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

Lesson 06 – Managing your Costs pre and post retirement

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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 is part of our simple comprehensive step by step process to creating 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 06 – Managing your Costs pre and post retirement" of the supporting course material.

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.

> *"Don't ever forget, that the main plan in life is always to enjoy a long and prosperous retirement."*

Contents

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.

Lesson 06 – Managing your Costs pre and post retirement

Managing your costs

Sometimes people get this far in their retirement planning, but still can't make ends meet. Usually an unplanned event creeps up on them. Sometimes it is just a bad year for investments.

These things will happen, and it will happen to you. By having a retirement plan you can quickly determine any impact they may cause, and can investigate strategies to reduce any impacts. You can get out your crystal ball and take a look into the future.

By planning for the future (and the speed bumps that might incur) you can take appropriate actions now that minimise both the risk of events occurring to you, and any impact they might create.

An obvious place to start is to look at your expenses. Can you defer your travel for a year, maybe get the house painted next year, drink cheaper wine? Whatever you do – you don't want to take on debt. You also have the option of spending some of your capital.

We have deliberately delayed looking at 'cost reduction strategies' until the end of this guide. This is because our focus has been on trying to help you achieve the lifestyle you want, by generating more passive income, rather than reducing your lifestyle expectations (and its associated costs). Sometimes we have to acknowledge the goal posts are just too far away.

When looking at costs there are really only two strategies, reduce the cost or avoid the cost.

1. Reducing the cost – involves looking at buying the same services or products from a cheaper supplier, or obtaining a discount.
2. Avoiding the cost – is basically looking at lifestyle options you want to give up. No-longer have a pet, give up smoking, etc. so that more can be reassigned to generating income or other costs. You should only look at avoiding the cost after you have exhausted all other options.

Reducing Costs

We have already talked about how you can reduce costs in retirement with a 'Gold Card'. We also mentioned how you can save on travel costs by flying 'out of season', or travelling at 'off peak' times. We spent almost a whole lesson looking at the cost of accommodation (downsizing) in our old age.

A restaurant or pub meal tastes the same on a Tuesday night as it does on a Saturday night, but you can often get 'two for one' deals on a Monday or Tuesday night. A 50% saving!

As shown previously, a 1% reduction in the fees you are paying on any investments you have, can save you $50,000 over 30 years.

Paying for insurance that you no longer need is a common example, where retirees waste money.

Avoiding Costs

There are many examples on the internet that indicate the financial impact of lifestyle choices.

Assuming your favourite coffee is $6.00:

	Stop Drinking Takeaway Coffee		
Savings over:	**$6 a day**	**$6 a week**	**$6 a month**
1 Year	$2,190	$312	$72
5 Years	$10,950	$1,560	$360
10 Years	$21,900	$3,120	$720
15 Years	$32,850	$4,680	$1,080

Assuming a packet of cigarettes is $37.00:

	Stop Smoking		
Savings over:	**1 Packet a Day**	**1 Packet a Week**	**1 Packet a Month**
1 Year	$13,505	$1,924	$444
5 Year	$67,525	$9,620	$2,220
10 Year	$135,050	$19,240	$4,440
15 Year	$202,575	$28,860	$6,660

Obligations, Needs, Wants, and Goals

In a previous Lesson we introduced the concepting of splitting costs between ‘needs’ and ‘wants’. If you still have problems getting your ‘costs’ under control, you can try splitting them further into: Obligations, Needs, Wants, and Goals.

Obligations — are those things we may have signed up to that may even include things we neither want nor need – but we signed a contract (usually a debt) so we have to pay for it. There are usually penalties associated with them. They also usually match to the dollar the minimum payments you must make in regard to repaying your debts. But they can also include payments you ‘have’ to make (usually to the government) for things like parking fines or speeding tickets, and unpaid taxes.

Needs — as before, these are the things you need for basic survival.

Wants — these are normally your luxury ‘needs’. E.g. you ‘need’ to eat for survival, but you don’t ‘need’ at a restaurant, you ‘want’ to eat out.

Goals — are something we want to achieve or stride towards. They are best thought of our bigger ‘wants’ or priority ‘wants’. They can help focus where we spend or allocate any spare income after paying for our ‘obligations’ and ‘needs’. We may have a goal to have a long and plentiful retirement, we may also want to go out for dinner again this week. Having goals helps us prioritise our discretional spend.

Maybe you have a goal to walk on the Great Wall of China. Maybe you could do that in your retirement, eat out lots while on holiday in China, and not eat out so often while saving for your retirement. With a bit of prioritization and focus (towards our goals) you may still be able to achieve all of them, albeit in a different timeframe.

Along the way, you still need to ensure you have balance in your lives. You still need to have fun while working towards your goals. You shouldn't sacrifice everything today to hopefully have something in the future. You need to keep your life in balance.

Following is an example of how having a goal helps prioritise spending.

- a person buys a car and enters into a finance loan for the new car. A year later, they get promoted and are provided with a vehicle as part of their salary package. They no longer 'want' nor 'need' their old car so sell it, but they have an 'obligation' to keep paying off the loan until the balance is zero.
- they have a Goal to be debt free by the time they retire, so any money they get from selling the second hand car is allocated towards paying off their debts, and any vehicle costs they no longer incur (Registration, WOF, Vehicle Maintenance etc as the company now pays this) is also reallocated to paying down their debts to help meet their 'Goal' of being debt free before they retire.

So, when looking at expenses the priority should be:

1. Needs - what we need to survive. Food, utilities (power, water), shelter, clothes
2. Obligations – what we made a commitment or contract to pay that has real consequences if we don't.
3. Goals – something we desire in the future
4. Wants – some spirit of the moment purchase. Generally, a 'comfort purchase' that made us feel good at the time, but we didn't need it … and now we don't want it.

With these thoughts in mind, you could investigate your expense numbers for the period up to your retirement. If retirement is a long way away, you may just want to focus on the next 5 years to make sure you are building a good foundation for the future. Focus on the differences between obligations and needs, needs and goals, goals and wants, as you allocate any spare income and evaluate/estimate each of your expense categories.

When you have updated your expense allocations, go back one last time and look at any category that has 'wants' and ask yourself *"why is this more important than meeting our goals?"* or *"why is this more important than meeting my obligations?"* (usually your debts).

