The Guide to:

A Fully Funded Retirement using KiwiSaver

NZFunds

Legal disclaimer

What is a fully funded retirement?

A fully funded retirement means 100% of the lifestyle you enjoy today, being funded in the future by being able to withdraw 100% of your current disposable income every year from your KiwiSaver, with 0% need to work.

Being on track for a fully funded retirement is about giving the future you the option to retire if you want to. You may never wish to retire, but at least you can have the option.

You need a large sum of money to enjoy a fully funded retirement. The amount is so large that you cannot 'save' your way there. You have to 'invest' to get there.

This guide sets out how to use KiwiSaver, a Government designed personal retirement scheme, to fully fund your retirement by following 5 simple steps.

1. Start saving, at the right rate.
2. You need growth, not income.
3. Compound over decades, not years.
4. Rebalance regularly, never set and forget.
5. Partner with a professional adviser.

1.

Start saving, at the right rate.

Studies show on average Kiwis need to save 9% of what they earn while they work, in order to enjoy a fully funded retirement of around 20 years.[1]

That sounds like an intimidating amount, but if you are employed and your employer contributes 3%[2], your contribution rate need only be 6%.

Contributions of at least 3%[2] are needed to enjoy a matching employer contribution. Contributions over 3%[2] can be made either into KiwiSaver, or a matching investment that does not require your funds to be locked in.

If you are starting later in life, you may wish to contribute at a higher rate, for example a total savings rate of 9% or 12%, in order to remain on track.

In Australia the contribution rate is currently 10% p.a. (rising to 12% p.a. by 2025). In the United States, savings rates are 9.3% p.a. on average, while in the United Kingdom they are 8% p.a.

1. *'Is the Minimum 3% KiwiSaver Contribution Sufficient?'*, MyFiduciary, March 2020.
2. Based on current minimum Kiwisaver contribution rates. Minimum Kiwisaver contribution rates increase to 3.5% on 1 April 2026, and to 4.0% on 1 April 2028.


Employer
contribution 3%[2]
+
KiwiSaver
contribution 3%[2]
+
Personal
contribution
to reach 3%[2]
Personal
Spending 94%

2.

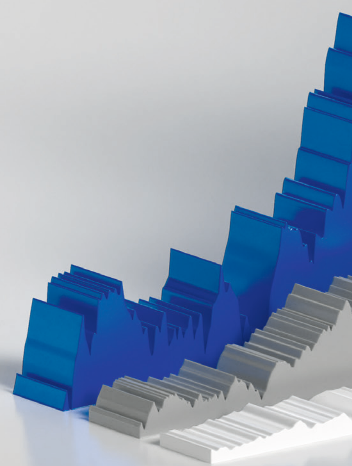
You need growth, not income.

In order to earn investment gains which are meaningful enough to fund your retirement, you will need to own growth assets. Savings, made up of the contributions that go into your KiwiSaver scheme, will on average make up less than a third of your retirement balance. The remaining funds will need to come from investment gains.

