

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – BROKERS

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### Bramwell Brown Limited – Newsletter – July 2012

#### Universal Superannuation

Much has been reported over the last month regarding New Zealand Super and the age of eligibility. Everyone except the Government seems to believe change is inevitable. We are living longer; therefore we will spend longer in retirement. New Zealand has a rapidly declining number of tax-paying workers in proportion to those in retirement drawing the pension. Not only do we have more people becoming eligible for the pension, but we have less people working and paying the taxes necessary to fund it. Currently New Zealand Superannuation pays \$349 per week (after tax) for a single superannuitant, living alone. A couple who are both eligible receive \$537 per week. A recent ANZ Bank survey found most people believed that Super alone was not enough to live on in retirement. The majority of respondents wanted between \$100 and \$400 per week extra income in retirement. What do we need to generate that extra income? The table below shows the lump sum needed to fund various levels of income for various lengths of time.

<b>Years in Retirement</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>20</b>	<b>25</b>
<b>Extra Income</b>	<b>Lump sum needed to generate extra income</b>						
<b>5,000</b>	44,913	52,877	60,531	67,889	74,960	81,757	97,617
<b>10,000</b>	89,826	105,753	121,062	135,777	149,920	163,514	195,235
<b>15,000</b>	134,739	158,630	181,594	203,666	224,880	245,271	292,852
<b>20,000</b>	179,652	211,507	242,125	271,554	299,841	327,029	390,469
<b>25,000</b>	224,565	264,384	302,656	339,443	374,801	408,786	488,086
<b>30,000</b>	269,478	317,260	363,187	407,331	449,761	490,543	585,704
<b>35,000</b>	314,390	370,137	423,719	475,220	524,721	572,300	683,321
<b>40,000</b>	359,303	423,014	484,250	543,108	599,681	654,057	780,938
<b>45,000</b>	404,216	475,890	544,781	610,997	674,641	735,814	878,556
<b>50,000</b>	449,129	528,767	605,312	678,885	749,602	817,572	976,173
<b>55,000</b>	494,042	581,644	665,844	746,774	824,562	899,329	1,073,790
<b>60,000</b>	538,955	634,520	726,375	814,663	899,522	981,086	1,171,407

The table shows that if you want an income of \$20,000 per annum over and above Government Super, and you expect to use those funds completely over a twenty year period, you will need to have saved approximately \$327,000 by the time you retire. The figures are based on achieving an after-tax return of 4% on your lump sum, with average annual inflation of 2%. The figures aren't precise as they assume your extra

income is withdrawn on an annual basis. In reality you would be drawing funds down weekly or fortnightly which requires a slightly higher lump sum than shown in the illustration. However, considering the variables that come into play with long-term predictions such as these the figures are adequate in drawing the comparisons we are seeking.

What do we need to save in order to achieve our lump-sum at retirement? The table below shows the yearly savings required to reach various lump-sum targets over various periods of time.

<b>Years Until Retirement</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>16</b>	<b>18</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>35</b>
<b>Lump Sum Required</b>	<b>Annual Saving to Achieve Lump- Sum</b>								
<b>50,000</b>	4,566	3,728	3,130	2,683	2,335	2,058	1,561	1,232	1,000
<b>100,000</b>	9,133	7,456	6,260	5,365	4,670	4,116	3,122	2,465	2,000
<b>150,000</b>	13,699	11,184	9,390	8,048	7,005	6,174	4,683	3,697	3,000
<b>200,000</b>	18,265	14,912	12,520	10,730	9,340	8,231	6,244	4,930	4,000
<b>250,000</b>	22,832	18,640	15,650	13,413	11,676	10,289	7,805	6,162	5,001
<b>300,000</b>	27,398	22,368	18,781	16,095	14,011	12,347	9,366	7,395	6,001
<b>350,000</b>	31,964	26,096	21,911	18,778	16,346	14,405	10,927	8,627	7,001
<b>400,000</b>	36,531	29,824	25,041	21,460	18,681	16,463	12,488	9,860	8,001
<b>450,000</b>	41,097	33,552	28,171	24,143	21,016	18,521	14,049	11,092	9,001
<b>500,000</b>	45,663	37,280	31,301	26,825	23,351	20,578	15,610	12,325	10,001
<b>550,000</b>	50,230	41,008	34,431	29,508	25,686	22,636	17,171	13,557	11,001
<b>600,000</b>	54,796	44,736	37,561	32,190	28,021	24,694	18,732	14,790	12,001
<b>650,000</b>	59,362	48,464	40,691	34,873	30,356	26,752	20,293	16,022	13,001
<b>700,000</b>	63,929	52,192	43,821	37,555	32,691	28,810	21,854	17,255	14,002

Let's assume we are twenty years from retirement, and would like to achieve that target of \$327,000 saved by the time we retire. The table indicates we are going to have to save somewhere around \$13,000 per annum in order to achieve that. Again these calculations assume an after-tax return on your savings of 4%, with an inflation rate of 2%. Most respondents to the ANZ survey were not confident of reaching their desired level of retirement savings. I think over the coming years we will see much more discussion around superannuation. KiwiSaver will be a big part of that discussion with compulsory KiwiSaver likely. Contributions from employees and employers are likely to rise in an effort to ensure individuals at retirement are able to fund a bigger proportion of their financial needs themselves. I think anyone not yet in their forties should be mindful of these discussions and should be planning now to expect less from the state in the future. The need for financial literacy (particularly in schools) needs to be a focus for Government. Simple concepts such as the time value of money need to be understood by anyone contemplating their long-term financial future.