As a result of looking at their expenses again and reallocating them, John and Jane Doe made a few more adjustments to their expenses. These are shown in the table following.

What this showed was that John and Jane had $348 ('wants') per week ($18,000 per year) that could be reallocated pre-retirement towards paying off debts, or acquiring income generating assets. There was also a further $380 ('Goals') per week ($19,800 per year) that they could investigate further to see if it was being put to good use.

Lifestyle Cost Assumptions (weekly)	After Iteration 2 Couple Current Weekly Est	After Iteration 2 Weekly Needs	After Iteration 2 Weekly Wants	After iteration 3 (per week) Couple Current Weekly Est	After iteration 3 (per week) Our Needs	After iteration 3 (per week) Our Obligations	After iteration 3 (per week) Our Goals	After iteration 3 (per week) Our Wants
Utilities	$ 75	$ 71	$ 4	$ 72	$ 71			$ 1
Food	$ 300	$ 240	$ 60	$ 300	$ 240			$ 60
Transport	$ 217	$ 174	$ 43	$ 176	$ 164			$ 12
Accomodation	$ 194	$ 136	$ 58	$ 194		$ 104	$ 40	$ 50
Health and Well Being	$ 73	$ 58	$ 15	$ 66	$ 55		$ 11	
Personal Costs	$ 32	$ 32	$ -	$ 32	$ 32			
Giving	$ 60	$ 30	$ 30	$ 60	$ 20		$ 20	$ 20
Communication	$ 70	$ 35	$ 35	$ 35	$ 15	$ 15		$ 5
Insurance	$ 200	$ 200	$ -	$ 200	$ 100	$ 100		
Pets	$ -	$ -	$ -	$ -				
Fun Activities	$ 540	$ 81	$ 459	$ 500			$ 300	$ 200
Debt Repayments	$ 216	$ 216	$ -	$ 198		$ 198		
Admin	$ 2	$ 2	$ -	$ 2		$ 2		
Children/Dependents	$ 2	$ 2	$ -	$ 2		$ 2		
Other	$ 10	$ -	$ 10	$ 10				$ 10
Total	$ 1,990	$ 1,276	$ 714	$ 1,847	$ 697	$ 421	$ 371	$ 358

Table L9.3

The decisions you make pre-retirement and during your early retirement, will lay the foundations for the quality of the remainder of your retirement. Ideally you would have laid the foundations earlier, but most likely no-one told you that you needed to. Like many pre retirees John and Jane lived in the hope that the Government would look after them.

A fun exercise is to stand in the middle of the house and look around. Point at things and say if they are a 'want' or a 'need'. You may be surprised at how much is 'not needed'. Maybe you add them to the 'we could sell to pay off our debts' list if you really don't need them.

If you skipped over this task earlier, then a good place to start is to split your wants from your needs. You should drill into them to see if you can reduce your costs by eliminating or deferring any of your wants (and goals).

Next you should investigate your needs and obligations. Yes you have to pay tax, but are you paying too much? The same applies for your insurance. You need insurance, but do you have the right insurance for your age, risk and asset replacement values?

While the greatest impact on your budget would be through elimination of the expense. You should also consider substitution. Drink coffee at home, drink the office coffee, buy coffees once a week instead of each day. Or select a coffee shop with a good loyalty card. John found a bakery that after 5 coffees he received a free muffin. At 10 coffees he received a freshly baked loaf of bread.

In pre-retirement, reducing or avoiding costs, and targeting that extra money towards debt repayment or income generating assets will make a major impact on your lifestyle in retirement (remember the effects of compounding interest). There are still many ways to reduce costs before you turn 65 and get your 'Gold Card'.

While every little bit helps, you need to focus on ‘the big ticket items’. Look at the top four expense categories in you budget and see if there are any changes you can make today. The most common categories to find ‘money leakage’ are Food, Insurance, Accommodation, and Tax.

Reducing your food costs

There are many websites on the internet that explain how to reduce your weekly food bill. Better menu planning, using a shopping list (stops compulsive buying), shop once a week, buy specials, buy in season, grow your own vegetables or herbs etc.

Food is a large expense item on nearly all budgets, and a small change can reduce these costs significantly. You may only have to stop eating out while in pre-retirement, and then eat out when you are retired and travelling – you don’t have to stop eating out for ever. Food is also a regular expense (you eat daily) so over a number of years small changes can add up to quite a large number.

To reduce food costs you don’t have to reduce the quality of your meals. Buying your vegetables from the local farmers market is cheaper than buying them at the local dairy, supermarket or petrol station – and they taste the same.

Heat and eat, microwaveable meals are quick and easy, but you pay for the convenience. Instead, buy bulk rice and cook it the old-fashioned way, rather than using the microwaveable pouches. Quick porridge sachets are another offender, as are individually packaged cereals. Budget conscious shoppers should look to buy the bulk foods they use often – especially when they come on special.

You now have a plan, and can try different ‘what if’ scenarios. ”What if we reduced food costs by 1 or 2 percent?”, “what if we only eat out once a fortnight?”, “what if we gave up smoking?”, “what if we went out for a Tuesday night 2-for-1 special rather than on a Friday night?”

Insurance Costs

The NZ Herald published an insurance article indicating that the ‘6 biggest mistakes Kiwis make regarding insurance’ are:

1. not taking out life insurance or putting it off (one person dies, and leaves their partner with a large mortgage with no way of paying it back)
2. buying too little insurance (e.g. you might be able to replace/rebuild your house, but can you continue to meet your debt repayments in the event of illness with you or your partner)
3. not insuring your spouse (non-working spouse falling ill or dying)
4. failing to consider extras (you more likely to suffer an illness than die, and illness is not covered by ACC)
5. Not reviewing your policy (continuing to pay for things when you no longer need too, or buying travel insurance, and then travelling to and falling sick in an excluded country)
6. Buying on price not ‘cover’ (cheapest is not always best when looking at insurance).

Insurance is an important area you need to understand as you get older. Your chance of getting sick, or dying increases as you get older, so naturally the amount you pay for life insurance increases.