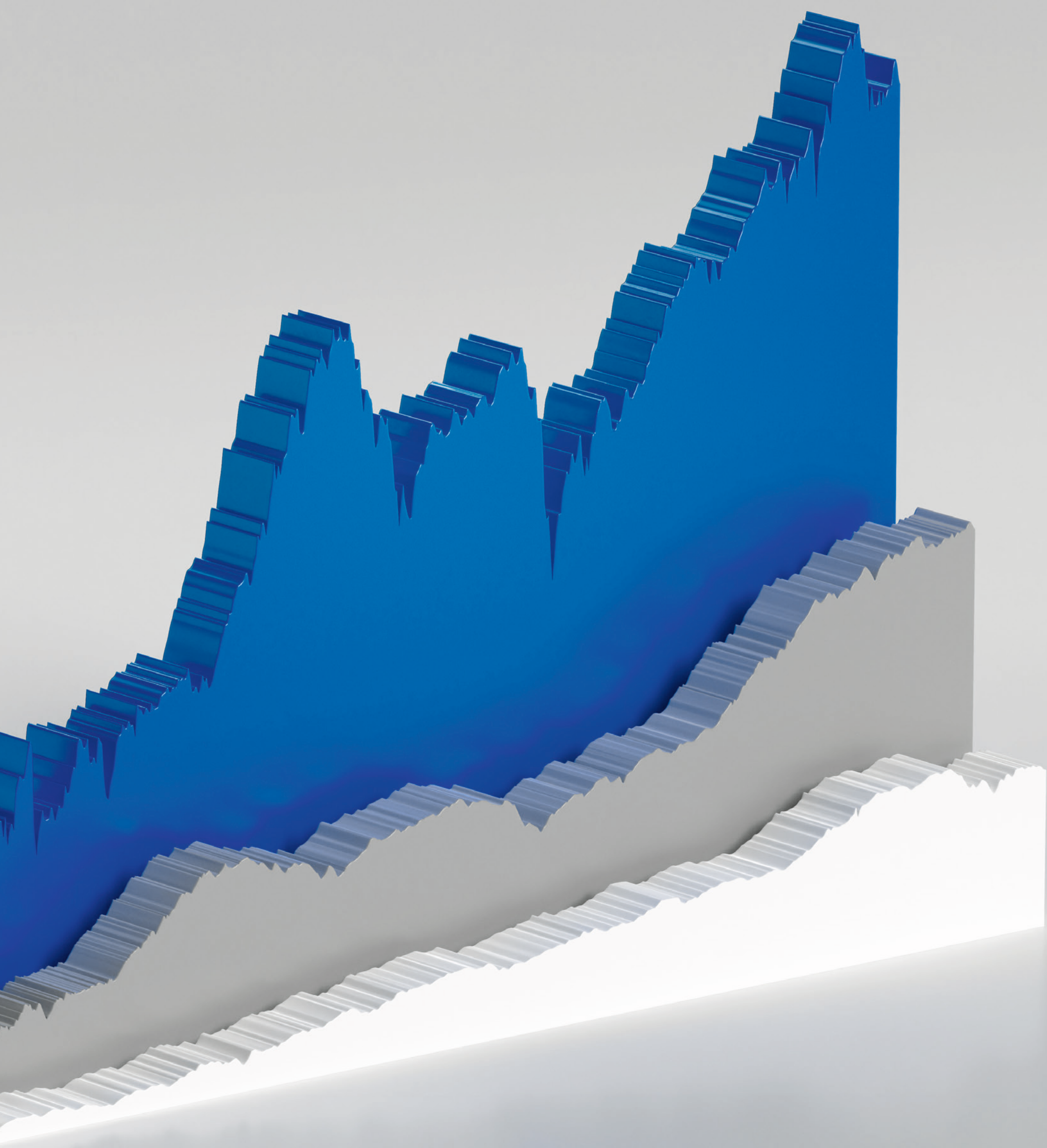
All KiwiSaver schemes contain either income or growth assets, or a mix of both. Balanced funds are a mix of income and growth assets. Income assets provide low returns over time (around 4.27% p.a.[1]) and are taxed at up to 28% – which further reduces their return.

Growth assets provide higher returns, if held over long periods of time, (around 10.61% p.a.[1]) and attract little or no tax. You therefore need to own growth assets to fund your retirement. The after tax return from income assets is just too low.

Growth assets do not deliver a fixed return every year, instead they rise and fall. This volatility means many Kiwis are too nervous to own growth assets and therefore never enjoy the benefit of holding them over time.



1. NZ Funds Wealth Plan historical performance data, 26 January 2021.



Growth assets

High growth, high volatility

- Global funds
- Global shares
- New Zealand shares
- Tax: From 0.0% – 1.6%

Balanced assets

Medium growth, medium volatility

- Balanced funds
- Defensive shares & bonds
- Tax: Mixed

Income assets

Low growth, low volatility

- Income funds
- Bonds
- Term deposits
- Tax: Up to 28%

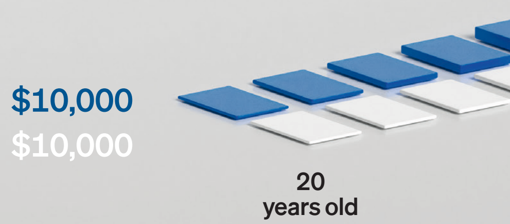
3.

