SAMKODI

Building the healthy financial life you want

YOUR FINANCIAL PLANNING GUIDE

SIX SIMPLE STEPS TO GAIN CONTROL OF YOUR FINANCES, AND YOUR FUTURE

You've been told a lie.

At some point in your life, you've been told that paying off your mortgage, having retirement savings, and getting rid of a debt is a financial goal.

But that's simply not true.

These are methods you use in order to get to your goal. Your goals are something else altogether. Remember when you were a kid and a trip to Disneyland was the ultimate? Or, maybe as a teenager and you thought a Maserati (or Ducati) was what you wanted. Even in your early 20's as a student, and you decided that being able to pay the bills without stress and retiring at 30 was your goal.

Your younger self understood what goals were. Somehow, as adults, we've gotten confused and think paying off a loan is a goal. But it's not. It's simply a way to get to what you really want – your true goal.

Q. What are your goals?

Everyone is different. Your goals aren't the same as other people- they're probably different to the ones you had as a kid or a decade ago too. What gets you out of bed in the morning, and gets you excited about life? When you picture your goals, it's not Scrooge McDuck, diving through his stash of coins, nor is it paying off your student loan.

It might be that car you've always wanted, or a trip to Italy to eat a lot of pasta. It could be early retirement—which, after all, is simply the longest holiday you'll ever have.

Q. Why do you even need a goal?

When you're plotting out your future, it's one thing to have a dollar figure. You know that you want a certain amount of money available in your bank, so you know how much you need to save to reach that target. But when the grind of everyday life gets you down, it's hard to be enthusiastic. Saving a certain amount each day can feel pointless, and a good coffee (or glass of beer) can be more enticing than saving an extra couple of dollars.

This is when having a real goal helps you. Because if you want to retire at 50, you know exactly how much you need in the bank. And suddenly, that coffee isn't just $5. It's $5 less towards retirement and spending time with your grandkids. It's $5 further away from sleeping in and then going fishing on a Tuesday. $5 might not feel important, but knowing it's part of what you want for your future keeps you going when you might otherwise fall off your financial track.

Plan your dreams and reach your goals

Stop obsessing about how to pay off debt, and start planning how you'll live your life as a retiree. Stop feeling like you're forced to pay a chunk off your mortgage each month, and start thinking about which cities in Europe you want to visit, or which beach in Bali has the best long-term rentals. Stop thinking in day to day dollars, and create tangible, concrete goals that keep your eyes on the prize.

We will help you get there; all you have to do is dream up what you really want from your future – for you and your family.

Follow our six simple steps to get your finances in order and start heading towards your life goals.

STEP 1: PROTECT YOUR ASSETS

As we journey through life, most of us accrue assets. By the time we have a family, often there can be a substantial amount of assets, whether we realise it or not. If we don't protect these assets, we are putting our financial future at risk. Why? Because if you were to lose any of those assets, you will probably need to replace them. That costs money. Money you've earmarked for your kid's education or 'the kids have left home (finally) mega road trip' or that new car you've been eyeing up. When you have to replace something, there is always a future cost involved too.

The first step in your financial plan is to protect your assets.

Q. What is an asset?

As asset is anything owned by you that has value either now or in the future. Think about what you own.

COMMONLY OWNED ASSETS

- Family Home
- Contents
- Vehicles
- Marine
- Kiwisaver
- Cash & Savings
- Animals & Livestock

INVESTMENT ASSETS

- Additional Property
- Private Shares
- Stocks
- Bonds
- Investment Artwork & Collectables

Are they protected? Not everything can be. But do what you can to insure what is possible.

Do a stocktake of your life

Over the period of a week or two, take the time to write down everything you own that's an asset. The big things are easy: house, car, boat, savings. But there's other things that you may not consider to be assets that you definitely should.

One area which many people wildly underestimate is the value of their home contents. You need to do a physical stocktake. Think about what would happen if your home and everything in it was destroyed by fire; what would you need to replace to be no worse off than before the fire happened?

