

Why is risk profile important

TO YOUR KIWISAVER SUCCESS?

2014 WAS ANOTHER GREAT YEAR
FOR KIWISAVER INVESTORS.

Morningstar in their most recent KiwiSaver survey stated "investors across all KiwiSaver categories were rewarded in 2014, as both income and growth assets performed positively. Investors should note, however, that recent market strength is unlikely to be sustained in the future. KiwiSavers should also be wary of chasing performance, and focus on ensuring that they're in the most appropriate risk profile for their personal circumstances."

KiwiSaver is an outstanding success with over \$26bn in funds at the end of January 2015. However, far too much of this money is sitting in the default funds or low risk funds – considering the long-term nature of KiwiSaver.

What Morningstar is warning is that there is limited long-term value in chasing the highest performing fund

managers and moving your money from one provider to the next depending on who performed best in the performance ratings. This sort of strategy could be costly as last year's top performer may not necessarily be the top performer in years to come.

Morningstar is a world-wide research company with masses of data to back up their projections. Although nothing is



inside >>

- Juggling risk and reward.
- UK Pensions stuck in Old Blighty for many migrants.
- Life changing events change life insurance policies.

SAME OLD, SAME OLD!

We know that we keep harping on about your IRD and Prescribed Investor Rate (PIR), but if we do not have your IRD number then your PIR automatically defaults to 28%. This means you could be out of pocket if your PIR should be less. Providing us with these is very important. This ensures your funds are taxed at the correct level. Here's how you calculated your PIR rate:

- If you earn less than \$14,000pa your PIR is 10.5%
- If you earn between \$14,001pa - \$48,000pa your PIR is 17.5%
- If you earn greater than \$48,000pa your PIR is 28%.

If you have any investment income over \$22,000pa, please contact your adviser to discuss your PIR.

Please email jean@opt-ltd.co.nz. It is also very important to update us if your income has changed as this might change your PIR.



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guaranteed, Morningstar predicts that a conservative portfolio (85% income/15% growth assets) will have a long-term projected return of 5.8% whereas an aggressive portfolio (15% income/85% growth assets) will have a long-term projected return of 8.3%. If this average earning rate was extrapolated over a 20-year time horizon, then the difference in accumulated value between the two risk profiles and their corresponding portfolios would be massive.

So what should you do? If you plan to use your KiwiSaver money in the next few years, then remaining in the more conservative funds is a prudent move.

However, if the money is locked in for five or more years, then you need to talk with your financial adviser about correctly assessing your investment risk profile.

Your adviser has the skills plus the risk profiling tools to help you identify what it is you intend to use your KiwiSaver money for, when you can access it and what your attitude is towards this money over the short-, medium- and long-term.

Your adviser can talk about the pros and cons of taking a higher risk profile and what it might mean for you. It is important you feel comfortable with your KiwiSaver investment but taking too high a risk could potentially be as damaging over the long-term as taking too low a risk and missing out on accumulating those much needed additional savings for retirement.

life's tip #1

"Calling someone who trades actively in the market an investor is like calling someone who repeatedly engages in one-night stands a romantic."

– WARREN BUFFET

THINGS NEVER STAY THE SAME

All around us, change is occurring at an ever increasing pace.



The speed of law and regulation change in both the UK and NZ has been massive in recent years. In December 2014 and March

2015 two UK law changes occurred which have significant impact on those who have not transferred their pension to NZ. The Pension Schemes Act 2015 bans the transfer out of unfunded public service defined benefit schemes (effective from 6 April 2015); proposes a new type of workplace pension to be known as a Defined Ambition Pension – a compromise between a defined contribution and a defined benefit scheme; introduces an impartial

guidance guarantee for individuals with defined contribution pension savings on how to use their pension savings in retirement, and introduces a requirement for trustees and scheme managers in the UK to ensure individuals with safe guarded benefits (broadly in a defined benefit scheme) receive appropriate independent advice before transferring to another pension scheme.

The Taxation of Pensions Act 2014 enables those who reach pension age of 55 years to now have full access to their pension savings and the discretion to do whatever they wish with them. We are currently waiting to see what the implication will be for QROPS and we will keep clients informed on progress.

In NZ, the government passed new legislation relating to those transferring their UK pension to NZ. (See article on back page). The next stage of the Financial Markets Conduct Act has also come into effect and this, combined with a raft of regulatory changes, has prompted Britannia to review its systems, processes, range of advice and investment solutions with a view to providing our clients with enhanced service and investment offerings. We will be implementing changes over the remainder of 2015 and will keep you well informed.

- Markets soar, markets crash. Juggling investments requires advice.
- UK pension schemes: can you move yours? Or is it stuck in the United Kingdom?

6 reasons to reassess YOUR LIFE INSURANCE NEEDS

WHEN WAS THE LAST TIME YOU HAD A SPARKLING
CONVERSATION ABOUT LIFE INSURANCE?

To be fair, it is not something most of us want to think about too often. However, despite our reluctance to discuss them, protection policies such as life insurance are not insurances we should buy once and never think about again. The sad reality is that most of us forget to update our insurance cover when we experience life-changing events, even though this can leave you and your loved-ones in financial difficulty, should the worst subsequently happen.

You are more than likely going to experience a life-changing event at some point in your life. Take note of the following life-changing events, all of which result in a change of circumstances and therefore insurance needs:

1. You take out a joint mortgage.

When you buy your first property, it is likely your mortgage provider will impress on you the need to purchase some form of life insurance. This is because the bank will want an assurance that, if you die, your mortgage will be repaid in full.