Compound over decades, not years.

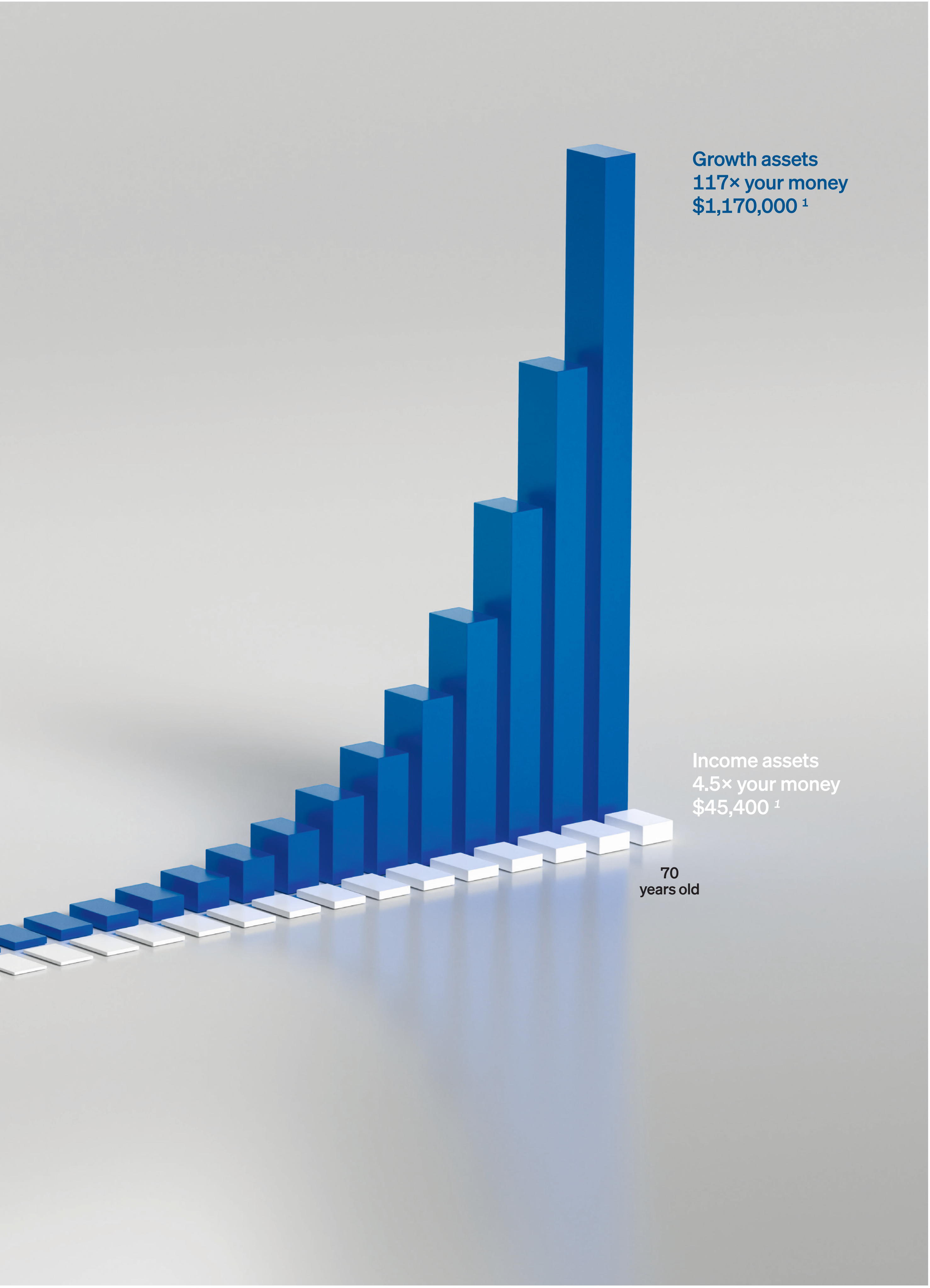
The antidote to volatility of growth assets is time. The longer you invest, the more reliable a capital gain is. This means – so long as you have the right timeframe in mind – you are not putting your retirement at risk by owning growth assets. In fact, the more conservative your mix of growth versus income assets, the higher the risk you will fall short in retirement.

