NZQA Assessment Support Material

Unit standard	28101				
Title	Create a long term personal financial investment portfolio				
Level	3	**Credits**	4	**Version**	3

Note

The following guidelines are supplied to enable assessors to carry out valid and consistent assessment using this internal assessment resource.

Assessors must manage authenticity for any assessment from a public source, because students may have access to the assessment schedule or student exemplar material. Use of this assessment resource without modification may mean that students' work is not authentic. The assessor will need to change figures, measurements or data sources or set a different context or topic.

While this ASM lends itself to written assessments, there are other activities and approaches that could be taken.

See Generic Resources and Guidelines at https://www.nzqa.govt.nz/providers-partners/assessment-and-moderation-of-standards/assessment-of-standards/generic-resources/.

Assessor guidelines

Assessors need to be very familiar with the outcome being assessed by the unit standard. The evidence requirements and the explanatory notes contain information, definitions and requirements that are crucial when interpreting the standard and assessing learners against it.

Over the weeks prior to this assessment, learners should have had sufficient teaching and learning opportunities to be familiar with the following:

- Financial investment planning process (including initial personal financial assessment, setting investment goals, risk profiling, diversification, asset protection planning, projections for future returns, sources of advice).
- Personal financial investment options.
- Long-term personal financial investment portfolios in relation to individual investment profiles.

AWARD OF CREDIT

To be awarded credit for this unit standard, learners must use an investor profile and the planning process to create a long-term personal financial investment portfolio.

CONDITIONS OF ASSESSMENT

The assessment is a **research activity** that will take place over a timeframe set by the assessor. Learners can use any information to help them complete the tasks.

Assessment activity

This assessment activity has one task. The learners are provided with a scenario they can use as a basis to create a long-term investment portfolio. However, learners could be encouraged to use their own, their family's, or a friend's circumstances where practicable.

Resources

Resources that may help with this are:

- Mary Holm, KiwiSaver Basics – http://www.maryholm.com/kiwisaverbasics.php.
- KiwiSaver – http://www.kiwisaver.govt.nz/.
- Commission for Financial Capability – http://www.cffc.org.nz/.
- Financial Services Council of New Zealand - http://fsc.org.nz/.
- Inland Revenue – http://www.ird.govt.nz/.
- Sorted: Your Independent Money Guide – https://www.sorted.org.nz/.

Assessment Schedule

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Task	Evidence/Judgements for achievement

ER 1.1	Learner creates an accurate financial assessment using the information in the scenario, and assumptions where necessary.
	The learner:
	- Makes an accurate initial personal financial assessment for the investor in the scenario.
	- Sets realistic investment goals for the scenario *(Learners can use tools such as the Sorted Retirement Planner and Mortgage Repayment Planner).*
	- Creates a realistic risk profile for the scenario, giving reasons to support decisions (*Learners can use tools such as the Sorted Investment Planner to do this).*
	- Identifies appropriate investment and savings options that:
	  ▪ Include diversification (varying the types of investment to spread the risk).
	  ▪ Provide protection for assets where possible (e.g. insurance, wills, trusts etc).
	  ▪ Demonstrate realistic projections for future return in relation to how the investment portfolio may perform based on current trends *(Learners can use tools such as the Online Interest Rate Return Calculator and inflation calculators on www.rbnz.govt.nz*
	- Identifies at least two appropriate sources of advice for the investor in the scenario.
	
	Refer to sample answers.

Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the unit standard.

Scenario

> You may need to make some assumptions about the people in the scenario to complete the task – make sure these are realistic and make sure you document them in your assignment

Donna and Hone are in their mid-thirties with two children (Kelly – 12, Alex – 10). Hone is a butcher and Donna works a few nights a week as a taxi driver so that she can be at home with the children the rest of the time.

Donna and Hone have a balanced budget. They have $50 going into an emergency fund each week. This currently has $1500 in it. They haven't managed to amass any other savings.

They owe $75,000 on their mortgage and mortgage payments are $240 a week. The current market value of their house is $380,000.

Hone's mother, who had been living in Australia, died suddenly about 5 months ago. She didn't have a partner so the inheritance was split between Hone and his two sisters. They have sold the house in Australia and, with everything settled, Hone inherited $90,000.