If you buy a home with a partner, it's even more important to ensure you have enough protection in place to cover your share of the mortgage debt. If you don't, your other half could end up being pursued for the entire joint mortgage, should the worst happen.

2. You get married or enter into a civil union.

When you make the commitment to spend your life with someone else, it is likely this will also mean you spend your money jointly (although not necessarily in equal amounts!). Entwining your finances with a partner's can affect the level of life insurance cover you need. If you rely on pooling joint incomes to pay your household bills, it is important to ensure

both partners' contributions to the family finances are properly protected. Otherwise, should one of you pass away, the person left behind is likely to experience money worries, as well as heartache.

3. **You have children.** An IRD paper produced in 2009 calculated it costs over \$250,000 to raise a child to age 18 for a middle income family and this does not include any contributions towards further education or loss of income if one parent stays at home! Even if both parents in a family work, costs like these can be difficult to cover. However, if one of the incomes you rely on was lost, the right life insurance cover could make a real difference to the surviving partner or loved ones left to bring up your family. Also, don't forget to review your life insurance needs as your family grows. Looking after a family of three or four children will cost significantly more than meeting the needs of an only child.

4. You have other, non-mortgage debts.

If you have outstanding borrowing on personal loans and credit cards, it is important to understand that these will have to be repaid out of your estate (the wealth you leave behind) when you die. It is a good idea to ensure you have enough life insurance in place to cover such debts, especially if you have dependants who rely on your income to survive. If you don't, your family will have to deal with your creditors after you've gone.

5. **You get a new job.** If you are lucky enough to be offered a new job and an increased salary, you may need to increase your life insurance cover. This sounds contrary, and it is easy to assume

being better off might mean you would need less, not more, life insurance – but remember, most people become accustomed to the lifestyles they lead. If a career move means the start of a more affluent standard of living for you and your family, it is worth considering how they would maintain this if your income was lost. Also, it is worth checking the terms and conditions of any new employment contract you sign. Some jobs may offer a degree of income protection as part of your package.

6. Your health or lifestyle changes.

A change in health or lifestyle may enable you to remove a premium loading. For example, you may have taken out life insurance and been a smoker at the time. You may have since given up smoking and so, depending on your policy and how long ago you gave up smoking, you may be able to remove a premium loading from your policy. Another example is where you may have changed jobs from what was classed as a high risk job, to a lower risk job.

It is a good idea to seek personal advice from an expert whenever you address or re-visit your insurance needs. Please contact us if you would like to discuss your life insurance or any other key insurance policies. We will happily assist you to ensure the appropriate level of cover is in place for you and your family.



summing
up

- How many life changing events happened to you last year? Did your insurance change with it?
- You may be overinsured, and paying too much, or underinsured and risk not being paid enough.

NEW INTRODUCED OFFSHORE SUPER TAX

IN FEBRUARY 2014 THE NEW ZEALAND GOVERNMENT PASSED NEW LEGISLATION TO CLARIFY THE TAX POSITION OF PERSONS TRANSFERRING PENSION ENTITLEMENTS FROM OFFSHORE SUPERANNUATION SCHEMES TO NEW ZEALAND.

It is hoped the new legislation will make the rules 'fairer and simpler' as stated by Inland Revenue in February 2014.

So how does this affect you?

The new legislation focuses on the period when you arrived and became a New Zealand tax resident and when your United Kingdom domiciled pension was transferred to New Zealand. Basically, the new regulations are all about your membership of an offshore pension scheme prior to you engaging with Britannia, your period of residency in New Zealand and the date you transferred your pension to New Zealand.

The new regulations are applicable to both current and past members of Britannia Superannuation Scheme.

We would add that previous to the new regulations it was extremely difficult to understand the tax position of individual clients as there were so many options and variables. The new tax regime has introduced clarity and made a person's tax liability fairly easy to estimate.

As Britannia is not a tax specialist, we have attached some useful information regarding the introduced legislation and encourage you to take advice from a qualified NZ tax agent who has a firm grasp of the workings of this specialised area of tax.

The introduction of the legislation doesn't mean you automatically have a tax liability. However, it would be prudent to follow the links below, read the information and take advice if you then feel you should.

life's tip #3

"In the long run, it's not just how much money you make that will determine your future prosperity. It's how much of that money you put to work by saving it and investing it."

– PETER LYNCH

<https://taxpolicy.ird.govt.nz/sites/default/files/2014-faqs-foreign-super.pdf>

<http://www.ird.govt.nz/resources/5/e/5e3bc0d6-e4d9-4ec2-a2fd-e3c8aacd8aa0/ir1024.pdf>

IMPORTANT NOTICE TO MEMBERS OF SOME STATE SECTOR DEFINED BENEFIT SCHEMES

The UK Government has recently passed laws outlawing the transfer of pension benefits from most state sector defined benefit schemes. This prohibition will be effective from April 6 of this year and will affect members of the NHS Pension Scheme, Teachers', Armed Forces (Army, Navy and Air force) and Police Schemes along with many other workplace pension plans.

If you know somebody in one of these schemes please draw their attention to this and suggest they contact us for more information.

If you know of other ex UK residents who wish to use our services contact 0800 500 811 or email team@opt-ltd.co.nz.

Note: Any referral who eventually proceeds with the transfer of their pension will qualify you for our \$100.00 incentive reward.

The current Prospectus and Investment Statement for Britannia Superannuation Scheme and Britannia Superannuation Scheme 2012 can be located on our website: www.britanniaonline.com

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