Most Kiwis underestimate how long they will be investing for. If you are in your 30s, and have purchased your first home, you are likely to be invested for 50+ years. This is because your KiwiSaver investment will need to keep growing throughout your retirement, even as you draw down on your portfolio.

KiwiSaver is designed to work over decades, not years. On average a growth portfolio returning 7-10% p.a. will double every 7 to 10 years.[1] This does not mean after 30 years your money has tripled. Instead, over the first decade your money doubles, for example from 1× to 2×. Over the next decade your money doubles again, from 2× to 4×. And over the third decade from 4× to 8× (eight times the original amount). Fund managers call this compounding. Compare this to income assets which can take 23 years to double.



1. NZ Funds Wealth Plan historical performance data, assumed tax rate 28%, 26 January 2021.


Growth assets
117× your money
$1,170,000 [1]
Income assets
4.5× your money
$45,400 [1]
70
years old

4.

Rebalance regularly, never set and forget.

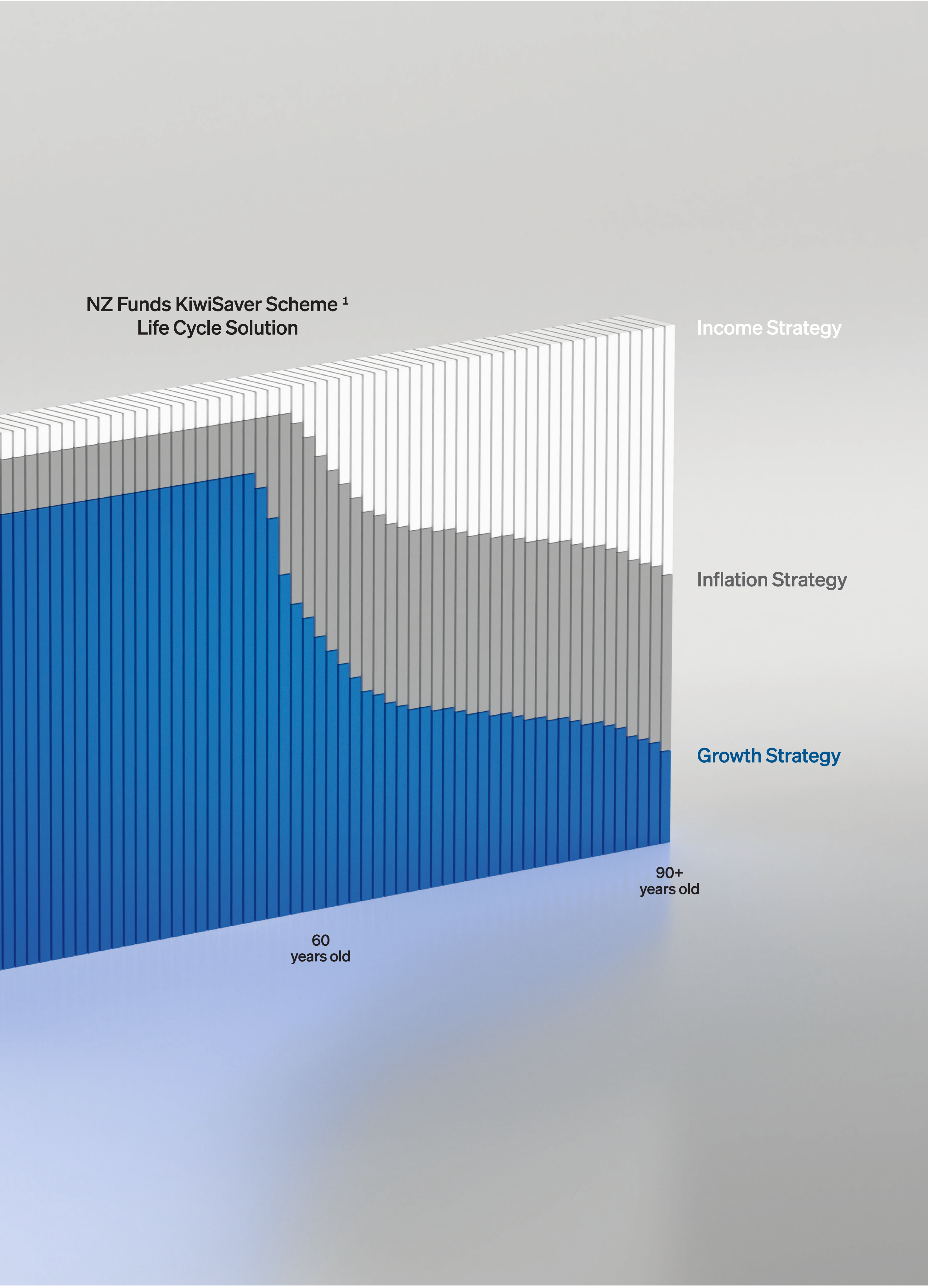
As you get closer to retirement your KiwiSaver balance will become larger. This is a good thing. However, as you near retirement, and contemplate accessing your KiwiSaver balance in place of a salary or income, you will not want it to fluctuate as much as when you were in growth mode.

