn on deposit with banks and financial institutions

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Why Kiwis Favour Residential Property

✓ Its in the Kiwi psyche to own property – a mark of success

✓ Can see and touch "bricks and mortar"

✓ Easy to leverage (borrow to invest)

✓ Historically tax effective

✓ History of strong capital gains aided by;
  - high net migration
  - easily obtainable and cheap credit
  - supply lagging demand

…but these stimulants are starting to fade and new government policies are also creating headwinds for capital gains

x Migration slowing

x More supply of housing (including much maligned Kiwi Build)

x Ban on foreign buyers

x Extension of bright line test

x Ring fencing of rental losses

x Favourable policies for tenants

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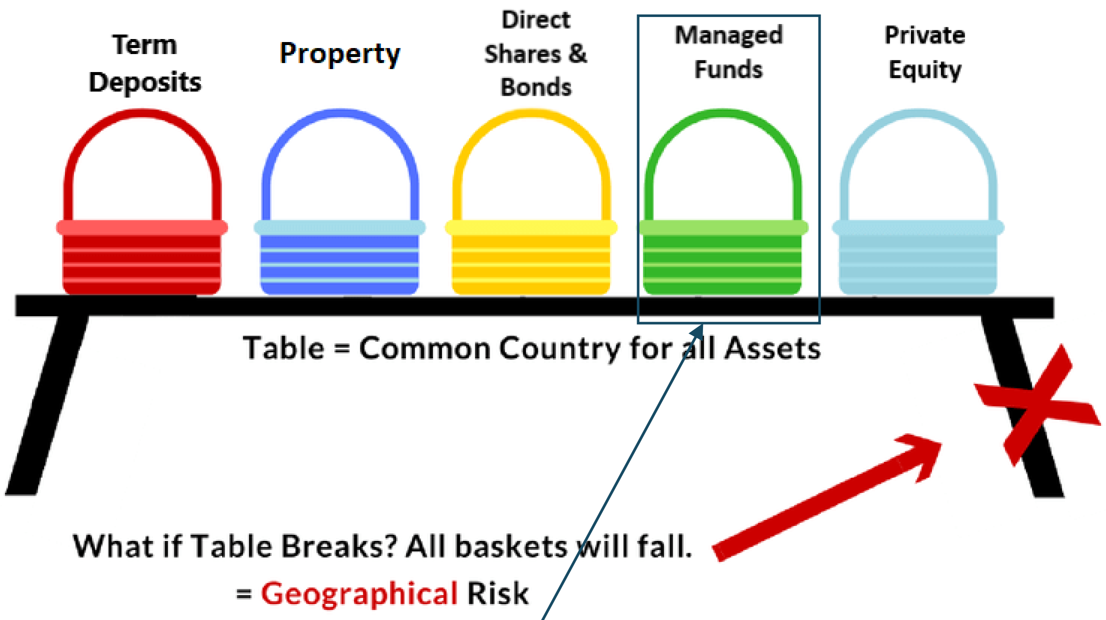
What does the return look like without capital gains?

Investment in residential property	With debt of 65%	With no debt
Property value	$850,000	$850,000
Rent per week	$620	$620
Gross rent per annum	$32,240	$32,240
Vacancy per annum – 2 weeks	$1,240	$1,240
Interest rate per annum – 4.29%	$23,702	$0
Property management fee per annum – 7.5%	$2,325	$2,325
Council Rates per annum	$2,100	$2,100
Maintenance per annum	$1,080	$1,080
Insurance	$1,200	$1,200
Net rental income per annum	$593	$24,295
Net rental return on equity per annum	**0.20%**	**2.86%**

Assumptions: Based on medium Auckland prices for a 3 bedroom average house, and based on average rents. Mortgage data sourced from interest.co.nz. Data as at September 2018

