john wood
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IDENTIFIER

Riding out the storm

The global economic downturn has affected everyone. And while Kiwis do their best to weather the storm and reduce their living costs, the protection and peace of mind provided by life and health insurance becomes more valuable than ever. In this issue of Identifier, you'll find some useful advice on how to save money and to use the recession to your advantage when refinancing, and how to adjust your insurance cover, should affordability become an issue.

John Wood and Anne Chapman

Life insurance – it's no luxury

Like many New Zealanders in these uncertain times, you may be looking to economise and put a little something away for a rainy day.

Perhaps you are questioning the value of the insurance cover you have, or you have put off the decision to protect your family and lifestyle. However, it's at times like these that your life and health insurance is more important than ever.

Can you afford **NOT** to have insurance? What if...

- you die, leaving dependants behind – *how would they cope financially?*
- you or your partner suffers a life-changing event, such as a diagnosis of cancer, a heart attack or even a stroke – *what would your future look like without financial support to help recovery and adjustment?*
- you are unable to work for six months due to illness or injury – *do you have enough savings to see you through?*
- you or a family member needs to go to hospital to have an operation – *how long would you have to wait in the public system and what type of hospital care would you receive?*

If affordability is your main concern, there may be changes that you can make to your existing policy to reduce the premiums. These include:

- Restructuring your benefits
- Increasing your excess amount on health insurance
- Extending the wait period or reducing the benefit payment period on income protection
- Reviewing payment frequency
- Reviewing your current level of cover

If you would like more advice on any of these matters, call us today and we'll be happy to help.

10 ways to beat the recession

Times may be tough – but there are some simple things we can all do to make life a little easier and more affordable.

1. Stay informed about what is going on in the financial world and be aware of opportunities that might present themselves.
2. Commit to a budget and eliminate those unnecessary expenses. Until you think hard about what you spend and write it down, it might not be immediately obvious where savings can be made. Be honest with yourself as to what you can do without. Do you buy coffee every day? How often do you make your lunch? Ever tried car-pooling?
3. Work harder to pay off your debt. Consider building a savings fund as a contingency, just in case.
4. Talk to your financial adviser about how best to manage your investments. Be aware that selling near the bottom of the market may not be the best strategy to achieve your longer-term goals.
5. Reduce your mortgage with one of the many options available, including refinancing at a lower rate. You can also consolidate your debt by choosing a single transactional home loan account.
6. Put off those big projects or purchases with large financial commitments, such as extending your home or buying a new car, just in case you need the money.
7. Reduce your food costs by eating out less often and buying fresh produce more selectively (the supermarket is not always the cheapest option). Why not plant a vegetable garden to save money and improve the quality of what you eat?
8. Create another source of income, even if only a small one. Get a second job for a month to pay off that credit card or sell those surplus items on Trade Me.
9. Before going on that expensive annual overseas holiday, consider a more affordable alternative and remember... don't leave town till you've seen the country!
10. If you drive solo to work, think about car-pooling or taking the bus. When it comes to your next car, think about downsizing for a more fuel-efficient model.

For more information: www.pennyjobs.com

The growing importance of health insurance

With the cost of health care continuing to rise and increasing pressure on the public health system, more and more New Zealanders are taking out health insurance – ensuring they and their families are protected from the impact of major illness and disability.

Figures for 2008 show that around 1.4 million people in New Zealand had health insurance – an increase of more than 13,000 from the previous year.[1]

Meanwhile, during the 12 months to September 2008, the health insurance industry paid a total of more than $676 million in claims. That's an increase of more than $76 million or 12.6% over the previous year. The majority of the claims costs related to surgical procedures, with more elective procedures being funded privately rather than undertaken in the public health system than ever before.[2]

The costs of medical treatment have risen steadily as medical procedures become more sophisticated because of technological advancements and medical breakthroughs. These costs are ultimately borne by insurers and patients.

Recession cloud has silver lining for home buyers

The deepening recession has thrown up all sorts of challenges for the average Kiwi – but it has also presented them with some rare opportunities when it comes to housing and home loan affordability. The issue is one of timing and how to make the most of these opportunities.

Home loan affordability improved to a record level last December, and housing is likely to be 'broadly affordable' again for most home buyers by the end of 2009, according to industry researchers.*

Through 2008, the median house price fell 7.0%, while the proportion of after-tax median income needed to service the mortgage for the median house price fell more than four percentage points during November alone.

