Retirement out of beekeeping. Optimising the sale and investing for your future with minimal risk and maximum returns

by David Penrose

The famous American playwright, Tennessee Williams, wrote "It's bad enough to be poor when you are young, but to be poor when you are old is a disaster".

I hope that over the next 30 minutes I can stimulate some thought, make some suggestions, and perhaps answer some questions about this business of retirement as it affects us as beekeepers.

Before I begin I will define what I understand the word "RETIREMENT" to mean. I believe that it means that period at the end of one's working life when full-time employment is no longer necessary to sustain the lifestyle to which you have become to expect during your working years. In short, a time in your life when your financial demands are met by income without extra work on your part.

Being a beekeeper is a special occupation. You work continually with nature — endeavouring to maximise the blessings and minimise the disasters. If a beekeeper, after 30 years in the job tells you he has never really had a disaster, then he must be unique. The very spice of beekeeping is probably that unknown factor that keeps us all going. That factor that makes us philosophically say "next year" after a bad season. However it is of no use at all after working for all those years as a beekeeper if at the end of it you cannot enjoy at least some leisure in your latter years — you will have surely earnt it!

In a perfect world, planning for retirement should begin on the same day that you decide to become a commercial apiarist. In fact this probably never happens. I know that it didn't happen in my case. I was young, enthusiastic, ambitious and, at that point in time, I believed indestructible. In fact things that happened later in life proved that I certainly was not the latter! I think some things could have been easier if I had realised that I was eventually going to leave beekeeping and would need a considerable sum of money to support my wife and family in my retirement. In my early days the pushy life assurance man was my only tangible link with retirement. He made noises about leaving the "little woman" and the "wee ones" destitute.

The one thing that did make some sense was the fact that in those days much of the life premiums were tax deductible, and so together with the compulsory savings aspect I did take out what I considered, at the time, to be reasonably large whole of life policy.

What a joke, when 15 years later I decided to convert the policy from whole of life to endowment! By that stage inflation had so reduced the value of the policy that it would hardly buy a new car let alone support a family if anything terminal had happened to me. I must hasten to add, however, that from what I have heard from people in the industry, some of the cover offered today is much more focused and probably should be considered in any complete portfolio of investment.

Looking back I personally had an easy start in beekeeping. My father had really done most of the hard work in building up a successful beekeeping and honey packing business. I was able to build on this, and so my challenge was to expand on this base and in fact that is what happened. For the next 15 years I built the hive numbers up from 600 to 2400 and when I sold the honey packing operation to what was then the Honey Marketing Authority I was packing over 200 tons a year.

At this point in my career when I bought my father's business I came up against retirement for the first time. When my father decided to sell to me he planned his retirement carefully. He had purchased another home in the city some years before, and he had began to put some money aside as well. Because death duties were a major concern in those days he made sure that he predetermined his assets by selling to me on paper. This meant that I only had to find the interest each year, and this gave him a continuing income. It also meant that I had access to capital for expansion because he had left most of it in the business. By getting bigger it meant that I was more able to find the surplus money to finally pay this capital off.

Again, in my case, I decided at the age of 40 that it was going to be difficult to remain in active beekeeping because my lower back was causing me major problems. Also because honey production on the Canterbury Plains was becoming more difficult with the changing farming patterns, and the costs to produce this honey was beginning to rise out of proportion to the returns being obtained I decided to sell the business and shift to Christchurch. I did not consider that one of my sons should follow me by buying into the outfit, but rather that I would sell out and then eventually be able to help them all with access to capital to give them the same sort of a start that I had had, but in the career of their choice.

The year that I made the decision to sell had been a good one for production. This personally put me in a strong cash position which made it easier to arrange a sale. Probably one of the most important factors in exiting any business is timing. It would be most unwise to endeavour to sell out immediately following a bad season for two reasons. Firstly, potential purchases are mentally not in the right frame of mind as they would be following a good crop, and secondly the money supply is not as readily available. Time taken to plan leaving the industry is time well spent. Plan carefully how you are going to sell your final crop of honey and beeswax. For example, it has been known that quite substantial stocks of beeswax can be spread quite thinly over a few years, and so ease the immediate tax liability. This may not meet the IRD's letter of the law but don't forget that the year following your sale you will not have your normal expenses to offset against your previous year's crop and so your tax liability could be quite horrendous. Make sure that you seek expert advice in this area, it could make a huge difference to what you have left for your retirement investment.