When you started your first job and purchased your first house, you may have purchased (or been required to purchase) income protection insurance. This would mean that the mortgage would still be paid if you were made redundant while looking for new work. If you no longer have a mortgage, and now have passive income, you don't need income protection insurance anymore.

To get maximum value from insurance you need to understand what you are trying to protect, the risks you are trying to mitigate, the likelihood of them even occurring, and you need to quantify the financial impacts if they did occur.   Sometimes the insurance cost is higher than actual cost to replace the item.

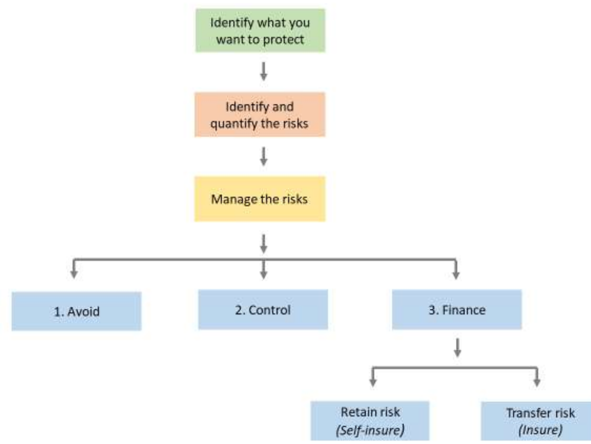
A simple process is to use your retirement phases to evaluate the insurances needed in each phase – based on the income generating assets you are trying to protect (including yourself and your partner).

Within each phase you need to apply the following process:

1 - Identify what you want to protect

2 - Identify and quantify the risks

3 - Manage the risks



To manage the risks there are basically only three options:

A – Avoid the risk

B – Control the risk

C – Finance the risk

By 'Finance the risk' this means should the event occur you will either 'Retain the Risk' (i.e. pay for it yourself) of 'Transfer the risk' (i.e. pay someone to take over the risk – an insurer).

A whole guide could be allocated towards increasing your knowledge of insurance.   A simple way to understand the above diagram is via an example:

Imagine each of the blue boxes in the context of a cell-phone and the risk of damaging it.

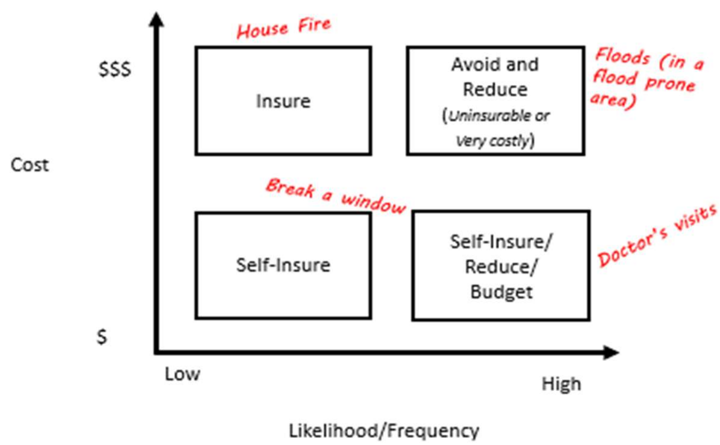
- If you avoid the risk, it means either not buying a cell-phone or not carrying it anywhere.
- To control or reduce the risk, you buy a case for your phone to protect it if you drop it.

If you accept the risk, you know you might drop it and what it will cost to replace if you do, and you use your phone whenever you want too anyway. You have decided you need to finance the risk.

- If you transfer the risk, you pay an insurance company to insure your phone, knowing that if you drop it accidentally then the insurance company will pay to replace it for you (less your policy's excess).
- You could instead use that same amount of money and save it for repairs if you break or damage your phone i.e. you will self-insure the phone. Basically if you break it, you will pay for if (the repairs or replacement) yourself.

You can do any combination of these things to manage the financial impact of dropping your phone, and each one has different costs and benefits.

A simple way you can evaluate the financial impacts of the risk on any of your assets, is to consider them based on 'Costs' on one axis and the 'likelihood/frequency' of the event occurring on the other.



This indicates that:

- low cost low frequency risks (like breaking a window) should be self-insured (bottom left quadrant). The same would apply to cell phones.
- for an event such as a house burning down, you should transfer that risk to someone else and buy insurance (top left quadrant)
- if you were going to purchase a house in a flood prone area, and thought you might buy insurance – you would most likely find the cost of that insurance is extremely high. Therefore you should avoid the need for insurance by not purchasing a house in a flood area. (top right quadrant)
- for things like regular doctor visits you need to look at strategies to reduce the occurrence, budget for them (an emergency fund) and self-insure (bottom right quadrant)
- a one-off medical event (low frequency, high cost) you would insure for (top left quadrant).

When evaluating the cost of insurance there are a number of areas you can look at to reduce the cost you pay (the 'insurance premium'):

Check your employment contract. Some employers provide insurance cover as part of the salary package. Check if you already have some insurance cover you didn't know about (and are probably paying for something additional you don't need).

Check your agreements. Sometimes your credit card or mortgage terms and conditions (and the fees you pay) have an insurance component within them. For loans, this often includes clauses relating to being made redundant (not falling ill or having an accident) whereby the min-monthly payments will be met for a period of time. This may let you renegotiate any additional income protection cover you have, and avoid paying for any areas of duplication.

Some credit card providers include travel insurance when you purchase the tickets via the credit card. Buy the tickets on the card, then transfer funds to clear the debt on the card so as not to incur the 20% - 25% interest charges a credit card incurs.

Move. Insurance companies are starting to add risk premiums in their policies. This is for policies such as homes and contents. If you live in an earthquake prone area, your premium costs more. If you live near the sea (floods, global warming etc) your premium will cost more. You may want to bring your relocation option earlier to avoid the extra risk premium before the value of your house goes down (as others realise the impacts of this).

Age Discounts. Age discounts are often available for older drivers (over 55). If you let your kids drive the car, sometimes a premium gets added if they are under 25 or you let under 25 yr olds drive your car (the grand kids). Agreeing under 25's won't drive your car can reduce the premium (i.e. you are self-insuring the car if you let someone under 25 drive it.).

