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Quarter 2 / 2025

Insight / Guidance / Dedication

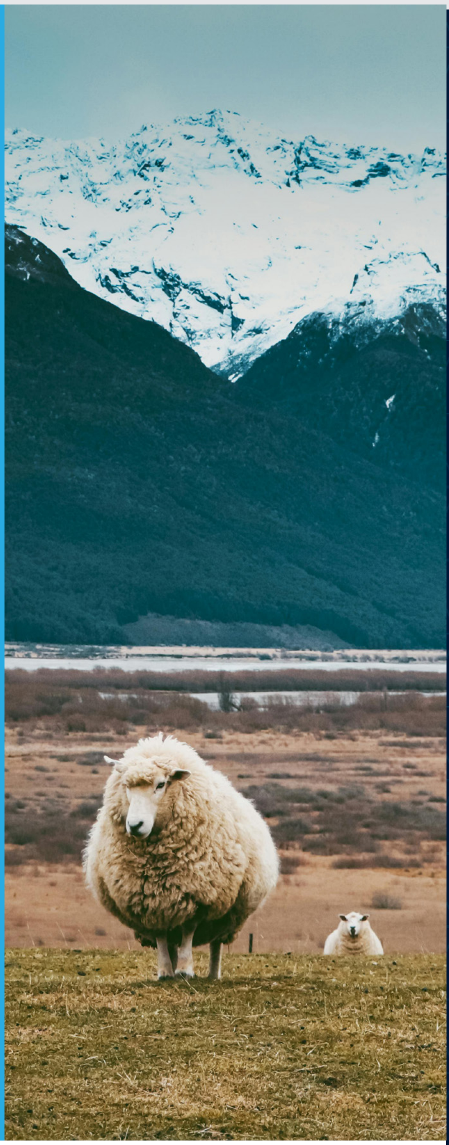
Welcome to the Milestone Winter newsletter.

The past quarter has certainly presented its share of global challenges and headlines. The Liberation Day Tariffs saw a big reaction from equity markets, conflict has escalated between India and Pakistan, and there is still no end to wars in Ukraine or Gaza. The news is often overwhelming as media tend to focus on the negative. Let's take a moment to acknowledge some of the more positive moments recently: There is a new Pope, congratulations to Leo XIV, Warren Buffett has announced a well-deserved retirement, equity markets bounced back from the shock of Trump's Liberation Day announcements and Giraffes have been reintroduced to Angola.

This edition we've included a unique look at what ageing really is, and an update on the retirement village sector in NZ. There's a fascinating article on Cognitive Dissonance and why it is so hard for people to change their mind once on a committed path. We also have some Budget 2025 takeouts and explain a new scam to protect yourself against.

Finally, we're working on enhancements to our website and would love to include some client stories to encourage more people to get advice. If you would be comfortable sharing your Milestone journey with others, please reach out to your adviser. Your story could make a real difference to someone else's financial future.

Editor
Melissa Allen



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Rethinking "Old Age": Why 65 Isn't the Only Number That Matters – A Kiwi Perspective

Ever scroll through the news and see those "scary statistics" about our aging population?

You know the ones – projections that the proportion of people over 60 is set to nearly double by 2050, or that the "old-age dependency ratio" is skyrocketing. Here in New Zealand, we're certainly part of this global trend. Statistics New Zealand data shows that in 2023, around 828,600 people were aged 65 and over, making up 16.6% of our population. This is projected to hit 1 million people by 2028 and could reach 1.9 million (or 28.2% of the population) by 2073! It's easy to feel like we're heading for some sort of demographic cliff.

But what if these numbers, as eye-opening as they are, aren't telling the whole story? What if the very definition of "old age" we're using is outdated? That's the fascinating question raised by Sarah O'Connor in a recent article in The Financial Times, where she suggests that how long someone has been alive – their chronological age – might actually be a pretty poor yardstick for judging who is truly "old."

Why Chronological Age Falls Short

Think about it: what does simply knowing someone is, say, 65 years old really tell you? Not much, beyond the number of birthdays they've celebrated. Policymakers often lean on chronological age as a shortcut, a proxy for concerns like how many people will need health or social care, or the economic impact of more retirees and fewer workers.

The problem, as economists Rainer Kotschy, David Bloom, and Andrew Scott argue in their research, is that this shortcut is "at best incomplete and at worst misleading." Here's why:

1. Health Varies Wildly: We all know people who are incredibly spry in their seventies or eighties, and others who face significant health challenges much earlier. The article highlights compelling data from the US and England: the healthiest 10% of 90-year-olds are often as physically capable as the average 50-year-old. That's a huge difference within the same age bracket! This rings true in New Zealand too, where we see a wide spectrum of health and activity among our older population.