IN WINTER, THE NZ FIRE SERVICE ATTENDS ON AVERAGE 18 HOUSE FIRES ADAY.

If you work from home, you will also need to ensure that you have cover for your work equipment. Some home contents policies exclude or restrict the value of cover of business assets.

Some things don't need to be itemised; estimations of value for food or makeup are fine. But you need to have a good idea of what you actually own.

You should treat this as a security exercise too, writing down the serial numbers of the items. New electronic items and tools are particularly valuable to thieves, writing down their details can help them be identified if they are stolen. A list of items, their purchase date (if possible) and the model number is enough, a photo of the item and its serial number is even better.

Once you have everything listed, you can do a quick tally—add up the replacement cost of everything you own. The total value will probably surprise you.

Approach your insurer and find out what your policy covers

This is where you need to have an honest discussion with your insurer.

Replacement cost: This means your insurer will pay out for full replacement cost of your items. That means that if your TV is five years old, the insurer will pay out how much it costs to replace it in today's market.

Actual cash value/ indemnity value: This is the current cash value of your items, with depreciation and aging taken into account. So for that same five year old TV, instead of the $2,000 replacement cost, your insurer might only pay you out a few hundred dollars.

Excess value: The amount of excess paid will affect the cost of the policy. If the excess is high, premium costs will be lower, but it also means you're less likely to claim for a small value loss. Is this important to you?

Excluded items: It's a nasty shock to discover that items you thought were covered are excluded in the fine print. Be sure to understand exactly what your policy covers you for.

Excluded circumstances: The carpet may be insured if your child vomits all over it leaving permanent stains but what if your cat or dog was the culprit? It's not unusual to find exclusions for certain causes of damage. Living in a well-known flood zone? Flood damage could well be excluded.

Weighing up options like this and understanding the fine print of the policy can be confusing. Do you over-insure, have higher premiums, but sleep easy at night knowing you're covered? Or can you slightly under-insure, and have a reasonable amount of savings in your bank to cover a shortfall? Are you covered for everything you think you are? If not, are you comfortable with that risk?

STEP 2: PROTECT YOUR INCOME

Q. What is your biggest asset?

It's you. You are your biggest asset—you and your partner are the source of income that pays the mortgage, that ensures the bills are paid, and creates savings. But what happens if:

- You lose your job
- You have an accident and can no longer work
- You get sick and need unpaid time off work
- Your mental health degrades and you need a break from working

If one of these scenarios happen, suddenly, your family will be down to one or no income. Who pays the mortgage and the bills? While you might have some savings, it may not last long enough to cover your period of illness—and then, you're left with no money in the bank and your future looking precarious.

This may seem like an outside chance; after all, this doesn't happen often, does it? But it is common. Every year, almost 60,000 Kiwi households lose their main source of income through a long term illness. More than half lose this income for six or more months. It happens, at a rate of about 150 Kiwis per day. So yes, it could be you.

If illness cost you your job and you have no other form of income, your losses are greater than you think; you're losing any savings you have and you may even go further into debt. You're also losing future savings potential. If you normally save $500 a month, that's $6,000 over the course of a year of lost saving potential, and loss of compound interest. That one year of missed savings, over ten years of compounding interest at a modest 3%, is $2,096.

The end result? Your real goals are likely to become just a pipe dream – the summer vacation, the private education for your kids, the 1966 Aston Martin convertible that you intended to lovingly restore in retirement. Gone.

Income protection insurance helps to make you financially resilient

A small sum every month can cover you for the unexpected and unplanned. Income protection insurance ensures that if you can't work, your income continues. The mortgage is paid, the kids can continue with their hobbies and the car still has petrol. Basically, life will continue, even if you can't work.

Imagine you're applying for a new job. You receive two job offers. Job A offers a salary of $100,000 a year, but no disability payments. Job B has a salary of $98,000, but it also had a disability allowance of $62,250 each year should you become disabled. Which job do you choose?