Increase wait times/stand down periods. If you have income protection, you may want to insure the first 2 or 3 months yourself (use an emergency fund or travel fund). If the income protection only has to cover from month 4 onwards you will get a reduced premium.

Mileage discounts. Some companies provide a discount on vehicle insurance based on lower miles driven (as it is on the road less).

Consolidation. Buying multiple types of insurance from one company generally results in a discount over all the polies.

Use a Broker. Insurance is complex, and better use of your time might be to generate income rather than investigating insurance options. A broker may be able to get a better deal (discounts) than yourself.

Increase Excess. Increasing the excess on the policy (the portion you will self insure) can reduce the premium. In the example shown above, you can agree to fix the odd broken window yourself, but keep the house insured if it burns down.

Check Insured values. Vehicle insurers like to charge you to insure that $10,000 car you purchased, but when it is now only worth $6,000 on the 2nd hand market they keep charging you as if it is worth $10,000 (but will only pay you $6k if you have an accident). Check that the sum insured of all your assets equates to their market/replacement value.

Security. Keeping your car locked and in a garage (vs on a dark street) can reduce what you will be charged. Having an alarm in your house, office or workshop can reduce what you will be charged for the items within it (contents).

Lifestyle. Lifestyle choices can attract a risk premium. Jumping out of aeroplanes is high risk and will attract a premium fee on any life cover. Smoking will increase the cost of life insurance.   If you race your car on the track, expect to pay extra to insure the car no matter how good you think your driving skills are. Consider changing your lifestyle to reduce high risk high cost insurance items.

Pay Annually. Sometimes you can negotiate a discount if you pay a year in advance (vs paying each month). If you choose this option, make sure the discount you receive is greater than what you would get if you invested that money instead.

Before you decide to cancel any of your insurance cover, don't forget (Source: Statistics NZ):

- 1 in 3 people will suffer a major illness that will stop them working for 3 months or even longer
- 1 in 9 men will be disabled and off work for more than 12 months before the age of 65
- 1 in 5 women will be disabled and off work for more than 12 months before the age of 65

and ACC only covers accidents, not illness.

Accommodation Costs

We have already discussed a number of ideas to reduce the costs associated with accommodation. While you may have delayed decisions in this regard, you might have to bite the bullet and make a decision and move/downsize/defer maintenance etc earlier than you want.   For John and Jane, Parking their old Toyota on the street, and renting out their locked garage for a couple of years could help bridge their gap.

Other areas to look at are:

Review your rates. Rates are set based on the rateable value your local council assigns. These are generally reset every three years and if you think they are too high you can dispute them. If the RV is reduced, then your associated rates bill will decrease. Some councils also provide a discount to over 65's – make sure you have checked your council and applied.

Review your home and contents insurance. As per the above section, many people think that the market value of their property is the value they need to insure their house for. Make sure that the sum insured is the 'replacement value' (cost to rebuild) of your home.

Cut your own lawns. While it is becoming more common to hire a gardener – and just because you believe you deserve one, doesn't mean you can afford to pay one. Keep on top of the maintenance yourself and only hire the skills that are needed. You are still fit and young enough to be the hired labour. IF you cant do this yourself, maybe it really is time to move.

Reduce wear and tear.   Delay the need to replace or repair items by looking after them better. Take your shoes off at the door (so the carpet doesn't get worn out so fast). Don't let the grandkids ride their tricycles and scooters up and down the hallway. Open windows to keep the house ventilated to reduce mould and mildew – the maintenance costs you avoid will exceed the power costs of heating the room back up in the evenings.

Tax

Remember what Benjamin Franklin said about life? We have to pay tax.

In New Zealand tax for most people is quite simple. The more you earn, the more you pay. It gets deducted automatically by our employer, and over the years it has become more accurate and easier to understand.

This is great if your only source of income is 'worked' income. When you start adding passive income into the mix, tax starts to get more complicated, and even causes distortions in the New Zealand investment market.

Income from different asset classes are taxed differently. Even the geography associated with an asset (a share in an overseas company vs a New Zealand company) can be taxed differently, and then there are investments that can get taxed – even in a bad year when they didn't generate any income (deemed dividends).

As successive Governments try to influence various markets, then tax rules change. Remember the capital gains tax changes re rental properties: the ownership duration of the bright line test changed: 2 yrs, then 5yrs then 10 yrs, and back to 2 yrs, and the changes to the tax rate of the Brightline test: now 39% - the highest capital gains tax anywhere in the world!

If you own a recently purchased rental property, maybe you should hold on to it longer (just to be safe), or sell it when your income puts you into a lower tax bracket, so you don't pay so much tax.

While you cant avoid tax in New Zealand, you only have to pay what is legally required.

- Many people pay more tax than they need too on their investments, as they don't understand how tax works.
- Many people pay tax in advance of when they need to pay it. That money could be part of an income generating asset working for you – rather than the IRD.
- Many people are on the wrong rate and incur penalties at the end of the year for the tax they didn't pay on time.

Like insurance, tax is another topic that could fill up a whole additional book. There is no need to incur penalties (and in the case of the IRD they can be quite punitive) by not paying enough tax, or missing out on investment opportunities by paying too much tax or paying too early.

A good financial advisor should be able to help you with this, as it is very dependent on your investment mix and income. It can also change if you are able to split your investment income between yourself and your partner.

As you become more financially knowledgeable, you should always check you are paying the correct tax, at the correct time, and only what you need to pay. The rules and rates will change as your income moves from 'worked income' to 'passive income', your income generating assets grow, you get older, or your investments get more complicated.

Still Stuck – here's some more ideas

Hopefully buy now you will have realised that the biggest impact to the later part of your retirement, are the changes you make in the first phases of retirement. A small change now (e.g. one year of extra part time work, downsizing earlier, delaying the big overseas holiday etc.) will make a significant difference in the later years of retirement. Reducing food consumption 1% in the later phases of retirement will make next to no difference.

This is the impact of 'compounding interest'. Making a change now that allows you to put money into a bucket of income generating assets, means that money has time to work for you (while you are sleeping) and generate more money for you. So, if you need to adjust your plan to survive the later phases of your retirement, look for changes you can make now.

