A step by step guide to obtaining a long and prosperous retirement

Lesson 4 – Understanding Your Current Financial Situation

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Introduction

This document is part of the training material written to assist Kiwi's in their 50's or 60's that are looking at retirement but have no idea what to do, what is needed, and how or where to get help. Or those that already have some ideas of how to survive retirement, are looking at alternatives, or just checking they are on the right path. They might even be looking on behalf of their 'elderly' parents, to ensure they are considering all options available to them.

This course provides a simple comprehensive step by step process to create your own retirement plan. It includes a summary guide, road map, lessons and discussion topics to help you prepare for your retirement. It will help you answer questions such as:

- *How much money do I need in retirement?*
- *How much money will I receive from Government Superannuation?*
- *How, and from where, can I get more money?*
- *Where can I safely investment my money?*
- *How much should I put into KiwiSaver?*
- *Should I buy a 2nd property, a business, or invest in the share market?*
- *How much do I need to keep aside for a rainy day?*

all from a very New Zealand perspective.

Course outline

This document is "Lesson 4 – Understanding Your Current Financial Situation" of the course material supporting our simple six step approach to creating your financial retirement plan.

The course material comprises:

- a summary 'Retirement Planning Guide"
- a 'Retirement Roadmap'
- a supporting 'Retirement Planning excel spreadsheet'
- more comprehensive training guides ("Lessons") for various tasks along the way if you need them
- additional supporting spreadsheets if you need any further assistance

All material can be downloaded and printed from the downloads page on our website: http://www.bizxtra.co.nz/

Most people complete their retirement plan using just the Planning Guide, Roadmap and the Excel spreadsheet that supports the guide. Additional information is provided to support you along the way if you get stuck, don't understand a concept, or just need some further ideas to try out as part of your planning.

Each training guide contains a "Lesson" associated with the 6 Step retirement planning process that you follow to produce your Retirement Plan. You can skip any "Lesson" if you already understand the financial concepts and terminology used, or if they are not applicable to your financial circumstances.

"If you follow this easy step by step guide and RoadMap, you will increase your financial literacy while preparing your own retirement plan for a long and prosperous retirement."

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Latest Version

Market prices, superannuation and benefit rates, Government policies, inflation, costs of living, house values etc. all change on a regular basis. The numbers in this document have been updated to reflect the market position as at July 2025.

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Lesson 4 - Understand your current Financial Situation

By now you should have completed the first step of your plan, and are ready to continue planning for your retirement. Remember, the first two steps of our planning process involved:

Step 1 <u>*Identify Retirement Goals:*</u> This step requires us to estimate the date we want to retire, gather some basic information about ourselves and to decide upon the type of financial freedom we would like in our retirement.

Step 2 <u>*Analyse Current Finances:*</u> This step involves documenting and understanding our current financial situation, enabling us to calculate our Net Wealth (that can be used to check against the neighbours.)

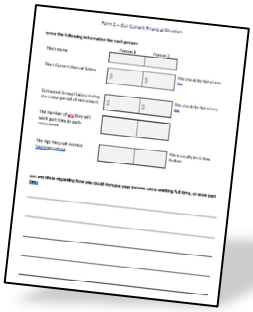
So this lesson is all about working out how much money we already have (or will have) when we reach retirement (Step 2).

We do this, so that in the next step (Step 3) of our planning process we can calculate how big any financial gaps are (between what we need for retirement and what we already have). In later steps (4 and 5) we will evaluate options to bridge these gaps. Of course, if we need too, we can always move the goal posts – but we won't know if we can even hit our retirement goals until we at least take an initial shot at them.

In this lesson we will work through the common areas used to define our 'Current Financial Situation'. This information can be captured on Form 2 and Form 3 at the back of this document.

This information is very similar to what you may have previously provided to your bank or a finance company when you applied for a loan. It usually consists of two parts: your 'income and expenses', followed by your 'assets and debts'. On Form 1 we captured information about our 'expenses' (in retirement), on Form 2 we will identify some initial 'income' for retirement, on Form 3 we will capture the information about our 'Assets' and our 'Debts', then Forms 4 and 5 will help validate our expenses during retirement.