When it comes to the physical part of selling, most beekeeping businesses have to be split up to make a sale. Unless a potential buyer can be found, such as family or a long-term staff member who can be relied upon to protect your asset until it is paid off, then you will have no alternative to splitting it up, usually amongst neighbouring beekeepers. This process is normally fairly straight forward, but I must stress the need for a basic agreement of sale. I have, over the years, been asked to help in drawing up these contracts, and I believe that this is an area where perhaps the National Association could have a standard form which could be made available to members and they could use this as a starting point for a negotiated sale. Usually in these situations the buyer will need to split payments over a reasonable term. The term will vary of course but normally it is over three years. The purchase price is divided into three and the first payment is one third of the total on possession, the balance bearing interest at current rates, the total of which reduces as the subsequent payments are made. There are also clauses which spell out precisely what is being purchased and what happens in the case of disease occurring, in the year following the sale. Also it must be clear that nothing may be sold until it has been paid for in full. Because most lending institutions are not happy to take out a-chattel security over beehives, most purchasers who do not have the cash must use this method of buying bees.

Because a lot of beekeepers, who live in rural locations, have built their homes adjacent to their sheds, when the time comes to sell they may find that they have some problems. Because of the amount of money involved in purchasing beehives and other related equipment, there is usually not enough left to also buy the house and sheds, so they may have to be sold separately if the vendor plans to move away from the area. When this happens the house can usually be sold for its market value but the sheds may have to be heavily discounted on their replacement value. An alternative to this is to lease your otherwise low value sheds to one of the incoming beekeepers, who may see an opportunity to do some contract extracting to offset his rental. This could be a very attractive option when compared to the alternatives.

Having made the decision to consider retirement as the end goal of your career in beekeeping, I would now like to become more specific and begin to discuss some of the ways in which this retirement can be achieved and still produce the standard of life which you have grown used to in your working years.

I must first make some comments so that what I will go onto say has relevance to today's costs and dollar values. This address is being given in July 1995, so what I say is relevant to today but because we will be discussing future income the figures used should relate to their purchasing power today and make sure that all investments have a built in inflation factor if possible.

What do you want for your retirement? You will want to own your own home and on today's costs this will probably be worth around $250,000. You will need at least one car more probably two, this would cost about $60,000. Being a Kiwi you will have a boat and maybe a holiday crib or caravan, cost of this around another $100,000. On top of this you will need to have an annual income of at least $50,000 before tax. To generate this kind of money you are going to require an investment of about $500,000. The total of these figures up to now is around $900,000 and I can see that by now, some of you are beginning to say — impossible!! But in fact with good forward planning it is not beyond most of you.

You must begin by identifying your needs and then putting in place those things which will allow you to achieve them. In the first instance make sure you are in an area that is not usually affected by drought, or if it is then irrigation is available. This irrigation is not necessarily the complete answer but at least it gives you a fighting chance! I know that these may sound like fairly dumb comments but when you realise that honey is only soil moisture which the bees gather by way of a flower then it stands to reason that if you are in an area which has a normally consistent rainfall of around 35 inches per year you stand a reasonable chance of getting good honey crops from pasture sources. If you can then maximise your returns by producing high value product such as quality comb honey or at the present time at least, manuka, or one of the other honeys which can find a ready niche market then you are well on the way to working "smarter" but not necessarily "harder". You must also determine at the outset the minimum number of hives that you must have to generate the kind of income that you will need to be able to save for your retirement income. This will involve obtaining the best local production advice you can get and then aiming to achieve that target number of hives as quickly as possible.