Based on statistics, many New Zealanders:

- Fail to change their power supplier to a lower cost supplier. If you have 30 years in retirement and could save $10 a month by changing supplier now, that is $3600 over the course of your retirement.
- Fail to make the minimum KiwiSaver contributions each year, required to get the maximum Government top up. Jane had been paying into KiwiSaver for over 10 years and had already missed out on around $3,000 of free money (plus 10 years of compounding interest on this money).
- Fail to select an appropriate KiwiSaver fund type. Many people let the IRD chose their type of KiwiSaver fund (balanced, growth etc) and their KiwiSaver provider. They end up in a default fund. Being in a default fund receiving say 3%, when you should be receiving 6% is a significant lost opportunity – and lost money. John missed out on nearly $6,000 by being in the wrong type of fund.
- Think that paying only the minimum debt repayments, they are managing their money. Banks and finance companies are sharks and set the rules and rates to benefit them – not you. Paying only the minimum required on a debt may mean you pay 3 to 4 times the price of the item you purchased.

Once you are happier with your numbers (you should always be revisiting and revising your budget) you can have a quick check of the income gap and asset gap you now have in retirement. It may have grown – or it may have narrowed. It all depends on how good your initial guesses were compared to your latest guess – or your comparison to your last 12 months actual costs.

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Decomposition

The best way to confirm this number is to investigate it a bit more. A common technique in budgeting is to take a number, and drill down into it, to validate the various components that make up the number.

For example, "Yearly Vehicle Costs" is basically the sum of the various components associated with owning a car or vehicle:

Car	Weekly Costs		Annual Costs	
Petrol	$	192.31	$	10,000
Registration	$	2.38	$	124
WOF	$	1.54	$	80
Insurance	$	5.77	$	300
Regular Services	$	5.77	$	300
Maintenance	$	9.62	$	500
Total	$	217.38	$	11,304.00

Table L3.7

This is called "decomposition" – breaking down something into its individual components.

We can take each of the categories of our lifestyle costs and drill down into each component – and see what number we get. There are lots of books on personal budgeting and they all take a similar approach to drilling down, to refine each number. We don't have to do them all at this stage, maybe just the really big ones to be confident they are correct.

There are lots of suggestions and guidelines as to what those numbers could or should be e.g. "what does it cost per week to feed a family of 4", these guidelines can help validate the numbers. We have found that the best approach is to just to use the real ones you already have available: i.e. just look at your bank and credit card statements (6 months' worth is a good start, 12 is better). Once you understand what you currently spend in a category, you can then use the external sources to validate and challenge your numbers. Why take someone else's numbers when you want to live your lifestyle not somebody else's lifestyle?

Avoid mistakes

If you are happy with ballpark estimates, then the numbers from the Massey/Westpac survey have already been included by category for you in the free template spreadsheet, based on your chosen lifestyle.

These ballpark estimates make some assumptions about retirement that you need to check: you own your own home, you have no pets, you have no dependent children and you make no donations to charities or churches. The costs for these areas are currently $0 per week.

Therefore, if you are renting you should have adjusted the 'Accommodation' expense category (removed all home ownership costs and added your rent). If you currently own a pet, or plan to own a pet you should have updated the 'Pet' category (pets are expensive). If you will have any children dependent on you during your retirement you should add these weekly costs. And if you regularly give to charities or your church, you should have updated the 'Giving' category. These are 'big' categories of expenses in retirement currently set to $0, that you need to confirm.

Many people make mistakes when calculating budget numbers. Be careful not to make the same ones if you are using your own spreadsheet.

Common mistakes are:

> <u>One month's cost times 12 is not an annual cost.</u> Some costs are seasonal such as power. Taking your July power bill and multiplying it by 12 will give you an exaggerated number. Selecting the wrong month and multiplying by 12 can give the wrong number. It is safer to

look at 12 months' worth of costs, add them together and divide by 12 for average monthly costs, or divide by 52 for average weekly costs.

One month's cost divided by 4 is not a weekly cost. If you have a fixed monthly expense item, dividing by 4 will not give you a weekly cost. You need to multiply it by 12 then divide by 52 to get an accurate weekly cost. For example:

$100 per month / 4 suggests this is a $25 cost per week, when in fact it is

$100 * 12 / 52 = only a $23.07 cost per week

Fortnightly Rent times 2 is not a monthly rent. If you pay rent or bills fortnightly, multiplying by 2 does not give you the monthly amount. There are 26 fortnights in a year. The correct formula for fortnightly payments to be calculated as per month is $Amount * 26 / 12

$400 per fortnight * 2 suggests this is a $800 cost per month, when it is in fact

$400 * 26 / 12 = a $866.66 per month cost

Interest free payments end. If you are making payments on cards, hire-purchase or to finance companies that had an interest free period, don't forget to calculate costs once those interest payments kick back in. If you just signed up to a 30 or 60 days free contract (gym memberships are common for this), don't forget to add those costs into your plan as they may not appear on your bank statement yet.

Be honest about your spending. It is very easy to say "we can live on $50.00 each per week food" when you never have – and you know you never will. Make sure any reductions in costs are realistic.

When you have validated your costs within a category, it is a good exercise to compare your costs with others. There is nothing wrong with it being higher or lower than others, but you need to understand why it is different. If it is different because of the lifestyle you have chosen that is ok, but if it is higher because you are using the most expensive brands or suppliers then maybe there is an opportunity to change.

In New Zealand, power (electricity) is a good example whereby changing supplier you can obtain significant discounts. Similar discounts can be obtained by changing insurance providers, internet provider, the type of plan you are on, or by bundling services. Every time you investigate one of these categories you will improve your financial understanding.

Some good sites to use for comparisons (although the data can get out of date) are:

The IRD's Household expenditure Guide. This is based on data collected by Stats NZ and provides a regional breakdown of normal cost categories: https://www.classic.ird.govt.nz/forms-guides/number/forms-100-199/ad164-guide-household-expenditure.html

the Otago University Food Cost Survey. This provides an estimate of food costs based on diet type: https://ourarchive.otago.ac.nz/handle/10523/15128

www.switchme.co.nz lets you look at various power supply companies and compare their prices https://www.broadbandcompare.co.nz/ does the same for internet providers.