Form 2 – Identify Retirement Income



Superannuation

An obvious place to start is to look at what 'the government' may give us in our retirement. In New Zealand we have a taxpayer funder superannuation scheme. The government sets a weekly rate and currently when you reach the age of 65 – the government pays it to you. The government sets rates for couples and individuals. Currently superannuation exists – but if you are starting to plan now in your 20's for your retirement, the chance of it still being around in 45 years is slim, you may want to plan as if it doesn't exist!

The quickest way to find the current rates is via the internet. Search for "New Zealand superannuation rates" and you will most likely end up at:

https://www.workandincome.govt.nz/map/deskfile/nz-superannuation-and-veterans-pension-tables/new-zealand-superannuation-and-veterans-pension-ra.html

This indicates that the rates as at April, the Net (after tax) weekly Super Rates were:

Net Weekly Superannuation	M Tax Rate	SH Tax Rate
Single Person (living Alone)	$ 519.47	$ 424.87
Single Person (shared Accom)	$ 479.51	$ 390.91
Married Couple (per person rate)	$ 399.59	$ 323.11

Table F2.1

There are different rates for people in different circumstances (single but sharing accommodation, married but your partner doesn't yet qualify etc) and for different tax rates, but for now we will utilise the M rates above to see how big our retirement gap may be. We may need other rates in the future so we might as well capture them at the same time.

Superannuation is only received once you turn 65. If you or your Partner plan to retire younger – you need to plan to fund that period of your retirement (up until you turn 65) yourself.

The first thing you must do is calculate how many years you think you will receive superannuation. There are three rates, and if we are a couple we need to use all there. If we are already single you would use one of the single rates (based on whether you share accommodation or not).

Name	Current Age	My Guess of Expectancy	Years >65 Yrs Old	Initially	As a Couple	Living Alone
John Doe	60	87	22	5	17	0
Jane Doe	55	90	25		17	8

Table F2.2

Next you can convert that into weeks (number of years * 52):

Name	Initial Years	Couple Years	Alone Years	Initial Years Weeks	Couple Weeks	Alone Weeks	**Total Weeks**
John Doe	5	17	0	260	884	0	1166
Jane Doe	0	17	8	0	884	416	1325
Total				260	1768	416	2491

Table F2.3

Other Services

There are other support services that you may qualify for, and these are generally determined by your circumstances rather than just your age. These are more 'top-ups' and include:

Winter energy payments: an extra payment to help with the cost of heating your home over the winter months. Currently about $32.00 per week during the winter months for a couple, $20.00 if living alone.

Accommodation Supplements: a weekly payment which helps people with their rent, board or the cost of owning a home. Anywhere from $1 to $155 dollars per week but is dependent on lots of criteria generally related to the amount of money you already have, additional income you receive, and the cost of maintaining your home. Until we collect more information, we won't be able to evaluate this.

Community Services Cards: These can help you and your family with the costs of health care. You'll pay less on some health services and prescriptions simply by showing your card. Generally provided to people on low income.

Residential Care Loan: Many people going into residential care may want to keep their home for a while to allow them to adjust to their changed circumstances. This often means that there are limited funds to pay for the cost of their care. Rather than selling your home, the Government may be able to help you with a Residential Care Loan. Probably not needed just yet – but something to consider for the future when we get to that stage of our lives.

Various disability payments: There are additional payments available for people with disabilities, or if you care for someone with disabilities.

The criteria for some of these benefits can be very complex, and it is best to visit a Work and Income office to determine what additional services you may be eligible for.

When you visit a Work and Income office, they will want to ask you questions, and to answer most of the questions they ask, you will need some financial information. Unless you are desperate for money, we would recommend completing through to Step 3 first, as by then you should have collected most of the information they will ask to see.

