MEMBER INFORMATION

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RETIREMENT PLANNING GUIDE

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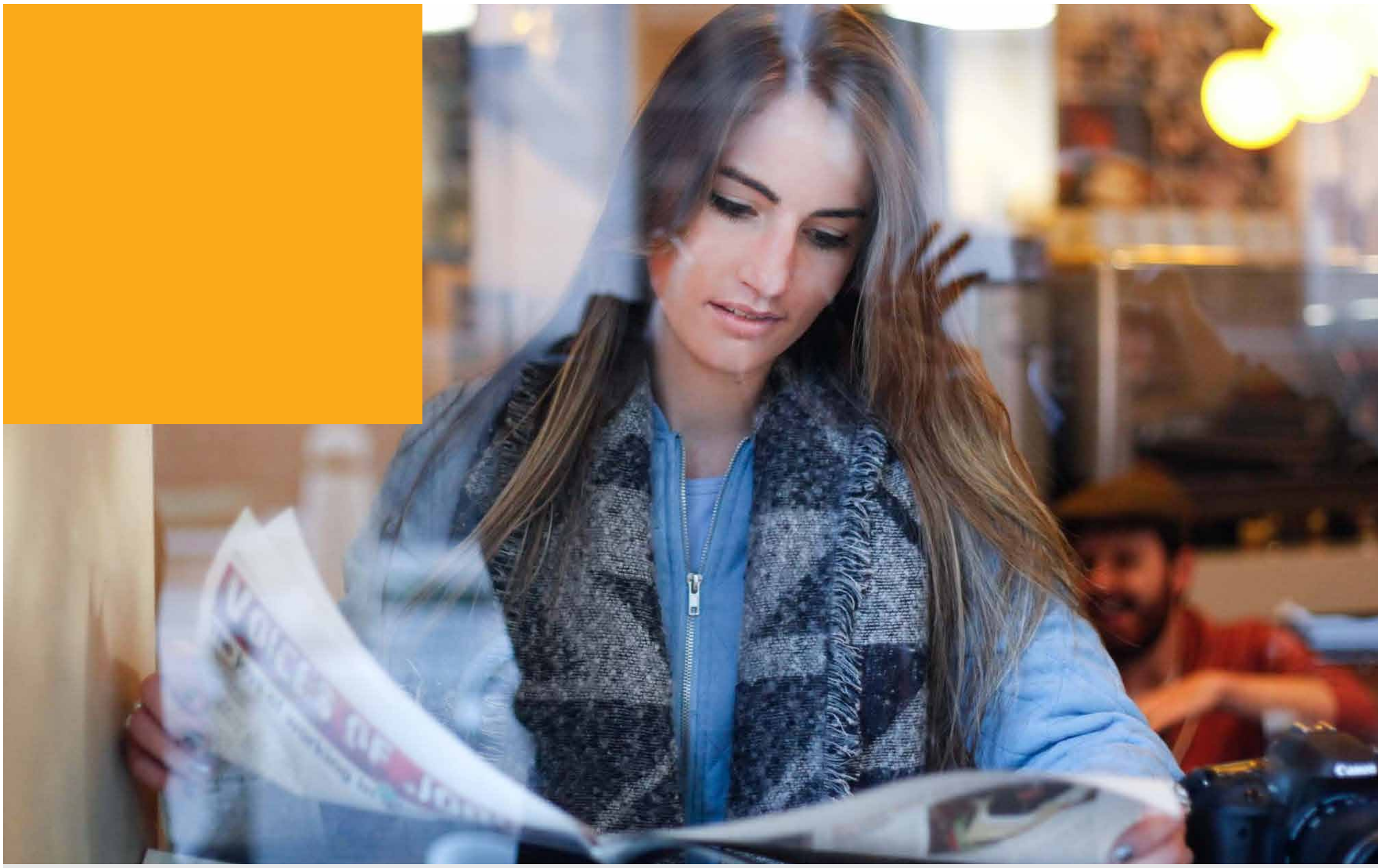
Financial Services Council NZ



ABOUT THE FSC.

As the voice of the sector, the Financial Services Council is a non-profit member organisation with a vision to grow the financial confidence and wellbeing of New Zealanders. FSC members commit to delivering strong consumer outcomes from a professional and sustainable financial services sector. Our 100+ members manage funds of more than $95bn and pay out claims of $2.8bn per year (life and health insurance).

Members include the major insurers in life, health, disability and income insurance, fund managers, KiwiSaver and workplace savings schemes (including restricted schemes), professional service providers, and technology providers to the financial services sector.

Successful retirement planning means being able to enjoy a reasonable lifestyle in retirement without outliving your savings. In this guide, we'll introduce you to some key retirement planning considerations.

For those wanting to take a DIY approach to retirement planning, we have divided this guide into three parts: a retirement planning overview, how to use the Sorted tools, and how to use the NZ Society of Actuaries rules of thumb.

KEY CONSIDERATIONS

Retirement planning involves determining:

1. how much you should *save for retirement*
2. what you can reasonably *spend in retirement.*

For these considerations you need to identify matters both within your control and outside your control.