Of course, you'd take $2,000 less, knowing that in a catastrophic event you'd be looked after financially for a longer term. So maybe, a small percent of your salary being spent on income protection insurance isn't so bad after all.

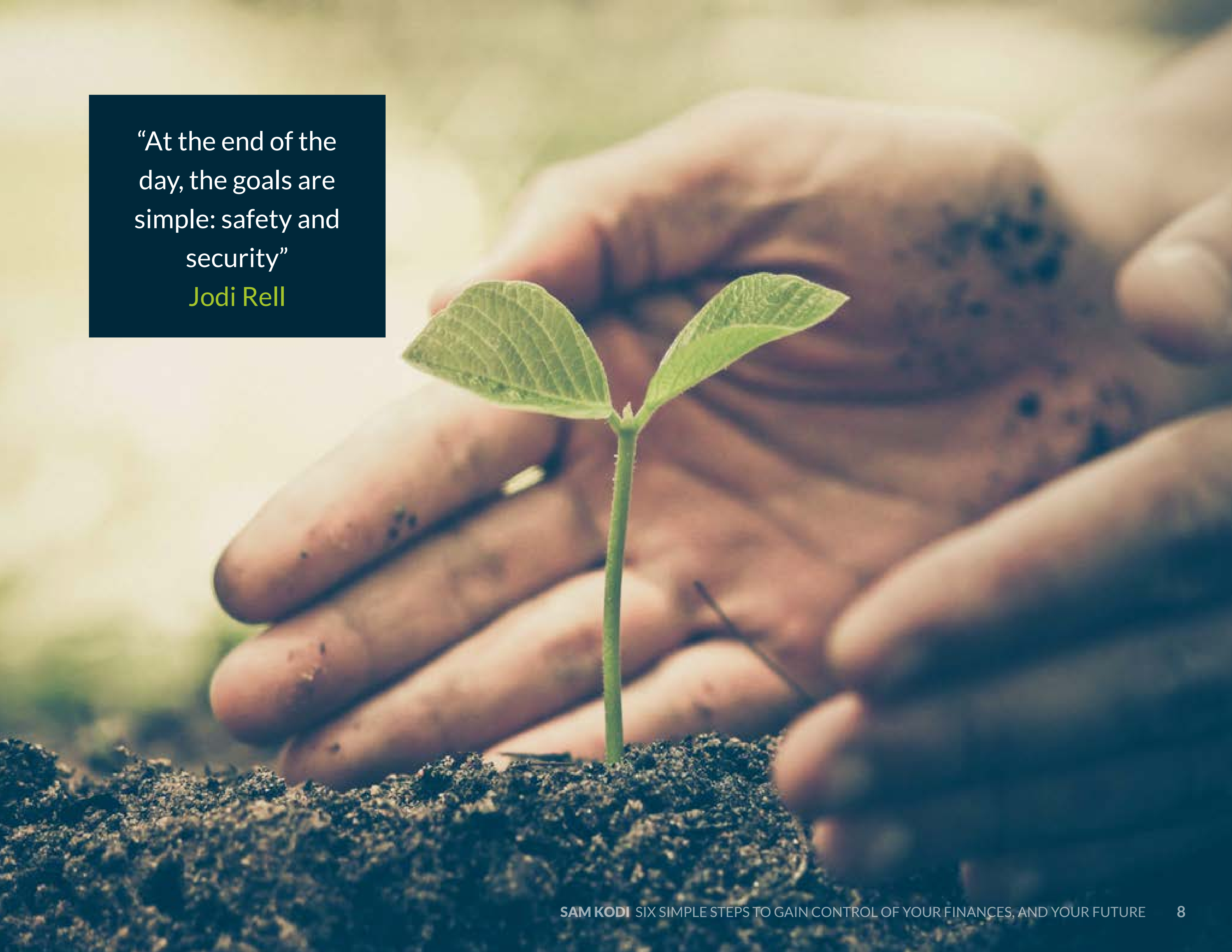
How long could you survive if you don't work? In NZ, it's recommended you have three to six months of savings to cover you if you lose your job or become unable to work. A quick budget, rent, food, electricity, phone bills…. How long could you survive without income?