2. Generations are Getting Healthier: It's not just about individual differences; our collective health is improving over time. In the UK, for instance, a 70-year-old woman in 2017 generally had a similar level of health as a 60-year-old woman back in 1981. If you're using "60" as your marker for declining health in the past, that same marker no longer applies to today's 60-year-olds, let alone 70-year-olds. New Zealand's life expectancy has been steadily rising; in 2023, life expectancy at birth was approximately 82.8 years, a significant increase from 73.09 years in 1980 (Macrotrends and Stats NZ). This continuous increase means people are living longer, healthier lives.

3. Working Lives Are Longer: The idea that everyone becomes "dependent" after 65 is increasingly outdated. Take the UK: the percentage of 65-year-olds still in employment has jumped significantly. New Zealand mirrors this trend, and in fact, has one of the highest rates of people aged 65+ still working among OECD countries. In 2020, the average retirement age in NZ had risen to 67, up from 61 in 2000, after the mandatory retirement age was eliminated. Around 25% of New Zealanders over 65 are currently active in the labour market, and for those aged 65-69, this figure rises to around 44% (Te Ara Ahunga Ora Retirement Commission and Infometrics). This trend fundamentally changes the notion of an "old-age dependency ratio" where over-65s are automatically classified as non-working.

A New Perspective on "Old"

If traditional age markers aren't cutting it, what's a better alternative? Researchers Warren Sanderson and Sergei Scherbov, pioneers in this field, offer an intriguing idea: defining the onset of "old age" not by how many years you've lived, but by how many years you realistically have left to live. Specifically, they propose defining "old" as the point when you have 15 years of life expectancy remaining.

Applying this "remaining life expectancy" lens paints a very different picture. In the UK, for example, while the number of people over 65 grew between 1981 and 2017, the number of people with less than 15 years of life expectancy actually fell. It makes those "scary statistics" look less like an inevitable burden and more like a manageable shift.

There's even talk of "biological age" – using metrics like blood proteins to determine a person's physical age, which could one day influence policies like state pension ages. While intriguing, the idea of two people the same chronological age but receiving pensions at different times due to biological differences highlights the complexities of such approaches.

Ultimately, there's no single perfect way to measure population aging. But the real takeaway from this discussion is that our definition of "old" isn't fixed in stone. It's far more flexible and dynamic than we often assume. By shifting our perspective beyond a simple number, we can start to see the challenges of an aging population not as an unavoidable destiny, but as an opportunity for innovative thinking and adaptable policies that truly reflect the diverse experiences and capabilities of older New Zealanders.

Harbour Navigator: Retirement village shares – Refreshed?

Shares in retirement village operators including Oceania Healthcare, Ryman Healthcare and Summerset have delivered diverse return outcomes for investors over the last year.

While Oceania and Summerset have outperformed the broad S&P/NZX50 share market benchmark index Ryman has underperformed as it has gone through a corporate and financial reset. After delivering great outcomes for residents and broader society through the challenges of COVID the retirement village sector has had to navigate a sharp increase in costs and slower residential property markets.

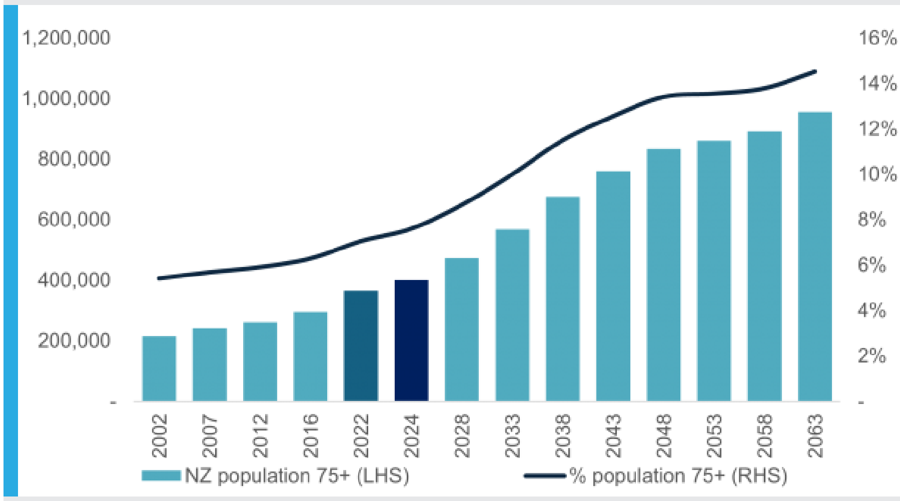
The cyclical slowdown in residential property activity has constrained industry cashflows and stretched balance sheets. However, following Ryman's recapitalisation is the listed retirement village industry refreshed? With demographic driven resident demand for retirement living units set to potentially outpace unit supply as the retirement village industry moderates new development and build rates to improve returns, and with debt levels across the listed industry back to more reasonable levels, the answer maybe yes.