It is sensible to allocate some of the gains you have made owning growth assets into income assets and inflation assets (which, like balanced funds, are a mix of income and growth assets). This will make your KiwiSaver balance less volatile and easier to access in retirement.

You can do this yourself by switching from a growth fund into an income fund as you near retirement. However, because growth assets rise and fall by large amounts each year (and often for several years in a row), it can be hard to get the timing right.

A more reliable approach is to select a life cycle product. That means a KiwiSaver scheme that automatically rebalances your retirement savings every 12 months, gradually increasing your allocation to income and inflation assets as you age.

1. New Zealand Funds Management Limited is the issuer of the NZ Funds KiwiSaver Scheme. For further information or to request a copy of the NZ Funds KiwiSaver Scheme Product Disclosure Statement, please contact New Zealand Funds Management Limited or visit our website at www.nzfunds.co.nz.



NZ Funds KiwiSaver Scheme 1
Life Cycle Solution
Income Strategy
Inflation Strategy
Growth Strategy
60
years old
90+
years old

5

Partner with a professional adviser.

Setting yourself up to enjoy a fully funded retirement is a serious proposition which takes decades to achieve. You may wish to do this by yourself or partner with a professional adviser.

Most investors face one or more challenges over their working life, such as: accessing funds for a first home purchase; changing jobs; unemployment and redundancy; working overseas and moving back again; suspending contributions; making financial hardship claims; and even changes in marital status, or accessing funds for serious illness.

In New Zealand some KiwiSaver providers, such as NZ Funds, provide professionally qualified and regulated financial advisers at no additional charge. Studies show that by checking in with a financial adviser once a year, you are much more likely to achieve a fully funded retirement, even after any additional costs for advice are taken into account.

1. Francis M. Kinniry Jr. CFA et al. *'Putting a value on your value: Quantifying Vanguard Advisor's Alpha.'* Vanguard Research, July 2018.
2. Brinson, Gary P., Hood, L. Randolph, and Beebower, Gilbert L. *'Determinants of Portfolio Performance'*, Financial Analysts Journal, July-August 1986, pp. 39-44.
3. *'The Future of Retirement Power of Planning'*, HSBC 2011.


+3%p.a.
Investors with a financial adviser have been estimated to achieve an average of 3% p.a. more growth than a DIY investor.1
+90%
90%+ of the variation in returns investors experience comes from asset allocation (rather than timing or stock selection).2
+250%
Over a lifetime, financial advice can lead to around 250% more in retirement savings.3

KiwiSaver is a world class retirement savings scheme, but Kiwis need to understand how to use it if they wish to enjoy a fully funded retirement.

If you are serious about being financially independent in retirement, please let us know. We've been managing New Zealand's retirement savings for 35 years.

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