Factors that affect the cost of income protection insurance

If you are looking at the options available, there are a range of factors that influence the overall premium cost.

- Your age and gender
- The type of job you do
- If you're a smoker
- Your general health
- The percent of income you want to cover- agreed value or indemnity value?
- Any stand-down period before the policy pays out
- How long will the benefit pay out? 2 years, 5 years, to age 65?
- If mental health is covered, and if it's capped for a length of time
- If redundancy is covered
- Will your benefits, bonuses and commissions be covered?

Each insurer and each policy is different. It's well worth sitting down with a selection of policies and deciding what you can afford and how much your lifestyle will need to change in order to accommodate the loss of income. Which policy provides the best cover for your needs? Do you have substantial savings so that you can have a longer stand-down period?



“At the end of the day, the goals are simple: safety and security”

Jodi Rell

STEP 3: PROTECT AGAINST MAJOR EVENTS

When you think of major events, it might be an earthquake, a fatal accident, or some other huge event. It's easy to think about them in an abstract way; the chance of them happening is low. Besides, you have life insurance. That's enough.

But a major event could be an accident that injures you or gives you a permanent disability. Or, a stroke that means you might not ever be able to return to your previous career. It's one of those things you've probably never thought about, that sneaks up on you when you're unprepared. Life insurance is a very good thing to have, but it's not enough on its own.

The basics of planning for disaster

There's a lot of thought that goes into planning a future for those left behind.

Wills: Do you have a will? Is it up to date? Have your circumstances changed, and now you need to change your will to reflect additional children, or a change in family situation?

WILLS ARE LINKED TO FINANCIAL RESILIENCE AND FAMILY SECURITY YET 1 IN 4 NEW ZEALANDERS DO NOT HAVE ONE.

Funeral plans: Because the will often isn't accessed until after the funeral, there's a lot that can happen that's against your wishes. If you have certain things you want to happen at the funeral, or a piece of jewellery you want to go to a specific person, communicate your wishes while you are alive.

Succession planning: If you own your own business, what is your exit plan? Leaving your business is something you should plan from the first day you open shop; don't make yourself completely essential to the business. Have an exit plan and a strategy so that if you are incapacitated- or, just stuck on a tropical island with no cellphone access for a week—the business can continue to run in your absence.

Trusts: Do you have a family trust? Does it own the house, the business, or assets? Family trusts are a great way to protect against legal problems, but also a way to ensure the people you want to benefit from your passing, do.

Have a conversation with those you love: If you died tomorrow, who knows which insurer has your life policy? Who knows the password to your bank? Do you have a number of bank accounts over multiple banks? It's incredibly difficult to pick up the leftovers from someone else's life, and so a conversation about where your insurance policies, your KiwiSaver, and savings accounts, is vital. A list of your personal information could be helpful.

Power of attorney: Imagine you have an accident and are rendered incapable of communication, even if only temporarily, or you become profoundly disabled. Who can act for you? The process of getting a power of attorney is well worth doing in order that your wishes are followed and affairs are kept in order until you're back on your feet. Similarly, have your ageing parents completed a power of attorney? Should they? It's worth planning this now, before there is a need for it?

Life insurance: This is the basic insurance policy that's recommend for everyone; if you die, your family will be taken care of with a bulk payout. It'll cover funeral expenses, and hopefully go a long way to provide financial security in the future. Make sure to structure this in a way that will ensure a fast payout. The last thing you want is your family having to wait for your estate to finalise before receiving the insurance payout as this could take six months or more.