Silver tsunami of demographic demand

Demographic driven demand is set to potentially underpin a step up in demand for retirement village living in New Zealand. Many New Zealanders consider retirement village living as they get to a later point of their retirement, often from the age of 75, when they begin to value the social and care benefits of living in a village.

Over the medium term a 'silver tsunami' of over 75-year-olds is building in New Zealand. Statistics NZ national population projections indicates that the number of New Zealanders aged 75 years or older will increase from just over 400,000 in 2024 to just under 570,000 in 2033 – a 40% plus increase over a 9-year period. Given new retirement villages can take 7 to 10 years to complete, the retirement industry needs to be building in advance of this increase in demand.

Figure 1: Growth in 75-year-old plus population accelerating



Source: *Stats NZ National Population projections, January 2021*

Industry research groups suggest that approximately 15% of 75+ year old New Zealanders currently live in retirement villages, and that on average 1.25 New Zealanders live in each retirement village unit, with 1.25 reflecting that many 75+ year olds live on their own. If we assume that a similar 15% of 75+ New Zealanders choose to live in a retirement village then the retirement village industry needs to build more than 20,000 new units over the next 9 years to meet this potential demographic driven demand.

No FOMO to FOMO?

Many New Zealanders thinking about moving to a village may think they don't have to rush – that there is currently plenty of retirement village unit supply and they can wait to sell their residential homes, with lower mortgage rates potentially supporting home prices – that there is no fear of missing out (FOMO). But that lack FOMO could turn to FOMO relatively quickly as the industry reduces new development supply and residential property markets stabilise.

In the near term, while demand for retirement living remains strong the ability of potential residents to move into villages is being constrained by a slow residential property market, with the sale of the family home often the key source of funding for a move. Concerns about the time it takes to sell the family home may be holding some potential residents back. A stabilisation in the New Zealand residential market including a reduction in the average days to sell a home may improve residents' ability to move into a village and the cashflows of retirement village operators.

The slower pace of retirement village unit purchase settlement payments (e.g. payment of cash) when combined with higher costs (including construction costs, operating costs and funding costs) has contributed to an increase in debt levels within retirement villages. Slower existing unit sales and higher debt levels has seen retirement villages operators slow new build rates, change the mix of development, and in Ryman's case raise new equity capital. Not-for-profit organisations continue to reduce the supply of existing retirement and aged care units.

In early 2025 international research firm CBRE estimated that the pipeline of development units proposed by the New Zealand retirement village sector was approximately 23,000 units. Since then, several listed and unlisted retirement village operators have cut their proposed development pipelines and reduced their annual build rates as they seek to improve returns and manage debt levels. As a result, the pipeline of potential development units maybe below the 20,000 plus units required to meet demographic demand out to 2033.

Ready to ride the wave

While the silver tsunami of demographic demand keeps building, the retirement village industry's new unit build rate has slowed. Potential residents lack of FOMO could turn into FOMO in a relatively short period of time, supporting returns for those retirement village operators that are positioned to meet the strong underlying demand. As a result, shares in retirement village operators may be refreshed and ready to ride the 'silver tsunami' again.

Shane Solly | Posted on Mar 31, 2025

Accept risk as the down payment for getting something good

OPINION: Even when years away from retirement, seeing volatility in your KiwiSaver can be hard to deal with. It can be the cause of lost sleep, it can also encourage people to do something, anything, to de-risk their investment.

Market risk refers to the possibility of financial loss due to fluctuations in market conditions. For example, a company could appoint a contentious CEO, media might cover this unfavourably, people decide to sell their stock in that company, the value of the stock drops. This is currently a widespread reaction to tariffs and economic uncertainty, which is leading to caution and even fear for stock market investors.