Matters within your control include:

Save for retirement phase

- The rate at which you save (both to your workplace superannuation scheme and potentially other savings plans, such as KiwiSaver). The greater the rate, the higher your savings will be.
- Your choice of investment fund(s). Generally, the higher the exposure to shares, the higher your savings will be. However, higher returns come at the cost of increased risk.
- The point at which you stop saving and start spending. The later you retire, the greater your savings are likely to be.

Spend in retirement phase

- The amount you (want to) spend in retirement. The lower the amount you spend, the longer your savings will last.

Variables outside of your control include:

- Investment returns: To varying degrees (depending on your choice of fund/s), investment returns are unpredictable, particularly in the short- to medium-term. The higher the exposure to shares, the greater the unpredictability.
- Inflation: Inflation erodes the buying power of your savings. While governments target stable, low levels of inflation, this won't always be the case.

Life expectancy

A further factor in the *spend in retirement* phase is how long you will live for. Life expectancy for those aged 65 is currently approximately age 86 for males and age 88 for females. These are averages only, meaning that there is a 50% chance you'll have a lower life expectancy and a 50% chance you will have a higher life expectancy.

Life expectancy also increases as we get older. For those aged 70, it is currently approximately age 87 for males and age 89 for females. If you are interested in learning more, further information is available from Stats NZ.

SORTED AND OTHER TOOLS

The reality is there is no perfect retirement planning model, and the answers you get can only ever be estimates, but it is still important to plan.

For those wanting to take a DIY approach to retirement planning, the **Sorted** website offers a number of useful tools and calculators for both the *save for retirement* and *spend in retirement* phases.

You should experiment with changing the things within your control (such as your date of retirement) to see how this might change your results.

See our guide on how to navigate your way through the relevant Sorted calculators offered free by Te Ara Ahunga Ora Retirement Commission.

An alternative approach to Sorted is the **New Zealand Society of Actuaries rules of thumb**. These can be used for the *spend in retirement* phase. See our worked examples showing how to use the rules of thumb.

THIS IS NOT A SET AND FORGET EXERCISE

Reassess how you are tracking at least every few years. Ultimately, there is no guaranteed way of ensuring that you have a reasonable lifestyle in retirement and do not outlive your savings. You can increase your chances of success erring on the conservative side with those matters that are within your control.

Retirement planning is not one size fits all. Hopefully, the tools and ideas covered in this document will help you along your journey to and throughout you retirement. If you need additional help with retirement planning, speak to a financial adviser.

SORTED TOOLS

There are a number of tools offered on Te Ara Ahunga Ora Retirement Commission's **Sorted** website. These include:

- The KiwiSaver calculator for use in the save for retirement phase (in particular).
- The Retirement calculator for use in the spend in retirement phase.

The following information can help members navigate their way through these two calculators and uses the 'save' and 'spend' distinction.

SAVE FOR RETIREMENT PHASE

The **Sorted KiwiSaver calculator** can be used for other savings plans, including your workplace superannuation scheme. The tool allows you to project what your savings might be at retirement.

The tool assumes you will receive Government contributions of up to $521 p.a. as a KiwiSaver member, so the calculator may slightly overstate your retirement savings for other plans.

The tool shows what level of spending your savings might produce over a given period. Note the spending projection takes no account of NZ Superannuation (or other savings you may have). We suggest you use the Retirement calculator referenced under the *spend in retirement* phase (below) for this purpose.

If you (and/or your partner) also have a KiwiSaver scheme or other savings plans, you will need to separately repeat the exercise for these.

Here are some of the things you'll need to know before filling out the KiwiSaver calculator:

- **Retirement age** – this defaults to 65, but you can select an older age (thereby increasing the amount you will have saved, and also reducing the period over which you will spend). It won't allow you to select a younger age, but you could simulate this by increasing your current age. Note neither NZ Superannuation nor the availability of any KiwiSaver funds apply until age 65.
- **KiwiSaver balance (and contribution rates)** – input your current balance and contribution rates.
- **Fund type** – This defaults to a Balanced fund. You should consider whether this is appropriate or if another option better reflects your current investments.

After the initial calculation, the tool allows you (under two separate tabs) to adjust some of the inputs. One of these is inflation. The default is for inflation (at a fixed rate of 2% p.a.) to be factored in, with the broad objective of expressing the projected savings in today's dollars. Turning this off would ignore the fact that inflation is expected to erode your buying power, and this is not recommended.

Take a note of the projected retirement savings (including those of any partner) for use in determining estimated income under the *spend in retirement* phase below.

SPEND IN RETIREMENT PHASE

The Sorted Retirement calculator allows you to project what **after-tax** level of spending your retirement savings might provide. It provides you with an idea of how much you might need to live on in retirement (using the *Retirement Expenditure Guidelines* produced annually by Massey University's NZ Fin-Ed Centre).

