Bramwell Brown Ltd

Investment Advisers – Brokers

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Bramwell Brown Limited – Newsletter – December 2019

Official Cash Rate

The Reserve Bank surprised the market on November 13th by leaving the Official Cash Rate (OCR) at 1.0 percent. Most commentators were expecting a further cut. Here is the Reserve Bank Governor's address.

"The Monetary Policy Committee has decided to keep the Official Cash Rate (OCR) at 1.0 percent. Employment remains around its maximum sustainable level while inflation remains below the 2 percent target mid-point but within our target range. Economic developments since the August Statement do not warrant a change to the already stimulatory monetary setting at this time. Economic growth continued to slow in mid-2019 reflecting weak business investment and soft household spending. We expect economic growth to remain subdued over the remainder of the calendar year. We will continue to monitor economic developments and remain prepared to act as required.

Trading-partner growth has also slowed. Growth in global trade and manufacturing is weak and uncertainty remains high, dampening global business investment. However, New Zealand's export commodity prices have been robust, underpinning positive terms of trade. The lower New Zealand dollar exchange rate this year is also providing a useful additional offset to the weaker global economic environment. Domestic economic activity is expected to increase during 2020 supported by low interest rates, higher wage growth, and increased government spending and investment. The low level of the OCR has flowed through to lower lending rates more generally, which support spending and investment. Rising capacity pressures are projected to promote a pick-up in business investment.

Interest rates will need to remain at low levels for a prolonged period to ensure inflation reaches the mid-point of our target range and employment remains around its maximum sustainable level. We are committed to achieving our inflation and employment objectives. We will add further monetary stimulus if needed."

The ongoing reduction in interest rates is beginning to affect incomes, however there appears to be little relief in the immediate future.

Synlait Milk Subordinated Bond

Synlait Milk has announced it is seeking to raise $150 million of five year, unsecured, subordinated, fixed rate bonds (with the ability to accept oversubscriptions of $50 million). The bonds will be subordinated to Synlait's senior bank debt facilities, and the proceeds of the offer are intended to be used to repay a portion of Synlait's existing bank debt. The interest rate will be announced on December 6th, but will not be below 3.70%. The offer will open on December 9th and will close on December 13th, so please phone the office as soon as possible if you would like to reserve an allocation.

CONTACT THE OFFICE IF THIS OFFER IS OF INTEREST TO YOU

NZ Post Subordinated Notes

Following the Reserve Bank's announcement to keep the Official Cash rate at 1.00%, there was a small spike in bank swap rates. The timing proved advantageous for holders of the NZ Post subordinated notes, which had their interest rate reset on November 15th. Prior to the Reserve Bank announcement an interest rate under 4% looked likely, however it's pleasing to see the rate for the next five years has been set at 4.23%.

Germany

I will be taking extended leave over Christmas and New Year to visit family in Germany. I will be out of the office from Tuesday December 17th until Monday January 13th. In the two weeks either side of the office being closed for the Christmas holiday period AnneMarie and Angeline will be able to help you with any queries. I will be in contact via email so please don't hesitate to contact the office if you need something done.

New Year Office Hours

The office will be closed from Friday December 20th until Monday January 6th. During that period any phone calls will divert to answerphone, so if you have anything urgent please contact the office by email at brett@bramwellbrown.co.nz

New Zealand Retirement Expenditure Guidelines

The Financial Services Council (FSC) is a non-profit organisation that acts as a representative of the financial services sector in New Zealand. One of their aims is to develop and promote evidence-based policies and practices designed to assist New Zealanders to build and protect their wealth. It has recently sponsored a report by the Fin-Ed Centre, a joint initiative between Westpac and Massey University. The Centre aims to empower New Zealanders to make more financially savvy decisions – to give people the tools they need for the life-long process of managing their finances.

Their 2019 Retirement Expenditure Guidelines Report is the eighth in a series that commenced in 2012. The guidelines provide information about actual levels of expenditure by New Zealanders who have already retired. It contains information that retirees and those leading up to retirement can use to plan for their desired future retirement lifestyle. The report distinguishes between one-person and two-person households, a no-frills budget versus a choices budget, as well as city living versus living in the provinces. The table below shows some of the findings.

Weekly Income	One-Person Household		Two-Person Household	
NZ Super (After Tax)	$411.15		$632.54	
Weekly Expenditure				
	Metro	Provincial	Metro	Provincial
No-Frills Budget	$602.11	$574.35	$898.73	$639.90
Choices Budget	$1,190.37	$830.54	$1,436.00	$1,135.70

Based on the table above, if for example you live alone in the provinces, and you desire a retirement lifestyle with choices (travel, eating out, etc) you will need to fund approximately $420 per week from your own savings. NZ Super will only provide half of your weekly needs. The only group that comes close to having their expenses covered by NZ Super is a couple living in the provinces on a no-frills budget.

The table below shows an estimate of the savings required to fund the difference between NZ Super and expenditure for each group. These figures assume retirement at age 65, life expectancy of 90, with the full capital sum expended during retirement.

	One-Person Household		Two-Person Household	
	Metro	Provincial	Metro	Provincial
No-Frills Budget	$187,000	$160,000	$261,000	$7,000
Choices Budget	$764,000	$411,000	$787,000	$493,000

Again, if we look at the One-Person Household living in the provinces, the figures suggest you will need a capital sum of $411,000 if you want to enjoy a retirement with choices. These capital sums may look daunting to some, however the report goes on to suggest these sums can be reduced by delaying retirement or working part-time.

I would encourage anyone who is planning toward their retirement to have a look at the report. It can be found on the FSC website https://www.fsc.org.nz/News++Resources/Reports++Research.html

Retirement Income Policy

Every three years the Retirement Commissioner reviews retirement income polices, with the objective being to advise Government on options to ensure all New Zealanders have a good standard of living as they age, both now and in the future. One of the biggest issues facing New Zealand is the number of people expected to retire over the next forty years, and how we are going to fund their pensions.

- Between now and 2060 the number of people aged over 65 will double
- By 2028 those aged over 65 will outnumber children aged under 14 for the first time
- We now live longer, and we have a lower birth rate
- Therefore, we will have fewer workers paying tax to support the elderly in retirement
- It currently costs $39 million per day to fund New Zealand Super
- It is predicted to cost $120 million per day to fund New Zealand Super in 2040

The Commission for Financial Capability (CFFC) will assess a number of topics when they conduct their review, with the terms of reference including the following:

- KiwiSaver
- Declining rates of home ownership
- Changes in the labour market
- The fairness of the superannuation system on current and future generations
- How to ensure New Zealanders make the most of their money in the decumulation phase

There will always be an ongoing debate around Super being universal. Baby-boomers (that's me) will argue that we've worked hard all our lives, paid our taxes, made sacrifices, and saved hard – why shouldn’t we now get the pension? Others will argue that it's unfair to expect future generations to support a disproportionate number of retirees. If the numbers of tax-paying workers remained constant in relation to the numbers of pensioners we wouldn’t have a problem. However, the upcoming spike in retirees, combined with a reducing number of tax-paying workers means it becomes an unfair burden on one cohort of New Zealanders. How does the Government fund an extra $80 million per day in Super?

It's interesting to note the terms of reference include looking at KiwiSaver in conjunction with how best to utilise retirement savings. Some are suggesting KiwiSaver balances should be transferred into a Government-guaranteed annuity scheme that would provide an income for life. I think this could be an option, but I wouldn’t like to see it become compulsory. The fees incurred to insure against longevity risk are high, and I believe investors should be able to manage their own money through retirement.