Once you are in business with say 1000 hives which you have purchased partly from your own savings and the rest from either family or vendor finance, then the first five years should be spent making your plant and hives freehold. Make sure of the assistance and advice that the Rural Bank can offer and make sure that you have the help of a good business advisor if for no other reason than to bounce ideas off.

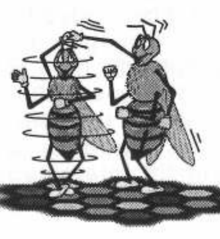
I have always held the belief that investment for retirement should be based on ensuring that your CAPITAL sum is SAFE and that the returns are in line with about an eight to ten percent return over and above inflation. This means that your asset is making you a constant real gain.

With this philosophy in mind, after your production base is paid off, you should then begin to put aside say $250 per month into an investment account. Make this an auto payment and try not to touch it for two years.

This article was presented as an address to Conference and will be continued in the September issue of the *New Zealand Bee Keeper.*

Thank you David for a timely and informative reminder to us all...

Ed.



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This is the continuation of the article published in the August issue of the *New Zealand Bee Keeper.*

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After this time you will have saved $6000 and this would buy you a share in a long term forestry investment. I am assuming that you began your commercial operation at around 28 years of age so by now you are around 35 and the forestry investment would be targeted at maturing at about age 60. These forestry share investments are managed by competent people who usually have some of their own money invested as well, and insurance is there to cover fire. The $6000 investment based on today's prices for clears would yield $69,000 if no price increases occurred. However clear log prices have tended to rise over the last 40 years at about 4% per year so a fair projection would be that a net yield of $220,000 on today's values. Perhaps you may even consider a couple of these units as a long-term investment, and one which is readily convertible should the need arise.

If you continue with your compulsory saving scheme at about the age of 40 you will have a further $15,000 to invest. At this stage in your career you would be well advised to look at investing in real estate outside of your business. I know that many investors, when they first begin to become involved in property investment, think that they will buy a house and rent it out. I did just that. However you quickly realise that you have become involved in something which is far from straight forward. Firstly you have to find suitable tenants who will be able to pay a rent which is going to show a suitable return on your invested capital, and probably more importantly, continue to pay it week after week! Will they take care of your property? Or will you have to spend a lot of your time on repairs and maintenance? Then comes the Tenancy Tribunal.

This is the body which tells you that despite the fact that your tenants are three weeks behind with the rent and that they have broken several windows, and driven over the shrubs in the garden that you must give them 90 days notice to vacate. On the other hand they only need to give you 14 days! Renting out private housing is not one of my recommendations as a good retirement investment, especially when you take into account that out of the gross rental you, the landlord, are responsible for all rates, insurance and interior and exterior maintenance. In some cases, if conditions and the location is right then it is possible to make quite good capital gains, which are tax free, but be aware of the work and costs involved. These capital gains, however, can make reasonably good sense if you are prepared to put up with the hassles and only put in the bare minimum of capital, so long as a 90% occupancy house can cover all your outgoings.

One of the most hassle free property investments is industrial or commercial real estate. The tenant pays all outgoings excluding exterior maintenance, and because you are not dealing with a family situation or the Tenancy Tribunal, if they don't perform — they are out! Your lease agreement protects your interests. Bob Jones, a man whose light has dimmed of latter years, but who was nevertheless, a very astute buyer of property, always made the point that the only three things essential to a good property investment were location, location, location. I know that probably all of you have heard of that criteria for property investment before, but always remember it. Especially when you are being shown that "real steal" by the slick sales person trying to flick off that block of shops which are now so peaceful — following the rerouting of the main road around your local town! Always do your homework on property that is for sale. Why is it on the market? Is the area about to be re-zoned by the council? It that industrial area

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going to be split down the middle by a new motorway? How good is the current lease? Is the tenant about to be taken over or put out of business by the huge new development to be built down the road? Do the premises compare favourably with what else is being offered at a similar price in the neighbourhood?