Working

If we have a few years before we retire, we have a great opportunity to prioritise any money left over towards getting ready for retirement. We may also need to consider working part time during the initial phases of retirement to clear any remaining debts (or outstanding bills). For now, we will just worry about collecting information about what money we will receive. In a later step we will work out if we have any excess that we need to re prioritise.

For each person you are planning for, work out how much money (on average) you receive each year either by working or by the way of benefits (sickness or unemployment). When putting in the numbers use the 'net' number or after-tax number (we will worry about tax later).

If you know you plan to work after your retirement date, capture that information now.

Name	Net Earnings Pre Retirement	No of Years	Total Net Earnings Pre Retirement	Net Earnings in retiremen	No of Years	Total Net Earnings Early Retirement
John Doe	$ 77,952	5	$ 389,759	$ 15,000	3	$ 45,000
Jane Doe	$ 26,366	5	$ 131,830	$ 26,000	3	$ 78,000
Total			**$ 562,589**			**$ 123,000**

Table F2.4

List any ways you could increase your income while working (work overtime, get a 2nd job, aim for a bonus, talk to the boss about a pay rise, change employer). You never know you may need to refer back to this list sometime in the future.

The assets we own

Another place to look for further income, is any money we have "lying around the house" or any assets we own that are not working for us. We may already have more than we think. Common assets in New Zealand are:

Savings – we may have managed to squirrel away some money into a savings account. Hopefully it is generating interest, if not we will learn how to fix that. We may (depending upon the time until we retire) have the potential to create some savings or other income generating assets.

KiwiSaver – maybe we opened a KiwiSaver account and both our employer and ourselves have been contributing money into it.

Old life insurance policies – sometimes people took out old life insurance policies that had a form of savings associated to them (if you didn't die first).

Shares – We may have purchased company shares in the past and forgotten all about them. You never know the company may not have gone bankrupt just yet and they may still have some residual value. One old Microsoft share could mean the gap is well and truly closed.

Our House – If we own our own home, it is very common to downsize in later life to something smaller, or something that requires less maintenance (why climb a ladder at 70 if you don't need too). Sometimes you just want to move to a new location to be closer to family, closer to the beach, or just closer to the golf course.

A 2nd property – New Zealanders are fixated on having a second property as part of their retirement plan. Unfortunately, some people were convinced to buy properties that actually cost them money to own, or have a batch that the family now never want to use, or just a spare house as a result of changes in family (usually marital) circumstances.

A Business – New Zealand is full of many small businesses. Maybe we own one or have shares or are a partner in the business. A good business has value – and when we retire someone may want to pay us money to take it over. It is easier for them than starting from scratch, and it is a source of potential income for us.

Make a list of these items. At this stage we are only trying to identify what we have. We will look at their true value, what income they currently provide, and what to do with them soon.

The debts we have

We also need to check we don't have any 'income consuming assets'. We want to use our money in our retirement to enjoy our newfound freedom, not to pay for the life we have already enjoyed, but which we have not yet fully paid for.

Debt is the opposite of an income generating asset. Debt is an extra expense you do not want or need in retirement. Debt is all the money you owe someone else plus the costs they are charging you to have lent it to you in the first place (interest and fees). Debt is the amount owing on your credit card, store card or bank loans. Debts are the bills you have not paid. Debt is that loan we took to repair the car, or the money still owing on our mortgage.

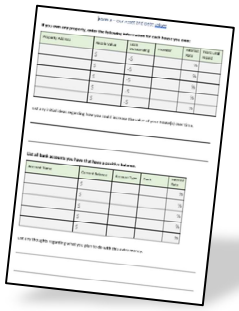
As we plan for our retirement, we need to work out how we can go into retirement free of debt. Debt will use up our income faster than we can even think about spending it – and if we have any gaps in our retirement plan, having debt on our retirement date will just make that gap wider.