The obvious 'other' to compare your cost estimates to, is your actual spend. Look at the largest categories and compare them to your own bank statements or invoices. Many utility invoices show the prior 6 or 12 month spend so you can look at seasonal trends. If you regularly shop at the same supermarket, you can quickly download your bank statements and filter to just that supermarket (vendor).

If you are unsure of your retirement costs, print off some copies of Form 4 and use those to investigate some of your high cost expense categories. If you make any changes ensure you update them in the spreadsheet. Remember we are not looking to validate our costs to the last cent, we just want to have confidence in our overall weekly expense. The retirement planning spreadsheet has the latest expenditure numbers from the Massey University/Westpac report decomposed within each category.

SuperGold Card

One benefit that is available to anyone over 65 is the SuperGold card. With the SuperGold Card you can get:

- discounts and offers from 1,000's of businesses
- government concessions (including free off-peak public transport)
- discounted services from your local council.

And working on the premise that every little bit helps, it pays to understand what you may be entitled to, as lots of little bits could impact your income or your expenses during retirement.

For example, if your public transport costs are high in your budget (as you don't have a car – or think it might be too expensive to maintain), then if you travel at off-peak times it could be free.
Think about and see if you should adjust your transport costs during retirement. You can even get a $5 discount at VTNZ to check your car (if you own one) for a WOF – every little bit helps.

The SuperGold card also attracts lots of businesses trying to sell services to the elderly. Some are things you currently use (cheaper power), things you may 'want' to use in retirement (discounts for travel and holidays) and some can even be available overseas (hotel discounts in Australia, transport discounts etc.). You also get some basic healthcare discounts (eyeware, doctor visits etc.) so multiple expense categories could be impacted by having and using your SuperGold card.

If you plan to get an e-bike to get to and from the golf course, or ride the cycle tracks, then check the discounts you might get and adjust your fun activities expense category accordingly.

This is not to advertise any business, but to make sure that you look for every opportunity to take the discounts and benefits offered to you for all your needs (and wants) during retirement, to make sure your income can go further.

As the bubble of baby boomers makes its way into and through retirement, retailers and service providers realise they are a big segment of the population. Generally retirees do have disposable income, are more than likely to spend money on 'wants' so they offer discounts. If you need something (such as power or internet) and someone is going to offer you a better price than you are paying now just because you are a day older (now 65) then you might as well take it, and use the money you save for an extra or longer trip to visit friends or family.

Another area you may be eligible for discounts is from your local council. A rates rebate may be available in your area to low income people.

Consider all the things you may or need to take advantage of in your retirement that offer discounts just because you are 65+. Then take the opportunity to reconsider any of your planned expenses during retirement. E.g. maybe your utilities or internet expenses could be reduced by 10% ?, maybe there are additional benefits you are entitled to that you were not aware of, add those to your budget and see what impact they make.

How much fun is too much?

'Fun Activities' are clearly 'wants', so the major decision here is how badly you want these. Do you want to see the grandchildren every year, can you stay with family or friends rather than in hotels while travelling, what if you flew coach class instead of premium, and what are all those specials available to over 65's.

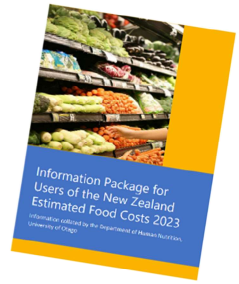
A key thing to remember is "you are retired". You don't have to take holidays over Christmas like everyone else, or during the school holidays when the kids are free. You can travel whenever you want.

Travelling outside of peak season (school holidays), at off peak times (mid-week), or to off peak locations means you can travel more often, or for a lot cheaper. You can consider those cruise specials when they are trying to fill the last couple of berths at a cheap rate, rather than booking at full price.

Somewhere in the middle is the balance of the price to pay for travel, and the time to travel. You have time on our side and can book well in advance – again usually resulting in cheaper seats or a cheaper overall trip. Lesser airfares may just mean more eating out – you have choices in retirement you probably didn't have when you had to fit in holidays around your job, employer and even the kids.

Travel is not your only fun activity. And you need to look at the assumptions made for all the fun activities planned for retirement. Do you have enough fun things to keep life interesting and to actually have fun in your retirement? Retirement can be for a long time. While we may be getting older, we don't have to only sleep or read every day.

Eating in vs Eating out



Food is a mixture of need and wants. We 'need' to eat to survive – but the quality of the meal, the frequency of eating out, and how often we have takeaways, are a 'want'. Otago University conduct an annual survey of the food costs for an average male and female (and typical kids) in various cities around the country, and freely publish their findings. For John and Jane the survey suggested (excluding alcohol and eating out) that John and Jane should be spending somewhere in the rage 6,800 to 10,500 per year. In 2023 the range is now $8,600 to $13,700.

2023 Food Cost survey (Wellington)	Male Per Week	Female Per Week	Couple Per week	Couple Per Year
Basic Diet	$ 90.00	$ 77.00	$ 167.00	$ 8,684.00
Moderate Diet	$ 117.00	$ 100.00	$ 217.00	$ 11,284.00
Liberal Diet	$ 141.00	$ 123.00	$ 264.00	$ 13,728.00

Table L3.8

When they looked at the list of food included in each diet (it is based on quality of choices and not size of the serving) John and Jane decided they generally ate the foods that were between basic and moderate for most meals, and selected from the liberal column only on occasions. This is not because they currently couldn't afford to eat more liberally, they just didn't like the alternate foods. They selected moderate as their starting point.

Basic	Moderate	Liberal
Fruit		
Apples, bananas, pears	Oranges, canned fruit, nectarines, peaches	Strawberries, feijoas, apricots, fresh and frozen berries
Vegetables		
Carrots, pumpkin, cabbage, onions	Mushrooms, tomatoes, cauliflower, broccoli	Spinach, avocado, courgettes
Meat and Poultry		
Chicken pieces (drumsticks, frozen pieces), sausages, corned silverside, mince	Chicken thighs, ham, pork chops, beef stewing cuts	Lamb steaks, salami, porterhouse steak, rump steak, pork diced pieces, chicken breast
Fish		
Canned fish, whole fish, frozen crumbed fillets, red cod, hoki, monk, trevally	Sole, terakihi, gurnard	Blue cod, salmon, snapper
Breakfast cereals		
Rolled oats, cornflakes, rice bubbles, wheat biscuits	Muesli, extruded cereals (e.g Nutrigrain, Cheerios)	Bircher Muesli, toasted muesli with fruit and nuts
Cheese		
Cheddar- tasty, edam, colby, mild	Processed cheese slices, cottage cheese, cream cheese	Parmesan, mozzarella, specialty cheeses (e.g. brie, feta)
Bread		
Sliced packaged bread- wholemeal, white	Sliced packaged multigrain varieties, fruit bread, bread rolls, hamburger buns	Pita pockets, wraps, specialty breads (e.g. focaccia, ciabatta), bagels

Table L3.9

They allocated a guess for alcohol (an average of 2 bottles of wine per week at $15.00 per bottle from the local supermarket on special), a guess for cleaning products they normally purchased, and their basic toiletries (the usual supermarket things they consumed missing above).