Donna and Hone have not joined KiwiSaver.

Tasks

1. Create a long-term personal financial investment portfolio for a period of thirty years for the scenario on the previous page.

   Your portfolio must include:

   a. An initial personal financial assessment

   b. Investment goals

   c. A risk profile

   d. Sources of advice

   e. Savings and investment options which:

   - Include diversification
   - Provide protection for assets where possible
   - Demonstrate realistic projections for future returns in relation to how the investment portfolio may perform based on current trends

Hint - Break down savings and investment options for (e) into logical blocks of time to cover the thirty (30) year period!

a. Provide an initial financial assessment
Donna and Hone's financial position: Assets: - House: $350,000 - Cash from inheritance: $90,000 - Emergency fund: $1,500 Debts: Mortgage: $75,000

b. Set investment goals

Donna and Hone want an annual income, which is equivalent to their current income, inflation adjusted, when they retire in 30 years' time.

They plan for this to be made up from the unearned income from their investments, some capital from their cashed-up investments and national superannuation.

c. Risk profile

Donna and Hone are medium-risk investors because:

- they are relatively young and interested in the long-term return
- their jobs are relatively secure
- they have sufficient income from their salaries to pay their expenses
- their assets are greater than their debt.

However:

- they have financially dependent children
- they still have a sizeable mortgage
- they are cautious by nature
- they wish to diversify after reading about investments going wrong.

Overall, they are medium-risk investors.

d. Sources of advice

What types of professional advice should Donna and Hone seek and where can they go for this?

Donna and Hone should talk to a registered financial planner about their plan.

They could expect an annual report from a financial adviser, if they decide to invest indirectly.

They can also consult with a lawyer to….

An accountant can advise them on…..

They can use a mortgage broker to ensure they have the best mortgage possible for their circumstances.

Insurance specialists can give advice on protecting their assets.

e. Investment and savings options and diversification
Present investment and savings options in logical blocks of time (eg 1-5, 5-10, 10-30 years). You must include projections for future return, diversification, and asset protection.

A good range of investments for Donna and Hone would be:

Years one – five:

- Hone and Donna should both join KiwiSaver immediately and contribute at least 3%, depending on their weekly budget. The more they can contribute, the better off they'll be when they retire. KiwiSaver is a long-term retirement saving option with contributions made by employers and the government. The savings cannot be withdrawn until the investor reaches 65 years, except under special circumstances. Hone and Donna do not need to withdraw the savings to contribute to a mortgage as they already have their house and the mortgage payments are manageable. KiwiSaver contributions increase faster, the longer the contributions remain in the chosen fund. Hone and Donna should invest in a fund which is either a balanced or growth fund.
- Pay off the whole mortgage with the inheritance money as soon as possible. This will free up their mortgage repayments of $240 a week, for further investments. There will also be $15,000 left over from the inheritance money to start investing for retirement.
- Put $7,500 in a term deposit.
- Put $7,500 in a medium-risk managed fund with around 50% in shares and property.
- Keep the $1,500 in a general savings account, still earning interest but available for emergencies.
- Set up appropriate forms of asset protection. For example, to protect their assets, Donna and Hone should have:
    - House and contents insurance, life insurance
    - Car insurance (assuming they own a car)
    - A Will each

Years five – ten:

- Maintain investment in KiwiSaver
- Use the savings in the term deposit to increase the amount invested in the managed fund or
- As soon as the money in the term deposit is sufficient for a deposit on a second property, purchase a rental property. Complete calculations to ensure that the property is financially viable.

- Continue saving at current rate as a minimum but increase savings amount, if possible, as income increases.
- Place savings into a call account and transfer to a term deposit to increase interest.
- Monitor and review, at least, yearly.
- Put in place Enduring Powers of Attorney in case either suffers a major health issue.

Years ten – thirty: building on the pattern and maintaining diversification:

- Maintain and continue investment in KiwiSaver
- Monitor and review investment progress.
- Maintain a diversified balance between purchases of shares in an indexed fund, purchase of individual shares, units in a property managed fund or individually owned property and bonds.
- Keep the sum of six months' salary in a term deposit as an emergency, in case of redundancy or inability to work.