Unprecedented falls in fixed mortgage rates have made it easier for both first home buyers and established households to buy houses. A reduction in tax rates, meanwhile, has helped lift disposable incomes.

What's more, affordability looks set to improve even further through the remainder of 2009 as house prices continue to fall, and tax rates are cut again. There is the potential for variable mortgage rates to fall to between 5.5% and 6.0%.

However, one new hurdle for home buyers is that mortgages with low interest rates will not be as freely available as they have been in the past. Tighter lending criteria will apply and bigger deposits will be required.

The current conditions raise a number of questions for those locked into fixed rate mortgages, not least whether or not to break their mortgages in favour of significantly lower interest rates.

Depending on the size of a borrower's home loan and for how long they have locked in, the fee imposed by lenders for breaking a mortgage agreement can run into tens of thousands of dollars. This has to be weighed against the savings to be made from refinancing.

Each bank has a different formula for break fees.

Borrowers have the option to add the break fee to the mortgage, and even this can result in monthly savings.

Of course, borrowers will need to decide which strategy to adopt in the shorter term. There is the obvious risk of locking into a new rate too early. For many, a short-term fixed arrangement, or a switch to floating for the immediate future, may be the most prudent approach.

To discuss your options, get in touch with your mortgage broker today.

* Source: interest.co.nz

Below is a table highlighting the increase in costs over a two-year period to 2008.[3]

Indicative costs of medical procedures in 2008 versus 2006

Procedure	2006	2008	Approx increase
Angioplasty (coronary artery surgery) with stents	$18,000 – $21,000	$26,000 – $28,000	38%
Angioplasty without stents	$12,000 – $14,000	$16,000 – $18,000	31%
Cardiac Bypass (heart surgery)	$27,000 – $36,000	$44,000 – $55,000	57%
Colonoscopy (diagnostic test)	$1,000 – $1,500	$1,400 – $3,000	76%
Hip Replacement	$13,000 – $20,000	$28,000 – $30,000	76%
Knee Replacement	$15,000 – $20,000	$24,000 – $26,000	43%
Mastectomy (does not include reconstruction)	$4,000 – $8,000	$12,000 – $14,000	117%
Valve Replacement (heart surgery)	$35,000 – $45,000	$47,000 – $65,000	40%
Prostate Brachytherapy (cancer surgery)	$21,000 – $28,000	$26,000 – $32,000	18%

While this increase in costs fuels the rise in insurance premiums, it also highlights the importance of having health cover in place. It is now harder than ever to 'self-insure' and to pay for these treatments yourself.

Without health insurance, would you be able to cover the cost of treatments such as these?

If affordability is an issue, speak to us today about how we can help manage the cost of your premiums.

1. Health Funds Association of New Zealand report, September 2008
2. HFANZ press release, October 2008
3. Sovereign research, 2008

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Investments: where to from here?

Investment markets have suffered one of their worst periods in recent history. In March, the Dow Jones (index of the major shares listed in the United States) had reached the lowest point in 12 years, and the New Zealand share market its lowest point in five years.

While New Zealand has so far been cushioned from the worst effects of this global financial crisis, the ripples reaching our shores are steadily turning into waves. New Zealand companies dealing in world markets – either selling or operating in overseas countries – are reporting sometimes dramatically reduced sales, resulting in fewer goods and services produced, with repercussions for those employed by the companies and those supplying the raw materials and supporting services. The Government, too, is tightening its belt to cover the cost of state services (health, education, superannuation, etc) in the face of reduced income from taxes, owing to reduced company profits.

Local investors have not been able to avoid the negative impacts of these events. Investments, after all, necessitate exposure to the international investment markets, drawing on the skill of the adviser and the investment manager. The market falls have been so widespread and dramatic, however, that no matter how good the advice and the investment skills are, investors have suffered. A well-diversified and thoroughly researched portfolio will have spared investors from the worst in the market but only the fortunate will have escaped significant falls in their investment returns.

The more pressing question now is ‘where to from here’?

No one knows when investment markets will start to recover. Some commentators are saying this will be two to three years away and others are saying that returns will be low for the next 10 years or so. The only thing we do know is that by withdrawing investment funds, investors are locking in their current position and crystallising recent losses. Investors and their advisers need to decide whether the markets at some point are going to resume their long-term growth path. They need to determine also whether the recovery time fits within the investor’s time frame and, if so, to make sure the portfolio is well researched and properly diversified. At the end of the day, only patience will restore investors’ portfolios and achieve growth.

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