Trauma insurance: If you have a critical injury or illness, you hopefully have income protection insurance that will pay out a percent of your wages. But what if you have substantial costs in the meantime? Trauma insurance cover provides a lump sum payout to cover medical expenses and other necessities upon diagnosis.

There's more to protecting against disaster than just a life insurance policy. Think about the future, and what you want it to look like if something goes wrong.

QUESTIONS

1. A New Zealander dies from a heart attack every...

☒ **6 hours** ☒ **2days** ☑ **90 mins** ☒ **24 hours**

2. One in ___ adults have been diagnosed with heart disease in NZ

☒ **1000** ☒ **10** ☑ **20** ☒ **500**

3. On average a New Zealander has a stroke every...

☑ **45mins** ☒ **3 days** ☒ **5 hours** ☒ **week**

4. New Zealandersof working age or younger account for ___% of all strokes

☒ **13** ☒ **5** ☑ **25** ☒ **45**

5. Every day, the words 'you have cancer' will be spoken to ___ New Zealanders

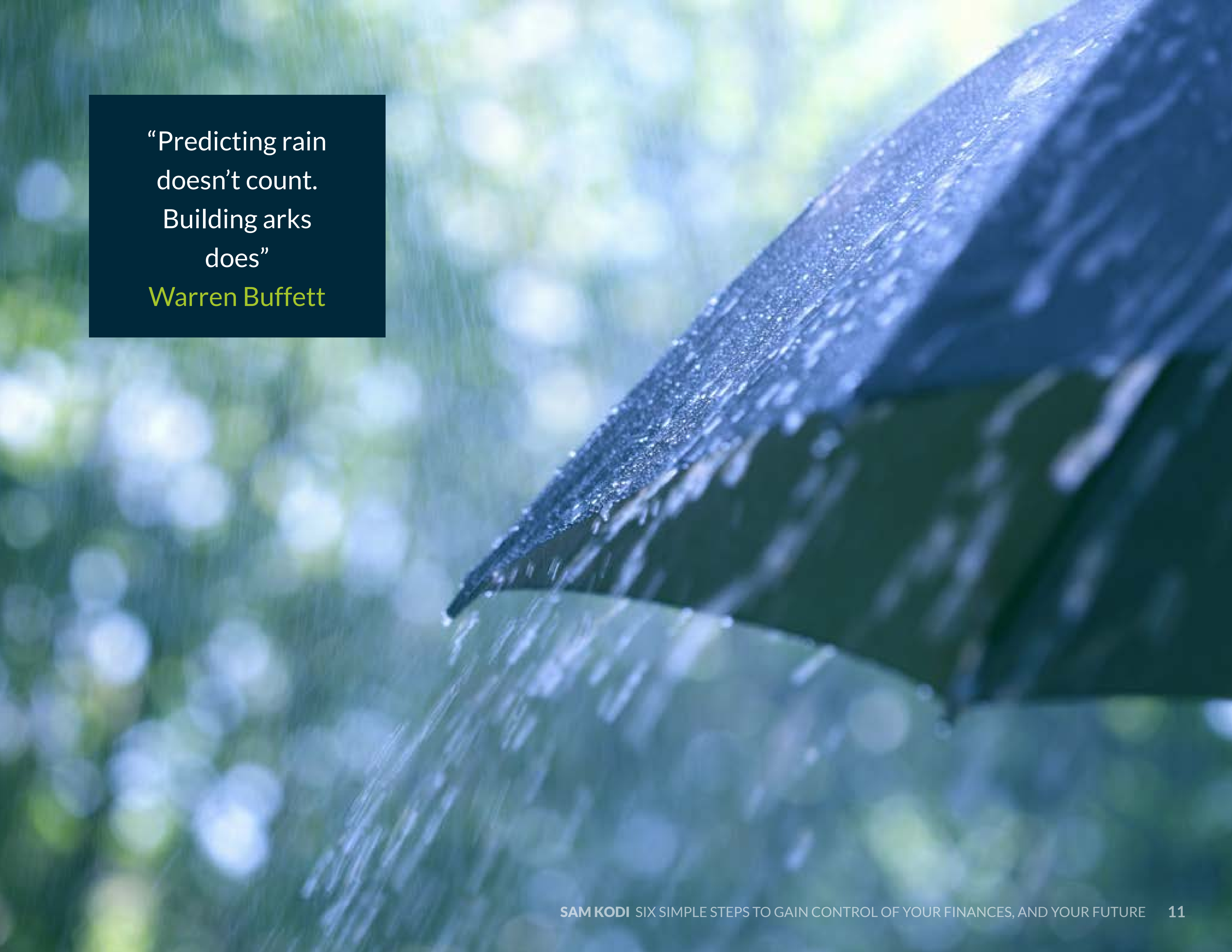
☒ **25** ☒ **18** ☒ **105** ☑ **63**

6. Critical illness will affect 2 in 5 men sometimes between the ages of 30 and 64

☑ **True** ☒ **False**

7. Critical illness will affect 1 in 4 women sometimes between the ages of 30 and 64

☑ **True** ☒ **False**



"Predicting rain doesn't count. Building arks does"

Warren Buffett

STEP 4: STRUCTURE YOUR DEBTS

Debt doesn't have to be a four letter word.

When we think of debt, we assume risk, and worry, interest payments and stress. But it doesn't have to be like that. Debt can be structured in such a way that you're not crippled by repayments, or you can use debt to leverage growth.

Organise your debt

If you have a variety of debts, it's time to get it together. Analyse what you have, where, and how much it's costing you in interest. If you have an interest-free hire purchase that's not due for three years, do you need to worry about it now, or are you better off paying your mortgage? Do you have a car or other loans that you could consolidate?

While it's different for everyone, there are always actions you can take to minimise your interest exposure and maximise making your debt work for you.

Restructure your debt

If you have a range of debts, it's time to take action. These debt repayments could be strangling your cashflow. If you feel like all your money disappears every payday on loan repayments before you even have a chance to spend it, you need to do something.