Yet when we focus on the here and now, things always seem much worse. If we were to only focus on the markets immediately after President Trump's initial tariff announcement, we would see US shares down 10% over April 3 and 4. If we widened the focus to a week, we'd see them bounce back by close to 10% on April 9. If we zoomed out over multiple years, we would see recent moves as just something markets do from time to time.

US markets and dollar sink as confidence in economy unravels.

This reminds me of Avion Grey's advice about risk. Grey is the co-founder and CEO of the UK fintech called Belong, a company that provides loans to people who want to start investing now (to get the long-term benefits) but who don't have the initial capital.

Grey talks about the risk related to investing as the admission fee to the party. Without it, you cannot get in. She reminds people that risk and reward are things we experience daily. When you're in bed, too tired to get up, and you hit the 'snooze' button one more time, you're risking being late for the reward of being more rested. You're hoping you'll get green lights all the way there, that traffic will be light, and that public transport is on time.

Risk is inherent in living and often the down payment for getting something good.

The current market conditions are reminding us that there's no such thing as smooth sailing when it comes to investing; or life, for that matter.

In fact, the Stoics, ancient philosophers, felt sorry for people with stable lives, because dealing with setbacks and obstacles is where you develop character. They understood that there's no avoiding setbacks, so learning the skills and mindset for dealing with them is the best approach.

What does dealing with setbacks during market volatility look like? Accepting the price of admission (that you don't get something from nothing), making sure you're in the right fund type for you (deal with the things you can control) and being patient (this too shall pass).

What evidence do we have that it will pass? Well, market swings in February and March 2020 responding to the Covid-19 disruption are a powerful example. The US market fell over 30%, yet within six months it had regained its previous highs.

It was a similar pattern, although played out over a longer period, for the 1999 dot-com crash and the Global Financial Crisis. I was working on the trading floor of an investment bank through each. These were particularly unpredictable and stressful times, often verging on chaotic. The point is not the volatility, but the fact that markets recovered from these stormy and uncharted waters.

A whole generation of Kiwi investors were put off buying shares by the 1987 market crash. The share market rout in New Zealand was brutal, but the US market recovered all lost ground within two years.

It is a truism that every generation thinks theirs is the pinnacle – of good, bad, hard, you name it. The fear that this time markets will fail and stay down would have been felt during every previous downturn and yet, they didn't. They went back up.

As a KiwiSaver investor, we need to accept that risk is the entry ticket for the allure of better long-term investment returns. We can't avoid this risk, and we can't avoid the market's ups and downs that flow from Trump introducing, doubling and backtracking on tariffs.

Back to Grey and her thoughts on building wealth. She says "you need two things: you need time and money because you need the money to compound over time". The 'money' is your KiwiSaver balance and the 'time' means staying invested with your strategy, despite the ups and downs.

Originally published in thepost.co.nz
John Berry, CEO Pathfinder Asset Management
April 23, 2025

Budget 2025

The main headline from the 2025 Budget, at least in financial advice circles, has been about the changes to KiwiSaver. There have been adjustments to employment contribution levels, eligibility ages, and the government contribution.

Minimum contributions for employees and employers will increase from 3% to 4%. This will be done in steps, first rising to 3.5% from April 2026 and to 4% from April 2028. Employees will have the option to stick with 3%, but this means their employer can stick with 3% too.

16- and 17-year-olds will be eligible for the government contribution from July and employment contributions from April 2026. This is great encouragement for younger members.

The government contribution will be cut from 50c in the $1 to 25c from July 2025. So this June is the last year qualifying members will get $521.43 from the Government. Next year if you save $1,042.86 into your KiwiSaver account the Government will contribute $260.72. If you earn more than $180,000 p.a. you will not be eligible for any Government contribution at all.

So, what does it mean? Obviously that will depend on your situation. Generally speaking there is now a really good reason to enrol 16 and 17 year olds into the scheme. If you're a higher wage earner, you'll grow your investment from your salary contributions, but the government carrot is gone. If you're on a tight budget, you'll need to consider carefully about opting out of the 4% contribution.

Regardless, it's imperative to make sure you're in the right fund to achieve your retirement goals. A review with your financial adviser might be in order.

Another budget item which may be more important than people realise, is extra funding for Statistics NZ. Not all the details are out yet, but there is a separate $16 million line item set aside to fund a monthly Consumer Price Index – which is how we measure inflation. Currently this is only reported quarterly, which makes it very difficult for the Reserve Bank to truly know where inflation is heading and make the right policy moves. This change will finally see NZ in line with international standards. Whether the Reserve Bank will make different decisions with more accurate data remains to be seen. The more frequent reporting is not expected until 2027.