This gave them an annual estimate of $12,200. That was a $3,380 per year saving over their previously estimated number. Over 30 years in retirement that was $101,000! That looked too good to be true.

For sanity, they compared their number to the IRD household survey (by adding takeaways to their number to allow like for like comparison) and found they were estimating $277/week/couple, compared to $270/week/couple from the IRD Wellington survey results.

Once you have looked at all the big numbers and made adjustments (or fixed errors), you should look for any big jumps in expenditure in other categories and check the assumptions are correct.

For example, as shown in table L3.9 below, John and Janes ‘Communications’ category is jumping 133%, they planned to start ‘giving’ more (100% increase), and their ‘Accommodation’ costs were increasing.

Maybe their current numbers were wrong? Maybe what they thought they wanted to spend in retirement was incorrect? If they can get a 10% reduction on power though their SuperGold card, why is the power bill still planned to increase? Maybe they thought the power bill would go up as they would be in the house longer (when John and Jane both stopped work) … but aren’t they going to travel, or get out and exercise more?

You should always be validating your assumptions and future costs. You should always be looking for opportunities to reduce costs without compromising your desired lifestyle.

Our Retirement Plan Version 3	2024	2028	2029	2030
Our Expenses				
Utilities	-$ 3,705	-$ 3,705	-$ 3,900	5%
Food	-$ 12,480	-$ 12,480	-$ 15,600	25%
Transport	-$ 8,528	-$ 8,528	-$ 7,280	-15%
Accomodation	-$ 7,488	-$ 7,488	-$ 10,000	34%
Health and Well Being	-$ 3,432	-$ 3,432	-$ 4,300	25%
Personal Costs	-$ 1,664	-$ 1,664	-$ 1,517	-9%
Giving	-$ 2,080	-$ 2,080	-$ 3,640	100%
Communication	-$ 1,560	-$ 1,560	-$ 3,640	133%
Insurance	-$ 10,400	-$ 10,400	-$ 10,400	0%
Pets	$ -	$ -	$ -	0%
Fun Activities	-$ 15,600	-$ 15,600	-$ 29,120	87%
Debt Repayments	-$ 10,299	$ -	$ -	0%
Admin	-$ 100	-$ 100	-$ 100	0%
Children/Dependents	-$ 87	-$ 87	$ -	-100%
Other	$ -	$ -	-$ 500	
Our Total Expenses	-$ 77,423	-$ 67,124	-$ 89,997	
Our Income - Expenses	$ 26,895	$ 39,118	-$ 22,282	

Table L3.9

Utilities

As already mentioned, there are many internet sites that let you compare different providers and their prices. All you need is a copy of your statement (so you can compare a real month's usage prices) to see if you could be obtaining a better deal. It costs nothing to look, and nothing to change providers – and they don't even turn the power off to change.

Also, don't forget to check if you can get an even better deal in retirement (remember the SuperGold Card) with your current provider (or another provider).

Giving

Everybody should give something back to their community or others. But you have to look after yourself first. The longer you live, the more you can give. Also giving doesn't have to be only money. Maybe for the first few years in retirement you could volunteer – give something back to others through providing time and services rather than money.

There are lots of places and organisations looking for volunteers, where you can achieve a sense of giving, while sorting your own finances out. It is also an opportunity to get out, meet new people, share ideas etc. (you can even compare budgeting ideas, the best deals currently available via your SuperGold card, or your next travel destinations) in retirement. You can even help others improve their financial literacy or help them with Excel as you are becoming such an expert.

Maybe you could plan to give more later, if you can't afford it now.

Communications Costs

As technology improves, the cost of communicating with each other is reducing. International calls with family and friends can be made for free over the internet, monthly cell phone plans are reducing, and land lines are a thing of the past.

The one area you need to concentrate on in retirement is your internet charges. You will have a lot more time on your hands, will be spending more time on the internet looking up specials for your retirement, and you may also want to start downloading or streaming movies and music to enjoy. You need to ensure you have an appropriate internet plan (usually a fixed fee each month so you can plan the expenses), that has enough capacity to make calls, stream TV, stream movies as often as you want during your retirement.

If you have not yet heard about Netflix, Hulu, Neon or Amazon Prime (where the initial guys from Top Gear ended up) then you should start looking into them.

If you are still using Sky, you may want to compare the things you watch and enjoy on Sky, that may be free on tv already – or available from a cheaper provider.

Wants vs Needs

Another common budgeting technique is to split your outgoing expense costs between 'wants' and 'needs'. For example, you "need" to eat food to survive – but you do not "need" to eat out three nights per week – you "want" three of those meals per week to be at a restaurant.

This way you will develop a clearer estimate of the lifestyle costs you 'need' to just survive in retirement, plus an estimate of the costs to live the lifestyle you 'want' (or desire). You will also get greater visibility of your current costs split between what you need (to survive) and what is discretionary spending (lifestyle).

You should look at each category of expenses in relation to what you 'need' and 'want' to spend today – and what you 'need' and 'want' to spend in retirement. Basically, we are refining our 'lifestyle cost estimate' number into two numbers. We may need this number in future steps if we cant make our assets work for us to generate income, and we have to look for areas to reduce costs. We may decide to defer expenditure on our 'wants' for a period of time, and re-prioritise that money to something different.