If you do decide to become involved in this type of investment make sure that you have a watertight lease drawn up to protect your interests. You can never be certain that your tenant won't "fall over", but try to get some form of personal guarantee from him and always have rents paid automatically into your bank account. Normally you arrange for these payments to be made around five working days before you receive your statement so that you know immediately if a payment has not been made. If a payment has missed, check it out by phone right away, it may be a simple error — or it could be an early warning sign that your tenant is having some cash flow problems. Make sure also that your agreement to lease has a distraint clause in place. This gives you the right, after a stated time, to move in and remove goods to the value of rent owing or lock the doors with a separate lock to prevent a tenant from carrying on his tenancy. Check these points with your lawyer, he should be aware of all the clauses that you will need to ensure that your investment is protected. Another point to consider is the physical size of your commercial investment. I have found consistently over the years that it is always much easier to lease two smaller units than one big one. The rental received from a commercial property determines it's value, so if you are contemplating this type of investment keep in touch with the market and look for properties that may be currently undervalued for the area. By being aware of what the market can stand you may well buy a property which has room for a rent increase and so pick up an immediate capital gain. Finally, in the area of industrial or commercial investment, don't rush into signing up the first person that answers your ad to lease. Ask some pertinent questions and satisfy yourself that the prospective tenant will be what you want. There are a lot of cowboys out there.

I want to move on now to other forms of investment which may be of interest to the older beekeeper who is closer to the age of actual retirement and has some cash in the bank which he wants to invest on what I would call medium term at maximum returns. I go back to my initial investment criteria. Any investment made with money which you cannot afford to lose (and this is another area which I will touch on in a moment) must be made so that your capital is guaranteed and you will receive at least a fair rate of return on that capital. This brings up the question of what is a good rate of return on investment?

Many people are happy to get eight or nine percent on their money these days, but if you analyse your net on this after inflation, even at 2%, and then income tax, your net returns won't take you to the Gold Coast or Fiji very often! What you need to be looking for are returns which are both tax free and guaranteed.

Recently a company has set up in New Zealand called Wealth Investments. It is promoting a concept of buying up surrendered life policies with around five years to run. They show around 8% to 10% tax free after the five years, plus your capital is guaranteed by the insurance company that issued the policies. Another big plus is that because they are tax paid in your hands they are not assessed for the calculation of surtax, and this could possibly increase their potential earning yield up to 14% or more. For these reasons this type of investment could prove a useful tool to be used when you are approaching your retirement years. The tax department have ruled that the system is OK by them, and if you want to learn more about it I have some brochures which will be available after my address.

I mentioned earlier that if you have some money which you are prepared to have a bit of a flutter with, then don't overlook the share market. It can be risky, but with good advice and continual surveillance, the returns can be very good. Over the past 20 years the share market has shown the best after tax returns of any of the other types of investment which I have mentioned, but don't forget 1987. Always remember Isaac Newton's discovery, "That which goes up can also come down", so don't be greedy, watch the trends, use a recommended share advisor and maybe add some good shares to your portfolio of investments. Would it be a fair question to ask how many of you bought Warehouse stock when it was floated? If you have I am green with envy!

Well I have tried in the time available to cover the topic of planned retirement from beekeeping and touch on some of the possible investment options open to you. I hope that I have stimulated some thought, tossed in some options and may possibly have helped some of you by drawing on a few of my own experiences. I have enjoyed the opportunity to address you and I look forward over the next few days to renewing many old friendships and hopefully making some new ones.

Library News

Another aid in our battle against bee diseases:

HONEY BEE DISEASES EDUCATION KIT

Some 25 laser copies of the best photos available. The 20 x 30 cm enlargements are beautiful clear images of a number of endemic and some exotic diseases and pests we all should be able to recognize. This kit should be of great value for branches or clubs which plan to hold a disease education session or to the individual beekeeper. Each print is mounted on ivory board and laminated.

Clearly printed description and a direction for the user as to sequence of display for gaining the maximum benefit.

Good things hardly ever come cheap, neither did this lot. The loan fee has to be $5 but postage no more than $1.60 using 2 large envelopes.

Make use of it, you won' t be disappointed.

EXECUTIVE MEETING MINUTES and other material as sent to Branch Secretaries are now also filed with this library and thus available to any interested person.