Consider your mortgage. Can you use it to pay debt and take advantage of lower interest rates to ease your debt burden?

It's a complex calculation, and you'll need to weigh up interest rates, penalties for early payments, and also the benefit of giving yourself some freedom. If your budget is unnecessarily tight, you'll feel restricted. These feelings lead to poorer money management – not better. When you save $5 by not buying a coffee 'for the loan repayment' you feel like you've sacrificed a bit of enjoyment. Little resentments like this makes you more likely to splurge on big, un-needed things, and make poorer financial decisions in the future when you have a blowout.

Look at your mortgage too. What are interest rates doing? If they've taken a dive, is it worth resetting for a fixed term? Can you save money, even paying penalties for ending your agreement early? Is it worth changing banks and shopping around for a good deal?

Use your debt to grow your wealth

If you have debt and you use that money to grow your income, it's not bad debt. For instance, a business borrowing money to buy a piece of equipment that will increase output and profitability is good debt. A home mortgage can be an acceptable debt too, with people often paying less on their mortgage than they were while they were renting. Even taking a bill that's accruing interest and taking a loan at a lower rate can still be considered an acceptable debt.

It's a fine balancing act that needs knowledge of the industry and loan policy, a bit of crystal ball gazing to see what might happen in the future, and a willingness to spend time researching the options. But it's entirely possible to turn what feels like an overwhelming situation into a positive.

STEP 5: CREATE PASSIVE INCOME

You get up every day, go to work, and earn some more dollars. You're actively creating income for yourself. But it takes time, and time is limited to 24 hours a day. If you want to truly get ahead, you need a passive income source – or two.

Passive income is any type of income you earn which is not dependent upon your time and attention (e.g. rental income, dividends, business investments etc). When you have passive income, your money is working for you as it needs no or very little effort to maintain – you can passively sit back (hence its name) and let the money roll (or trickle) in.