Using the standard budgeting categories for grouping expenses together, John and Jane ended up with the following:

Lifestyle Cost Assumptions (weekly)	Couple Current Weekly Est	Weekly Needs	Weekly Wants	Couple Retired Weekly Est	Weekly Needs	Weekly Wants
Utilities	$ 75	$ 71	$ 4	$ 75	$ 71	$ 4
Food	$ 300	$ 240	$ 60	$ 300	$ 240	$ 60
Transport	$ 217	$ 174	$ 43	$ 140	$ 112	$ 28
Accomodation	$ 194	$ 136	$ 58	$ 192	$ 192	$ -
Health and Well Being	$ 73	$ 58	$ 15	$ 83	$ 66	$ 17
Personal Costs	$ 32	$ 32	$ -	$ 29	$ 29	$ -
Giving	$ 60	$ 30	$ 30	$ 70	$ 35	$ 35
Communication	$ 70	$ 35	$ 35	$ 70	$ 35	$ 35
Insurance	$ 200	$ 200	$ -	$ 200	$ 200	$ -
Pets	$ -	$ -	$ -	$ -	$ -	$ -
Fun Activities	$ 540	$ 81	$ 459	$ 560	$ 56	$ 504
Debt Repayments	$ 216	$ 216	$ -	$ -	$ -	$ -
Admin	$ 2	$ 2	$ -	$ 2	$ 2	$ -
Children/Dependents	$ 2	$ 2	$ -	$ -	$ -	$ -
Other	$ 10	$ -	$ 10	$ 10	$ -	$ 10
Total	$ 1,990	$ 1,276	$ 714	$ 1,731	$ 1,039	$ 692

Table L3.10. Note: A list and description of these categories, and their associated sub-categories (remember how we decomposed the Transport costs - not shown above) can be found at the end of this guide.

Ideally you want to keep breaking ('decomposing') down each of the numbers into their various sub-parts, until you are confident, they are correct. If you think you are going to travel three times every year for two weeks each trip – go to a travel agent, grab some brochures of the type of travel and destinations you want, and look at the actual costs – then update those in your retirement plan. You may want to start thinking about the places you want to visit while you are there.

You only need to break down the big numbers to check they are valid. Maybe start with anything over $250 per week. Breaking down a $5 expense is probably not going to make much impact to the overall retirement plan. Be sensible – we still have a long way to go, and you don't have to do them all in one day. Put in your best estimate and refine your numbers during later iterations.

Crawling over 12 months of bank and credit statements is not fun – but it is very educational. You might be surprised how much money you spend on coffee per month, how many transactions where you have no idea what you purchased (must have been a 'want' rather than a 'need'), how much ATM cash you withdrew with no visibility of what you spent it on. Lots of opportunities for improvement in our money management skills as we move forward towards financial freedom.

Help!!

If after all this you still don't have enough income to cover your costs, have run out of ideas, or don't know what to do next. Get some help.

Free budgeting advice is available in New Zealand and is coordinated through FinCap.

FinCap works with over 200 financial capability and budgeting services in New Zealand. They are funded by the Ministry of Social Development as part of their Building Financial Capability initiative.

Through their Moneytalks website you can identify local advisors that you can contact.

https://www.moneytalks.co.nz/find-a-service/

Take a copy of your budget along to the meeting. This way they can use the time to provide help and guidance rather than preparing a budget for you.

Other organisations provide budgeting advice and will charge you for that service, or will steer you towards their own products. Hopefully seeing you have read this far through the guide you probably don't need to pay for advice, you just need a nudge in the right direction.

The internet provides a large resource of money saving, cost cutting ideas that you can consider and evaluate. Remember you already have a plan, timeframes, a good list of your assets and debts, some goals (your desired lifestyle in retirement) and you just want a bit of direction or confirmation. You don't want to pay someone to help fix the car, when all you want is confirmation you are on the correct road!

If you need further help, use Lesson 09 - Form 15 to list the areas you need additional help with. This could include budgeting advice, financial advice, spreadsheet skills etc.

If you still need help to reduce your living costs, feel free to print Form 16 to identify potential areas you need to investigate to further reduce your costs and get your budget balanced.

Form 16 - Managing Costs

Using this form to,

1. identify the top 5 categories of your current expenses (e.g. Food, Fun Activities, Debt etc)
2. Within these top 5 categories, identify the top item of expense (e.g. if a top 5 Category is Food, then select the top items within the food category (supermarket, Wine, Vege Market etc)
3. List some actions you could take to reduce the cost of each identified item
4. Guess the $ impact these changes could have on your weekly budget

Top 5	Category Name	Top item within Category	Actions that could reduce the cost of this item	$ Impacts per week
1				
2				
3				
4				
5				

Next check you have the appropriate insurance in place for your income generating assets.

By now your Retirement Plan should clearly identify all the assets you will own during each phase of retirement. This list can be used to create a table (consider creating a new sheet within your spreadsheet) that shows something along the lines of:

Asset	Events or risks	Chance/ Likelihood of occurring	Cost impacts
Car	Car accident Theft Breakdown Broken Windscreen	M L H L	$$$ $$ $$ $

Asset: each asset that you own during that phase of retirement

Events or Risks: List all events that might cause damage, loss or injury.

Chance/Likelihood: Identify as High, Medium or Low.

H – likely to happen multiple times during this phase,

M – will happen at least once, but not very often during this phase

L – very unlikely to occur. May happen only once if we are unlucky during this retirement phase

Cost Impacts: Identify as $, $$, or $$$

$ - can fix the problem using our own resources (or money)

$$ - can fix, but would require substantial borrowing

$$$ - cannot afford the costs so should consider insurance

Once you have populated the table with your assets you can look at how you can manage the risks - Avoid, Control, Finance (self-insure or buy Insurance), or through various combinations of all three.

You can add additional columns to your table to record your risk management ideas.

If you are able to reduce your insurance costs, don’t forget to update the new weekly budget amount in your retirement plan.

Asset	Events or risks	Chance/ Likelihood of occurring	Cost impacts	Avoid	Reduce	Finance
Car	Car accident Theft Breakdown Broken Windscreen	M L H L	$$$ $$ $$ $	Drive better Avoid gravel roads	 Lock Garage Regular service 	Insure(get higher excess) Insure (fire and theft) Consider AA roadside service Keep emergency fund