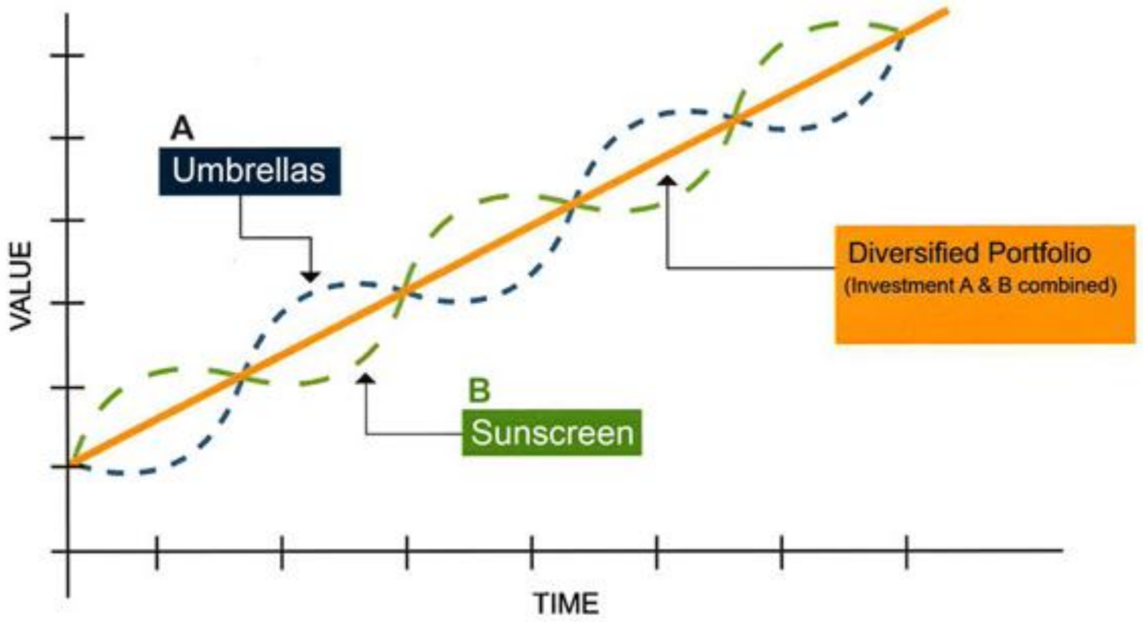
Alternatives and the importance of diversification

Spreading investments across asset classes and geographical regions reduces volatility of returns



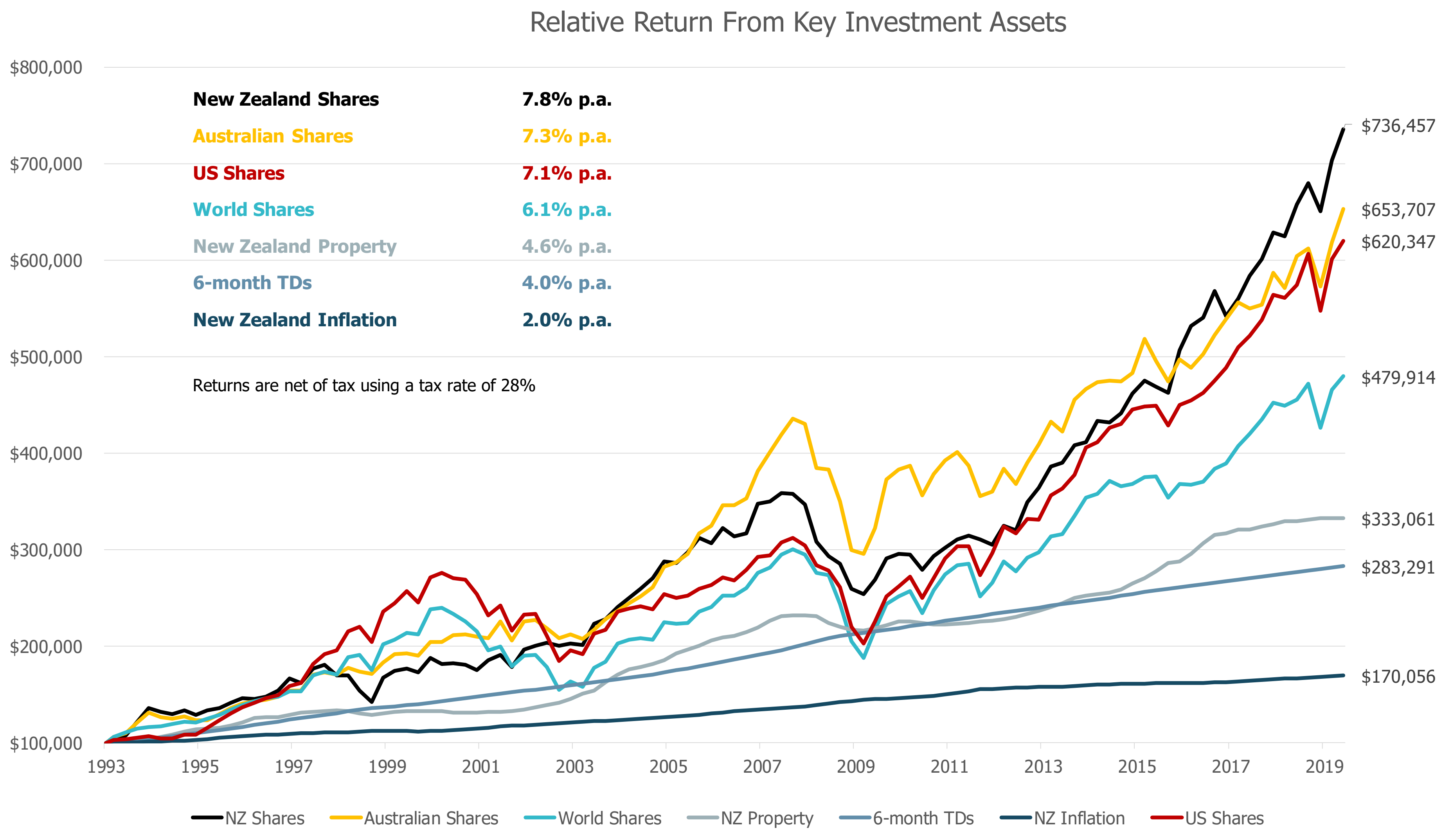
Managed Fund are an effective way of accessing asset classes including fixed interest, shares, commercial property and more recently private equity