## Fixed Interest

Finding good quality fixed interest that can beat bank term deposits on a risk-adjusted basis remains very challenging. For risk-averse investors the banks are hard to beat at present. Below is a list of the bonds we have offered over the last few years, with their secondary market yields. Their current price is compared against the price they were trading at when we last listed them in the newsletter (February 2012).

<b>Bond</b>	<b>Rate</b>	<b>Maturity</b>	<b>Yield</b>	<b>February Price/\$100</b>	<b>Current Price/\$100</b>
Telecom	8.20%	June 2013	4.82%	104.18	103.15
Marac	10.50%	July 2013	6.85%	103.68	103.65
Wellington Airport	7.50%	November 2013	5.00%	103.78	103.29
Tauranga City Council	7.05%	December 2013	3.33%	106.27	105.19
Auckland City Council	6.42%	March 2014	3.44%	105.41	104.98
Tower	8.50%	April 2014	6.10%	103.97	104.05
Contact Energy	8.00%	May 2014	4.55%	106.57	106.18
Fletcher Building	9.00%	May 2014	6.15%	104.36	104.98
Vector	7.80%	October 2014	4.65%	107.65	106.78
Auckland Airport	7.00%	November 2014	4.12%	107.09	106.55
Kiwi Income Property Trust	8.95%	December 2014	5.51%	107.00	108.00
Trustpower	7.60%	December 2014	5.25%	104.46	105.40
Auckland City Council	6.28%	March 2015	3.70%	106.67	106.66
Fonterra	7.75%	March 2015	4.15%	109.59	109.15
Meridian Energy	7.15%	March 2015	4.30%	107.48	107.23
Goodman Property Trust	7.75%	June 2015	5.15%	107.49	107.09
Warehouse	7.37%	June 2015	5.84%	103.50	104.11
Telecom	8.35%	June 2015	4.80%	109.46	109.70
Trustpower	8.40%	December 2015	6.00%	105.05	107.46
APN News & Media	7.86%	March 2016	8.91%	89.70	96.71
Fletcher Building	9.00%	May 2016	6.25%	107.28	109.33
Goodman Fielder	7.54%	May 2016	7.20%	96.47	101.14
Infratil	8.50%	June 2016	6.60%	101.82	106.58
Z Energy	7.35%	October 2016	6.00%	103.38	105.04
Air New Zealand	6.90%	November 2016	5.65%	101.00	104.78
Auckland Airport	8.00%	November 2016	4.50%	112.44	113.77
Trustpower	8.00%	December 2016	5.90%	107.08	108.19
Meridian Energy	7.55%	March 2017	4.80%	110.44	111.48
Infratil	8.50%	June 2017	7.00%	100.00	106.24

<b>Bond</b>	<b>Rate</b>	<b>Maturity</b>	<b>Yield</b>	<b>August Price/\$100</b>	<b>Current Price/\$100</b>
Manukau City Council	6.52%	September 2017	4.25%	107.40	110.58
Infratil	8.00%	November 2017	7.10%	100.00	103.99
Trustpower	7.10%	December 2017	5.75%	103.40	106.29
Z Energy Limited	7.25%	August 2018	6.60%	101.83	103.25
AMP	9.80%	April 2019	5.60%	108.01	107.13
IAG	7.50%	December 2036	7.07%	102.40	105.00
NZ Post Group Finance	7.50%	November 2039	6.15%	101.99	102.94
Genesis Energy	8.50%	July 2041	7.81%	103.20	107.80
Contact Energy	8.00%	February 2042	7.57%	100.00	105.00
BNZ Perpetual	9.10%	No maturity date		106.00	105.50
Kiwibank Perpetual	8.15%	No maturity date		102.00	104.25
Rabobank Perpetual	8.78%	No maturity date		104.80	104.30

### **Z Energy**

Z Energy Limited has announced it is considering making an offer of senior, secured fixed rate bonds to the public, with bondholders sharing the same security as Z's banks and existing bondholders, on an equal basis. It is anticipated that any issue would be launched in mid July. Contact the office if this issue is of interest to you. Z Energy is a joint venture between Infratil and the NZ Superannuation Fund which owns the Shell service stations, together with a 17.1% stake in NZ Refining, and a 25% stake in Fly Buys.

### **Mighty River Power**

Legislation has now been passed that allows the partial sale of state owned assets. Much debate has been and will continue to be had on the merits for and against the proposal. The Government may be a bit presumptuous in their desire to see Mighty River Power offered to the public as early as September. Local Maori are demanding compensation from the sale of shares based on their ownership of the lake beds and rivers from which Mighty River Power draws its water. Other opponents are hoping a citizen's initiated referendum might halt the process altogether. If the sales process does get across the line we hope to be able to offer shares to our clients in the initial public offering. Please phone the office if you have not done so already if you are interested in participating in these offers. Some useful information is available on a website specifically set up by the Government explaining the share offers and the companies themselves. This information can be found at <https://www.governmentshareoffers.govt.nz/home/>