Passive income is also the key to financial freedom. Once your passive income is sufficient to cover all your debts and expenses, you are free to go to work – or not. Today might just be a great day to go fishing instead!

Rental properties

In New Zealand, it's common to own a rental property as a source of passive income. And even if it seems like a far-off dream to you, you may be able to leverage your existing home and assets to buy a rental; it's about making your debt work for you.

However, owning a rental property isn't something that everyone wants to do. There are risks from poor tenants and ongoing costs. You need to keep the home to a minimum legal standard and ensure that tenant's needs are promptly looked after. If you don't have the time or desire to do so, a rental property can be an additional stressor.

Managed Funds

When you invest in a managed fund (also called a managed portfolio), your money is pooled together with other investors. This fund is then invested on your behalf by a fund manager. They buy and sell assets like bonds and shares, with the aim of increasing your money.

Unlike if you invest directly in the stock market, you don't own the stocks or shares yourself, instead you have 'units' in the fund, which are a percentage that you own based on your initial investment.

If you have money to invest, you will usually make more than you would having money just sitting in the bank, and to a certain extent you can direct your fund manager and express how much risk you're willing to take. You will pay a fee to the fund manager to cover their time and expertise, so you want to ensure you choose someone trustworthy, knowledgeable and ethical.

Like your KiwiSaver fund, this is based on share prices, so the value can fluctuate depending on the market.

There are other passive income options

Other passive income forms include royalties and intellectual property. This could be from selling an e-book, software or app, or some specialised information that you have. These require input and an initial product from you, and a game-changing idea that people will want to buy.

You can also consider peer to peer lending. This is when another person needs a loan, and you loan them the amount they need, facilitated by an intermediary. You will then be paid the principle back plus interest. However, this lending is largely unsecured.

Savings accounts and term deposits are another option. They are low risk and typically have a low interest rate. If you are happy to have your money slowly building, or you don't want to have any risk, then this could be an option for you.

However, there is no form of passive income that is completely without risk. And despite being "passive", there is still effort involved. Some passive income streams require a lot of time and energy to set up in the early days (and those early 'days' could stretch into 'years').

Passive income will start as a small boost to your salary. As it grows it gives you more freedom and a platform for financial growth and stability. Having a diversified set of income streams creates financial freedom and creates more wealth which gives you a strategy for more passive income.

There's no one-size-fits-all for passive income, but there will be an option for everyone.

Small daily habits lead to long term growth

STEP 6: INVEST FOR THE FUTURE

Thinking about your future is important. Because you need to know what you want in life. And this is where knowing and planning your goals happens. Because the future isn't as far away as you think, and you need to plan for it.

What do you want in life, and when do you want it?

Your life isn't some fixed plan, it's fluid. Maybe you always dreamed of owning a boat and spending your retirement fishing, but then your kids grew up and now you want the ability to retire early to spend more time with the grandkids. Whatever it is, you need to plan for your specific goals.

Sit down and think about what you want in your life. Like, what you really want. Not a mortgage-free-house-and-a-white-picket-fence; but the kind of lifestyle you want for yourself. Will there be travel? When do you want to retire? How often do you think you want to go out for dinner each week? Do you want to buy a specific classic car, or take a yearly cruise with your shopping girlfriends?

Everyone is different. That's why no two future financial plans should be the same. And you need to ensure yours is right for you.

Think about what that is going to cost. Are you on track to have that amount saved by the time you reach 60? Or 65? Or 70? Even if you're in your 20's, the time to start thinking about your future is now. Time spent planning now will make your dreams much more likely to materialise.

KiwiSaver

New Zealand's retirement scheme is KiwiSaver. You simply tick a box on a form, and a percent of your income is diverted each payday to your fund. You can choose your scheme provider from a range of banks and financial institutions, and the level of risk you're willing to take, from a conservative fund through to a high-growth (and higher risk) one.