Common debts we may have include:

Unpaid bills or fines –	the outstanding power bill, the unpaid parking tickets, court fines. Ignoring them won't make them go away.
Bank overdrafts –	When a Bank account goes into overdraft, the bank will start charging you interest (usually at penalty rates) until you get it back to zero or above. Not only do you have to repay the money borrowed, you must pay additional interest and fees on that money.
Student loans –	You signed an agreement to borrow money for your education. You must meet that commitment and pay it back.
Store or casual loans –	If you have placed things on layby, used a store card, or setup an account with a supplier. Those are debts that must be repaid.
Credit cards –	Every time you use your credit card, you are borrowing money from the bank. You have to repay it, plus the exorbitant interest charges they charge you if you don't repay the full amount each month.
Finance loans –	if you borrowed money from a finance company (for a car, boat, TV etc), you must pay it back. It is a debt – usually a bad one.
Mortgages –	If you have a mortgage owing on your home or a rental property. It needs to be repaid back to the bank.
Known future debts –	These are future expenses you know you need to incur and have no idea where the money will come from. E.g. I know I will need four new tyres in 6 months before my next WOF, I know I need new glasses in the next couple of months, I know the rates are due next week. Technically not yet a debt, but as we know about them, we should plan to try and fund them (to reduce fees and penalties).

Now that we know what information we are looking for, we can complete the information on 'Form 2', and enter the information into our Retirement Planning spreadsheet.

Form 3 - Estimate the value of all our Assets and Debts



Form 3 contains a list of common assets and debts. This can be used to track all our current assets and liabilities (debts), so that we can look at what value they could be, come retirement date.

Obviously to do that we need a comprehensive list, but we already started this list on the previous form (Form 2), so we are off to a good start.

Remember at this stage it is just a high-level estimate of the value of our net wealth. Things continually change (house values go up, or down, our bank balances can change daily, our debts change every time we make a payment) so ensure you do not get bogged down in the detail.

Some ideas of where you can obtain an initial estimate of the value of your assets (and debts):

Property Resale Values: If the rateable value has recently been updated, then use that. Otherwise use one of the many online property sites that give an estimate of the resale value of a property: Homes.co.nz, Oneroof, Trademe Property, Realestate.co.nz.

Bank Accounts and credit cards: Use the value on the same day for all bank balances and any amounts owing to the bank (e.g. your mortgage)

Interest Rates: Ensure you use the current rate you are paying. If you know that is about to change then also make a note of the new rate and the date of change. Current rates are often listed on the Banks website, or on their on-line banking system for each account.

Store Cards: Use the current balance on the date closest to the bank date used. Ensure you get details of the interest rate you are being charged, minimum repayment requirements, and any 'break fees' they might charge if you pay the loan back early. For store cards it is often quicker to ring the company to get these details if they have not recently sent you a statement.

KiwiSaver: Ensure you understand the amount you are putting into the fund each payday (e.g. 3%, 4% etc), and the amount your employer is contributing. Also ensure you obtain the current balance, the fund name and the fund type. We will talk more about KiwiSaver later. This information should be on a recent payslip, or if you can sign into your KiwiSaver account it will be available online..

Student Loans: If you still have a student loan, make sure you get the current balance along with details of any interest you are being charged. 'MyIR' is a good place to start.

Finance Companies: Ensure you list all items that you have a loan or a contract with. You need to ensure you have details of the loan company, the balance owing, the monthly payment amounts and when the loan will be repaid. This should be on a recent statement.

Other: List all additional items that either cost you money (Gym subscriptions, Mobile Phone or TV contracts) plus any items of value you have forgotten you own – but could sell.

Enter Property Details

For each property you own, enter the address, market value and the date, any real-estate commission you would pay to dispose of it, any mortgage (balance as a negative number, the bank and the current rate you pay), along with the years remaining to pay back the loan. If you are renting out any part of a property also enter the details of any rent you receive.

Your primary property (the house you call 'home') should be entered first. This should be followed by any additional properties you own.

If you have any ideas on how you could increase the value of any of these properties also enter these as notes in the space provided on the form.