Cognitive Dissonance: Why People Won't Change Their Mind

On December 17, 1954, The Chicago Tribune ran the following headline: *DOCTOR WARNS OF DISASTERS IN WORLD TUESDAY*

The paper interviewed Dr. Charles Laughead at the home of Dorothy Martin. Dr. Laughead informed the paper that Martin received communications "from outer space."

He told reporters these communications from outer space revealed to Martin that the world would be ravaged by a great flood that would end practically all life on earth, save for the small group of people who were stationed at Martin's home.

Martin convinced her supporters that superior beings from a planet called Clarion sent her messages promising they would save her followers if they would only become true believers.

Dr. Laughead further explained, "*There will be a tidal wave, a volcanic action, and a rise in the ground extending from Hudson's Bay [in Canada] to the Gulf of Mexico which will seriously affect the centre of the United States. There will be much loss of life, practically all of it, in 1955. It is an actual fact that the world is a mess. But the Supreme Being is going to clean house by sinking all of the land masses as we know them now and raising the land masses now under sea.*"

Laughhead claimed Martin had received intel from the "Supreme Being" which told her they would be sending a spacecraft to save her group from this cataclysmic event.

The newspaper didn't put much faith in these prophecies as they only ran a short story on page 3 of the paper that day but Martin's followers were certainly true believers in her word. She informed her disciples that as long as they followed her teachings they would be spared.

This group of roughly 30 people was so committed to the cause they sold all of their possessions, quit their jobs or stopped going to school in preparation.

One person admitted, "*I have to believe the flood is coming on the 21st because I've spent nearly all my money. I quit my job, I quit school, and my apartment costs me $100 a month. I have to believe.*"

After completely upending their lives for their prophet, they had no choice but to believe they would be picked up by a flying saucer.

As the group sat outside of Martin's home on Christmas Eve, they sang carols and waited with anticipation for the coming of their saviours. Unfortunately, this was the fourth time the group had been told to stand outside waiting to hitch a ride on the interstellar highway. Each time they waited with bated breath, but their spaceship never arrived.

And each time they didn't show, Martin informed her followers of a message that had been relayed from the aliens as a reason for their tardiness. There was always a good excuse, so they convinced themselves each time it didn't happen it must have been a practice session.

According to Martin, the aliens told her the final pick-up time before the end of the world was midnight on Christmas Eve. So, they stood on her front lawn and waited. And waited and waited and nothing happened.

After the aliens failed to show, the group sat motionless in her living room. They were all confused, trying their hardest to come up with reasons for the no-show by their alien brethren. After being at a loss for words, Martin finally garnered up the energy to talk to her believers.

As luck would have it, the group had spread so much light that God had saved the world from destruction. Martin told them there was no longer a need to exit stage left for Clarion in a UFO.

A few short hours after their failed predictions, Dr. Laughead said the following:

> I've had to go a long way. I've given up just about everything. I've cut every tie. I've burned every bridge. I've turned my back on the world. I can't afford to doubt. I have to believe. And there isn't any other truth.

There was no soul-searching for what went wrong for the simple reason that these people were far too invested in the outcome.

The members could have chosen to look themselves in the mirror and realize their end of the world prediction was ridiculous but that would have required admitting all of the outlandish actions they took and beliefs they held leading up to that point were false.

When faced with the prospect of admitting you're wrong or looking for a better explanation, most people get busy looking for an explanation.

The concept of cognitive dissonance was developed by psychologist Leon Festinger in the 1950s. It arises when a person holds two different beliefs that are inconsistent with one another. The theory is that when this happens it causes our minds discomfort which we then seek to reduce. Whenever this inconsistency in our attitudes, ideas or opinions kicks in our default is to eliminate that dissonance.

Humans have evolved over time to avoid discomfort, so when we encounter issues that we disagree with it's much easier to give ourselves a mental break to avoid an internal conflict.

In Festinger's original experiment he asked participants to perform a series of boring tasks for an hour. Once those tasks were completed these people were supposed to tell another waiting subject that what they were doing was all very exciting to entice them to do the same. They were then paid either $1 or $20 for this acting performance.

The researchers found that those who were only paid $1 actually rated their experience performing a dull task as being more enjoyable than the people who were paid $20. The $1 group talked themselves into it being enjoyable to reconcile internally with the fact that they wasted time, earned very little and lied to others about it. This dissonance was only overcome by the false belief that what they did was more enjoyable than it actually was while the people who were paid $20 were able to recognize they were simply doing it for the money.