These providers invest your money in the stockmarket on your behalf. This means that your investment will fluctuate with the market. It will take losses, but you wait them out and they should become gains. KiwiSaver is a long term investment.

The benefits of KiwiSaver include:

- You can choose how much of your salary goes into your KiwiSaver
- The money is taken from your salary before you even see it (or spend it)
- You can choose your fund provider and fund type
- The government will top up your savings each year if you save over a certain amount

So many people put the minimum 3% into their KiwiSaver and think it will be enough. After all, your mortgage will be paid and government superannuation will be there. But if you truly want the future you dream of, you need to actively plan for it; not just have a 30 year mortgage and a token KiwiSaver account.

Portfolio Income

As an income in retirement, it's a common strategy for people to intentionally sell assets to fund their lifestyle. This portfolio income could come from something like selling the large family home, buying a smaller property, and then using the difference as a way to pay for living costs. This could also be selling a business, assets like jewellery, or artwork.

A professional financial advisor knows how you can make this work for you to ensure your future lifestyle is more comfortable.

Making your money work for you

Understanding compound interest, the difference between high growth and conservative growth funds, and why 1% now makes a lot more money for the future are just part of the puzzle.

This is where all your elements for a healthy financial life come together. If you've got passive income, a strong debt repayment plan, a dream for your future, and are well insured to cover all eventualities, you've got a good strong basis to invest in your future. It's a matter of sitting down and laying it all out. Is this enough?

If not, doing this early on in your life gives you plenty of time to make adjustments. Compound interest makes this an extremely valuable exercise. If you have savings of $500, and you contribute $50 a month at 2% interest, over ten years that's $7,257. But if you have exactly the same scheme over 20 years, that's $15,510. 30 years, $25,587.

Even if you don't contribute to the savings fund and simply lodge your $500 and forget it, over 30 years you make $410 of interest. Over ten years, only $110. Similarly, finding a 3% return instead of a 2% return means you make $728 on that $500, instead of $410.

It's worth thinking about this now, starting as early as possible, and letting your money work hard for you.

THE SIX STEPS TO THE HEALTHY FINANCIAL LIFE YOU WANT

6 | INVESTMENTS
Your money needs to last longer than you. Will you have enough?

4 | DEBT
Debt which is poorly structured or of the wrong kind can limit your financial progress. Is your debt working for you?

5 | PASSIVE INCOME
An income stream which is not dependent upon you working will ease your retirement. Can you afford to retire?

3 | MAJOR EVENTS
Unfortunate & unpredictable events can strike at any time. Can you withstand a personal or business disaster?

2 | INCOME
Your ability to earn an income is what creates your standard of living. How long can you live comfortably if you can't work?

1 | ASSETS
Hard earned or inherited wealth of all asset types need to be protected from loss. How safe are your assets?

SAMKODI
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ABOUT SAM KODI

There are only three things you need to know about Sam.

1 He's had more than 28 years working in the finance industry. He knows what he's talking about.

2 Sam grew up in Colombo, Sri Lanka. Basically, he had nothing growing up. He has personally been in the position of having nothing and developed strategies to ensure he, and his family, will never be in that situation again.

3 He wants you to have financial freedom. This is his passion and his drive in life.

Using his years of experience in the industry, he works with you and your circumstances to create your most financially successful life.

"We would recommend Sam to anyone. Taking the first step was a bit intimidating, but he is very good to deal with. Sam took the time to understand our needs and gave good advice tailored to our situation. He offers great service, is honest and sincere and really does want to help you succeed. He's not someone who makes promises and forgets about them – he follows up with everything. We've developed a good relationship and believe it will be a long-term one."

B & R Turner

"If we knew then what we know now from Sam – we would be semi-retired by now. We now have better control of our finances without being constrained. Our direction has been made much clearer and our efforts much more focused. We highly recommend Sam to anyone who needs a Financial Adviser."

Ferdie & Geny Ramos

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Give us a call or visit our website to learn more about how we and our network can help you build the healthy financial life you want.

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