Savings Accounts

Next, enter the details of all savings accounts you have that have a positive balance (i.e. are not overdrawn).

Overdrawn Accounts

This should be followed by any overdrawn accounts (i.e. they currently have a balance less than zero).

Credit and Store Cards

Next, list all credit and store cards that you have. You should also list those with a zero balance.

KiwiSaver and Other Managed Fund Investments

This section is where you list any managed investment funds you have. This includes KiwiSaver and any other funds or shares that you may own. If you are unsure of the fund type or the target interest rate and can't find the fund prospectus (where this is required to be listed), use the internet to locate details about the fund and a copy of the prospectus (i.e. search by the fund/fund managers name)

Student Loans

If you still have an outstanding student loan balance, enter the details in this section. If you have penalties or you have previously been in arrears, then the interest rate is unlikely to still be zero.

Loans

Next enter the details of all other loans you have outstanding. These are typically for things like appliances, cars, furnishings etc. Ensure you don't list items already covered via the balances you entered on any Store cards you own. These loans are typically with finance companies (rather than Stores).

Unpaid Invoices

Add up any unpaid invoices you have. Enter these as one summarised amount.

Saleable Items

Then list any items you think you could sell (this doesn't mean you will sell) if you needed to get money in a hurry, or that you just no longer want or need.

Initial Interest Rate

This last field on this form is the average interest rate you should be aiming to achieve in retirement. For now, you should assume 6%. After you have completed Lesson 3 you will understand what this rate is, and the impacts of adjusting it.

Once you have values for all your assets and debts, you can calculate your Net Wealth (and see where you sit against your neighbours). For John and Jane their list of assets and debts can be summarised below:

Assets	Asset Value	Less Loans (and costs)	Net Wealth	Current weekly Debt repayments	Current weekly passive income
Houses	$710,000	($45,000)	$665,000	($191)	$0
Other Property	$0	$0	$0	$0	$0
Investments	$68,246	$0	$68,246	$0	$95
Savings	$14,500	$0	$14,500	$0	$75
O/D accounts	$0	($100)	($100)	($2)	$0
Cards	$0	($2,300)	($2,300)	($12)	$0
Student Loans	$0	$0	$0	$0	$0
Other Loans	$1,500	($550)	$950	($4)	$0
Unpaid Invoices	$0	$0	$0	$0	$0
Saleable Assets	$1,278	$0	$1,278	$0	$0
Total Assets	$795,524	-$47,950	$747,574	($209)	$170

Table F3.1

This shows that although John and Jane have total assets worth $795,524, they have total debts owing of -$47,950 giving them a value of Net Wealth of $747,574. The summary also indicates that they have weekly debt repayments of $209 per week for some years until they are paid back, and they have already identified passive income of $170 per week when they retire.

Now we have values for our assets and debts, we could come up with our best guess as to what they will be worth at our planned retirement date (rather than at 'todays date'), and what income they could then be generating.

An alternate approach is to use the income we need or want in retirement, to calculate what assets we have or need that could generate this (or additional) income for us.

Summary

If you are working through the detailed Lessons, you have now collected information regarding:

- The lifestyle we want in retirement
- The duration and cost of our retirement
- The income we will earn between now and retirement
- A guess at any income we might earn working after our retirement date
- An estimate of any Government Support we may receive at retirement
- A list of all assets we own and any income they are generating
- A list of all debts we owe and when they will be repaid
- A rough initial calculation of any 'passive income' we may receive in our retirement

We will use this information to calculate if we have any shortfall or excess in our weekly budget, how much our debts are costing us each week, and any passive income we may currently be generating.

We know the net value of all assets we own and the value of those that are currently 'generating income'. We are ready to make an initial guess of the income generating assets needed for retirement (and any gap between what we have and what we need).

"A key attribute of a good retirement plan is that you have a clear understanding of your budget and an even clearer understanding of why it is so important to have one."