Complementary investments reduce overall volatility of returns



Investment A and B have a negative correlation.

Shares have historically outperformed other assets in the long term



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Returns for Saturn's Investment Strategies (at 30 June 2019)

Investment Strategy	Defensive Assets : Growth Assets	5 year return per annum
Conservative	85 : 15	6.2%
Moderate	70 : 30	7.3%
Moderate Balanced	60 : 40	8.3%
Balanced	50 : 50	9.4%
Balanced Growth	40 : 60	10.4%
Growth	30 : 70	11.2%
Aggressive	10 : 90	12.7%
Very Aggressive	3 : 97	13.0%
Term Deposits	100 : 0	3.4%

These are model portfolios designed for Saturn's Discretionary Investment Management Service. Customised portfolios can be constructed to suit specific requirements. Returns are calculated using 5-year historical returns for actual assets as at 30 June 2019. Returns are net of fund manager fees but gross of Saturn fees and tax. Past returns (whether hypothetical or actual) do not tell you how the investment strategy will perform in the future. The term deposit return is based on data from the RBNZ for rolling 6 month deposits.

The Road to Financial Well Being

- Setting financial goals and implementing them
- Why get financial advice from a professional

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Setting Financial Goals and Implementation

- Think about your lifestyle goals first
  - When do you want to retire or reduce your working hours
  - Where do you want to live
  - What hobbies and interests do you intend to pursue
- Do a budget
  - How much income will you (and your partner) need to live the life you want
  - Consider existing expenses/outgoings that may not exist in retirement
  - Consider expenses that do not exist now but may arise in retirement
- Work out how much you need to have saved when you retire
  - Consider how long you are likely to live once you retire
  - Take into account what you are likely to get from NZ Super
  - Are you likely to receive an inheritance?
- Develop and implement a plan
  - KiwiSaver
  - Other regular or lump sum investing
  - Having the right investment strategy

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How Can A Financial Advice Professional Help You Make Money?

