

# BRAMWELL BROWN LTD

## INVESTMENT ADVISERS – SHAREBROKERS

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### **Bramwell Brown Limited – Newsletter – October 2023**

#### **Retirement Planning**

Often, I see those nearing retirement contemplating removing the risk completely from their investment portfolios. “Sell all of our shares, and we will put the money in the bank.” It’s a natural reaction for those who have enjoyed a regular, stable income from employment, and then are suddenly reliant on National Superannuation supplemented by whatever investments may have been accumulated over a lifetime. It is normal to take less risk as we age – we don’t have the same ability to make up losses that we did when we were younger. However, to put all our investments into term deposits is not a good long-term strategy in my view. Returns are variable, and very rarely do after-tax returns from term deposits keep up with inflation. By all means adjust the amount of risk you take as you age, but holding all your investments in cash and bank deposits is probably riskier than maintaining a balanced portfolio right through retirement.

Something else I often see is older investors refusing to take longer-term bonds or bank deposits. “Five years is too long – I might not be here then.” My advice is to continue investing as if you were going to live for another twenty years. Limiting yourself to short-term investments simply lowers your returns. When we die, we have a range of assets (property, shares, bonds, bank accounts) that our executors will attend to according to our will. Whether those assets are short-term or long-term is not particularly relevant.

I think some are very good at the accumulation phase of life, however most are not comfortable with the decumulation phase. Of course, what makes this phase of our lives difficult is the inherent uncertainty around life expectancy, returns, government regulation and inflation. We tend to be overly conservative with money and will err on the side of caution as we fear we will run out of money before we die. In a perfect world the last of our savings would be used to pay the undertaker, however the many variables through what could be a thirty-year retirement make that unlikely. I’ve previously published tables in the newsletter showing how long a lump sum should last in retirement, but are there some rules of thumb we can use to guide us?

The New Zealand Society of Actuaries published a paper in 2017, discussing rules of thumb for drawing down retirement savings. Those rules of thumb are:

6% Rule – each year, take 6% of the starting value of your retirement savings.

Suitable for people who want more income at the start of retirement, and are not concerned with leaving an inheritance.

Inflated 4% Rule – take 4% of the starting value of your retirement savings, then increase that amount each year with inflation.

Suitable for people worried about running out of money in retirement, or who want to leave an inheritance.

Fixed Date Rule – run your retirement savings down over the period to a set date – each year take out the current value of your retirement savings divided by the number of years left to that date.

Suitable for people who are comfortable living on other income (NZ Superannuation) after the set date, and are not concerned about leaving an inheritance.

Life Expectancy Rule – each year take out the current value of your retirement savings, divided by the average remaining life expectancy at that time.

Suitable for those people wanting to maximise income throughout life, and not concerned with leaving an inheritance.

Each rule of thumb has advantages and disadvantages; however all are useful as a broad guide. The full report can be found here <https://www.bramwellbrown.co.nz/wp-content/uploads/2023/09/NZSA-Decumulation-Options-in-the-New-Zealand-Market.pdf>

## **Powers of Attorney**

Have you considered what might happen if you were unable to look after yourself, or make decisions about your own affairs? Who would deal with your property, operate your bank accounts, and pay your bills if you were no longer able to? While a will explains how your assets will be distributed at death, you still need to be mindful of how your affairs are managed while you are alive. A power of attorney allows you to nominate someone to act on your behalf in the event you are unable to manage your own affairs. It gives that person authority to act legally on your behalf to the extent specified in the power of attorney. There are two main powers of attorney – an ordinary power of attorney and an enduring power of attorney.

### Ordinary Power of Attorney

With an ordinary power of attorney you appoint someone to help look after your affairs. You decide how wide the powers you grant should be, and you state whether you must act together (jointly) or

whether you can act separately (severally). You might appoint an attorney if you are travelling overseas for an extended period, and want someone you trust to be able to act on your behalf while you are away. An ordinary power of attorney remains valid only while you still have legal capacity. If you become mentally incapable your ordinary power of attorney ceases immediately, as is the case if you die. If you want someone to be able to act for you when you can no longer manage your own affairs, you need to arrange an enduring power of attorney (EPA).

### Enduring Power of Attorney (EPA)

Unlike an ordinary power of attorney, an enduring power of attorney (EPA) allows the attorney to act for you if you become mentally incapable. There are two types of EPA; one for property, and one for personal care and welfare.

A property EPA allows the person you have chosen to act on your behalf with respect to the property you own. This includes land, property, your bank accounts, shares, and other possessions. Under a property EPA you retain control of your affairs after it has been signed, and you decide how it is to be used. You can limit it to certain property or specific circumstances – you do not have to give your attorney unlimited power. You can decide whether you want a property EPA to take effect only if you become mentally incapable, or whether it is to have immediate effect and continue to operate if you become mentally incapable. You may choose to have more than one person to act as your attorney under a property EPA. If you appoint the attorneys to act jointly, they must act together, and anything requiring a signature will require the signature of all the attorneys.

A personal care and welfare EPA enables your attorney to make legal decisions about your personal care in the event of you becoming mentally incapable. Your attorney might decide whether or not you need to go into care, what medical treatment you should receive, and where you should receive that treatment. It only comes into force if you become mentally incapable. You can appoint only one person at any one time to act as your attorney in relation to personal care and welfare.

You must arrange an EPA before you become mentally incapable; otherwise the power will be invalid. If you are already incapacitated, you are deemed not capable of granting a valid power of attorney. The people who want to care for you would have to apply to the Family Court to make decisions on your behalf. This takes time and will be considerably more expensive than organising an EPA. Furthermore, the person appointed under a court order might be someone you would not have chosen yourself.

You should choose people you trust implicitly to act as your attorney, and should indicate to them exactly how you would want your affairs conducted in the event of your incapacity. The powers granted can be very wide, and could for example; include making a will for you with the court's approval. You should therefore choose someone who is unlikely to have any conflict of interest when dealing with your affairs. Although you can draw up powers of attorney without consulting a lawyer, your lawyer will be able to advise you on the implications of what you decide. They will have the required forms to prepare your powers of attorney quickly and at a reasonable cost. If you decide to draw up powers of attorney yourself, you will still need a lawyer to witness your signature.

Further information about Powers of Attorney can be found at:

<https://www.lawsociety.org.nz/for-the-public/common-legal-issues/powers-of-attorney/>

<https://www.govt.nz/browse/family-and-whanau/enduring-power-of-attorney-epa-for-property/>

<https://www.govt.nz/browse/family-and-whanau/enduring-power-of-attorney-epa-for-personal-care-and-welfare/>

## **Health & Safety**

Another reminder to please be very careful when exiting the carpark of our building. Recently a car collided with a member of the public on a mobility scooter. It was a low-speed, low-impact collision and the member of the public was uninjured. However, it highlights the need to take extra care. Please stop before the footpath, and check the mirror for pedestrians before you exit.

## **Melbourne**

I will be visiting my daughter in Melbourne this month. I will be away from Friday October 13<sup>th</sup> until Tuesday October 24<sup>th</sup>. Angeline will be available by email and phone through this period. If there is anything you need, please email in the first instance [angeline@bramwellbrown.co.nz](mailto:angeline@bramwellbrown.co.nz) or phone 3788299.

## **Portfolio Administration**

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.

**DISCLOSURE STATEMENT AVAILABLE ON REQUEST AND FREE OF CHARGE**