Form 2 –Current Financial Situation

Enter the following information for each person:

	Person 1	Person 2	
Their name			
Their Current Annual Salary	$	$	This should be Net of any tax
Estimated Annual Salary during the initial period of retirement	$	$	This should be Net of any tax
The number of yrs they will work part time in early retirement			
The Age they will receive Superannuation			This is usually 65 in New Zealand

List any ideas regarding how you could increase your income while working full time, or even part time

From the Work and Income Site, enter the following weekly rates from the appropriate tax codes:

Tax Rate	M	S	SH
Single person living alone	$	$	$
Single Person Sharing Accommodation	$	$	$
Married Couple (per person Rate)	$	$	$
Enter the date these rates are effective from			

Please ensure you use the After tax 'Net' rates.

List any income generating assets you currently own or think might be a good idea for the future. We will come back to this list in later stages.

List all debts we currently have. We will come back to this list in later stages and collect a lot more information about each.

Blank Form 3 –Asset and Debt values

If you own any property, enter the following information for each house you own:

Property Address	Resale Value	Loan Outstanding	Provider	Interest Rate	Years until repaid
	$	-$		%	
	$	-$		%	
	$	-$		%	
	$	-$		%	
	$	-$		%	

List any initial ideas regarding how you could increase the value of your house(s) over time.

_____

_____

List all bank accounts you have that have a positive balance.

Account Name	Current Balance	Account Type	Bank	Interest Rate
	$			%
	$			%
	$			%
	$			%
	$			%

List any thoughts regarding what you plan to do with this extra money.

_____

_____

List all bank accounts you have that have a negative balance (i.e you are overdrawn!)

Account Name	Current Balance	Account Type	Bank	Interest Rate	Years until repaid
	-$			%	
	-$			%	
	-$			%	
	-$			%	
	-$			%	

List any thoughts or plans you have to get these accounts back to $0.

_____

_____

List all Credit Cards and Store Cards that you own or owe money on.

Credit/Store card name	Current Balance	Account Type	Bank/Store	Interest Rate	Years until repaid
	-$			%	
	-$			%	
	-$			%	
	-$			%	
	-$			%	

List any thoughts or plans you have to get these accounts back to $0.

_____

_____

List all KiwiSaver investment accounts or other managed fund investments?

Fund Name	Current Balance	Fund Type	Provider	Interest Rate	Salary Deductns	Employer Contributns	Regular top-ups
	$			%	%	%	$
	$			%	%	%	$
	$			%	%	%	$
	$			%	%	%	$
	$			%	%	%	$
	$			%	%	%	$
	$			%	%	%	$

List any thoughts or plans you have to use these investments.

_____

_____

List any student loan balances still outstanding:

Name of person with Student Loan	Current Balance	Account Type	Bank	Interest Rate	Default Rate	Years until repaid
	-$	Student Loan	IRD	%	%	
	-$	Student Loan	IRD	%	%	

List any thoughts or plans you have to get these loan accounts back to $0.

_____

_____

List all items you have purchased for which you have signed a loan to a bank, finance company or hire purchase (credit contracts) or purchased on lay-by:

Item	Resale Value	Loan Outstanding	Provider	Interest Rate	Years until repaid
	$	-$		%	
	$	-$		%	
	$	-$		%	
	$	-$		%	
	$	-$		%	
	$	-$		%	
	$	-$		%	

List any thoughts or plans you have to get these items paid off and the debts cleared.

List all unpaid invoices you currently have outstanding (Rates, power, phone etc.)

Item	Loan Outstanding	Providers	Interest Rate	Penalties	Years until repaid
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	
	-$		%	$	

List any thoughts or plans you must get these items paid off and the debts cleared.

List any items you don't need, that could be sold to help repay your debts

Item	Resale Value
	$
	$
	$
	$
	$
	$

List any thoughts or plans you have to sell these items. And what you would like to do with the money you receive.

Enter the average return you want to use for your initial 'Gap' analysis:

The rate of return [ ] Usually 6%

And finally check the previous lists and forms you completed. Ensure you captured all your debts and assets you listed on the previous forms.