- Identification and setting of financial goals
- Developing the roadmap (the right strategy) to achieve financial goals
- Helping you get started with some quick wins
    - Investing in KiwiSaver ….. and in the right fund
    - Managing interest on credit card debt
    - Ensuring you're in control of your mortgage and not the other way around!
    - Smart budgeting and how not to waste money
- Rebalancing of investment portfolios to stay on track
- Avoiding the behavioural mistakes individual investors typically make

Questions and answers

Want to know more? Contact us on:

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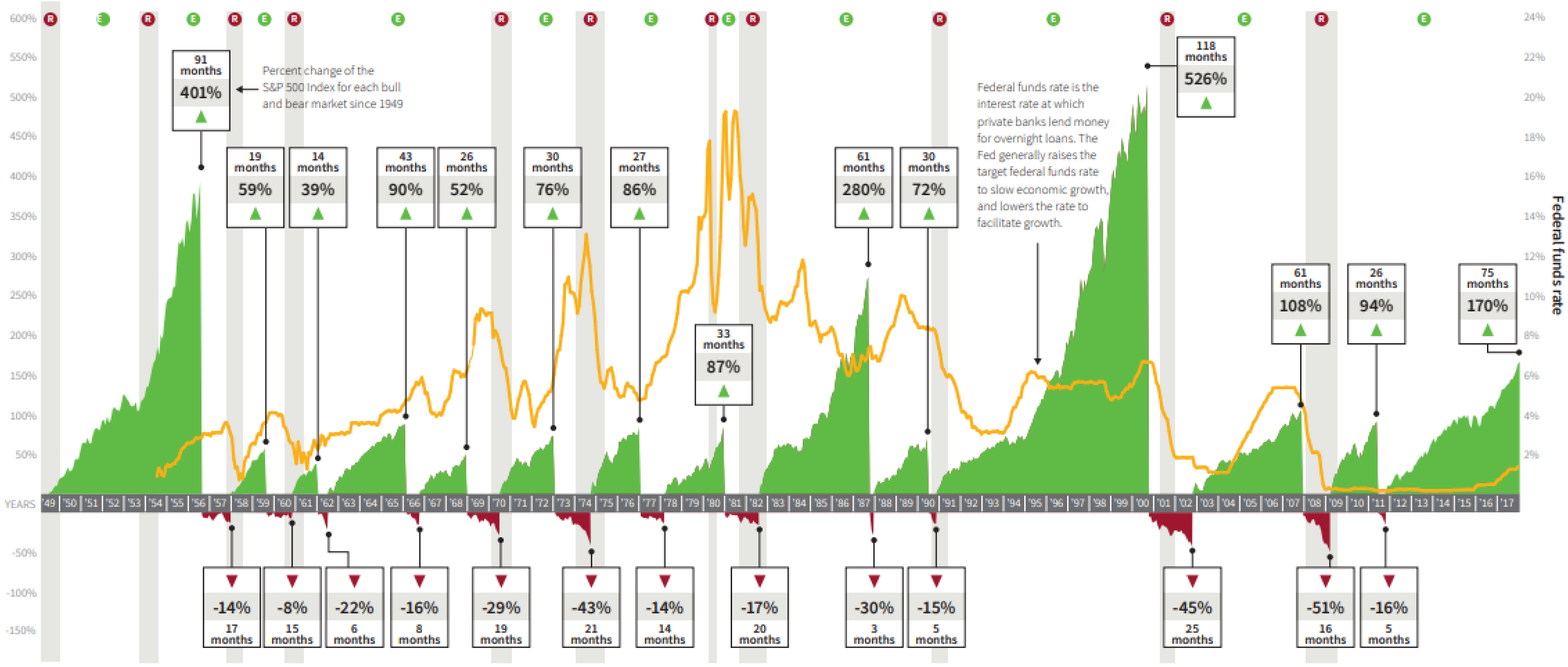
Bull markets vs Bear markets



Sources: S&P 500, Putnam Investments 2017. Data is as of 12/31/17, is historical, and reflects reinvested dividends. Past performance and market conditions do not guarantee future results and may not be duplicated. The S&P 500 Index is an unmanaged index of common stock performance. It is not possible to invest directly in an index. Federal funds rate data was not available before July 1954. A bull market is here defined as a period when the stock market rises for at least four straight months. A bear market is defined as a market decline of at least four months.