Here are some things to know before using the calculator:

- **Retirement age** (from which you want to start spending) – this defaults to 65, but you can select an older age (thereby increasing the amount you will have saved, and also reducing the period over which you will spend).

  It won't allow you to select a younger age, but you could simulate this by increasing your current age. Note, neither NZ Superannuation nor the availability of any KiwiSaver funds apply until age 65. For those still saving for retirement, this input should be the same as *retirement age* used under the KiwiSaver calculator above.
- **Future lifestyle** – here you can select one of the four options (main centres or regions and no frills or choices) sourced from the *Retirement Expenditure Guidelines* noted above, or enter your own weekly income goal.
- **Retirement money** – enter the amount of savings (including those of any partner) determined under the *save for retirement* phase above (or if you are already in retirement, input your current savings). Your projected savings under your workplace superannuation scheme (along with any other projected amounts) can be entered under *Savings* and/or *Other Investments*. There are options to enter other sums here, such as home equity resulting from downsizing at retirement.
- **Retirement income** – this defaults to receiving NZ Superannuation from (currently) age 65, although you can remove this once the initial calculations have been completed (see further below). You can also input other non-retirement savings or income, such as rental income.

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After the initial calculation, the tool allows you (under two separate tabs) to adjust some of the inputs. The two inputs we suggest you focus on are:

- **My retirement years** (under *Change your future* tab) – the spend-to age defaults to age 90. That is, the underlying calculations are based on the fixed period from your *retirement age* (as determined by you) to age 90. If, for example, you want to take a more conservative approach, increase the spend-to age to, say, 95 or more.
- **NZ Superannuation** (under the *Change your details* tab) – as mentioned, the default is for you to be eligible to receive NZ Superannuation. However, not everyone is eligible for NZ Superannuation at age 65, and the current criteria may change in the future.

There are two things to bear in mind when using the Retirement calculator:

- **Fund type** – Unlike under the *KiwiSaver calculator*, there is no option to select the type of fund you invest in. The calculator assumes that you will invest in a Balanced fund. If, for example, you have selected, or expect to select, a more conservative fund type (with, on average, lower but less volatile returns), the calculator will overestimate the expected amount you might have to spend. You could choose to broadly adjust for this by (further) increasing the *spend-to age* (as above).
- **Inflation** – The calculator assumes your spending will increase each year with inflation (at a fixed rate of 2% p.a.).

Once you've finished with any adjustments, you'll have an idea whether your spending goals are likely to be reached. Even if they are for now, you should check in regularly to see whether this remains the case.

If, the calculations show that you are short of your spending goal:

- If you're still in the *save for retirement* phase, you have the option of adjusting some of the factors within your control (such as the rate at which you save). Go back into the calculators and see what you need to do to reduce the shortfall.
- If you're already at retirement age, then you may want to consider if there are other sources of income available to you.

NEW ZEALAND SOCIETY OF ACTUARIES RULES OF THUMB

The New Zealand Society of Actuaries has developed a number of rules of thumb to determine what level of sustainable **after-tax** spending your retirement savings might support.

In reality there is no perfect retirement planning model, but you may find these rules of thumb useful to consider when planning your retirement.

Bear in mind that this exercise takes no account of NZ Superannuation or any other post-retirement income you might have. You will need to separately allow for these in assessing your overall spending.

Below is a summary of the rules of thumb, along with examples and some pros and cons:

	PROS:	CONS:
6% rule – each year spend 6% of the starting value of your retirement savings. For example, if you retire at age 65 with savings of $300,000, spend $18,000 (i.e., $300,000 times 6%) each and every year.	Simple, one-time only calculation of spending level	Inflation will erode the buying power of spending through time; some risk of outliving savings
Inflated 4% rule – each year spend 4% of the starting value of your retirement savings adjusted for inflation. For example, if you retire at age 65 with savings of $300,000 spend $12,000 (i.e., $300,000 times 4%) in year 1. If inflation in year 1 was, say, 2%, spend $12,240 ($12,000 plus $12,000 times 2%) in year 2, and so on in subsequent years.	Spending level will keep pace with inflation; less likely to outlive savings	Annual calculation necessary
Fixed date rule – each year spend the current value of your retirement savings divided by the number of years remaining to a pre-determined fixed date. For example, if you retire at age 65 with savings of $300,000 and your fixed date is your 90th birthday (being 25 years away), spend $300,000 divided by 25 = $12,000 in the first year. In the second year, spend the updated value of your retirement savings divided by 24, and so on in subsequent years.	Certainty of spending being available to fixed date	Spending level varies from year to year; savings will only last to fixed date; annual calculation required
Life expectancy rule – each year spend the current value of your retirement savings divided by your then current life expectancy. For example, if you are a male, retire at age 65 with savings of $300,000, draw down $300,000 divided by 21 (the current life expectancy for a male aged 65) = $14,300 in the first year. In the second year, spend the updated value of your retirement savings divided by your life expectancy at that point, and so on in subsequent years.	Certainty of spending being available throughout lifetime	Spending level varies from year to year and will likely reduce in later years; annual calculation necessary

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