Basically, cognitive dissonance leads to self-delusion.

Most psychology experiments are conducted in a laboratory or classroom, but Festinger speaks from experience.

He and a team of researchers at the University of Minnesota heard about Martin and her followers and decided it would be the perfect situation for a real world study. They earned her confidence in fall of 1954 and were able to infiltrate the house to observe their actions and words.

The researchers not only witnessed this group leading up to their end of the world prediction but in the aftermath of the failed prediction as well. Their research findings were documented in the groundbreaking book When Prophecy Fails.

A person with conviction is nearly impossible to reason with, even when presenting them with facts to the contrary. Festinger wrote:

> Suppose an individual believes something with his whole heart; suppose further that he has a commitment to this belief, that he has taken irrevocable actions because of it; finally, suppose that he is presented with evidence, unequivocal and undeniable evidence, that his belief is wrong: what will happen? The individual will frequently emerge, not only unshaken, but even more convinced of the truth of his beliefs than ever before. Indeed, he may even show a new fervour about convincing and converting other people to his view.

Think about all of the conspiracy theories people now hold because of what they've been told on social media or other places on the Internet. Do you think these people will learn from their mistakes when it becomes abundantly clear they've been misled?

In a rational world they would but we do not live in a rational world.

People latch onto arguments that support what they already believe and ignore even plausible evidence to the contrary.

This is why an abundance of information like we have at our disposal today doesn't necessarily change people's minds. There is so much data, analysis, opinions, and information available that you can spin almost any argument in your favour if you so choose.

The outcome is almost beside the point in most cases since your brain is already convinced you're right, regardless of the evidence to the contrary.

Your brain would rather win an argument than get to the bottom of the issue at hand.

If those same aliens were to land on earth today, I wonder what they would think about the fact that we earthlings have access to the sum of all human knowledge in the palm of our hands and yet a large percentage of the population still believes in conspiracy theories.

Maybe that's why they never showed.

This piece was adapted from Ben Carlson's Book, Don't Fall For It: A Short History of Financial Scams.
Originally posted on https://awealthofcommonsense.com/
Posted March 18, 2025 by Ben Carlson

An Unexpected Package

New scams are emerging all the time. Below is a new one doing the rounds in the USA – chances are it won't be long before it makes its way here.

An unexpected package from an unknown sender arrives in your name. You open it and find a note that says it's a gift, but it doesn't say who sent it. The note also says to scan a QR code to find out who sent it – or to get instructions on how to return it. Did someone really send you a gift? Or is it an attempt to steal your personal information?

If you know it's really a gift, you can keep it. But know that the unexpected package could be a new twist on a brushing scam that could steal your personal information. (a brushing scam is when sellers send out packages to individuals without their knowledge or consent and then create positive reviews on the product in the individual's name)

If you scan the QR code, it could take you to a phishing website that steals your personal information, like credit card numbers or usernames and passwords. It could also download malware onto your phone and give hackers access to your device.

If you scanned the QR code and entered your credentials, like your username and password, into a website, change your password right away. Create a strong password that is hard to guess and turn on two-factor authentication.

If you think you have been a victim you can request a copy of your own credit report and seek help at https://www.govt.nz/browse/consumer-rights-and-complaints/ .

To protect your personal information be sure to regularly update your computer and phone software. Those regular software updates always contain the latest security upgrades.

Stay vigilant!

Originally by Alvaro Puig, Consumer Education Specialist, FTC (USA) Edited for NZ audience

Milestone Southern visit to the Christ Church Cathedral

Recently, the Milestone Southern team were invited to visit the stalled reinstatement project for the iconic Christ Church Cathedral, where we were shown around by Project Manager – Reinstatement, Carolyne Grant. Some of the Milestone staff and partners were working in the Square when the earthquake hit and even witnessed the collapse of the spire. This was the first time any of the staff had been inside the Cathedral since it was destroyed in the 2011 earthquake.

While funding challenges brought the formal reinstatement to a halt in 2024, essential stabilisation work has progressed to a point where carefully managed visits are now possible (hence the hard hats and hi-viz gear). The Cathedral is now being used for concerts, exhibitions and other events while a decision is pending on its long-term future.

If you're interested in learning more head to https://christchurchcathedral.org.nz/

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Our services include:
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We kick off with an obligation free chat to learn more about them and their goals.

If you know someone who could benefit from our services, get in touch with us:
milestone.co.nz/contact/

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