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Retirement Planning

Shaping our future lifestyles

- ✓ How much will we need?
- ✓ Could we live on NZ Super?
- ✓ Things to think about



How much will we need?

Even if it seems a long way off, it pays to plan for retirement as early as possible in order to shape what our lifestyle will be like.

When we stop working, most of us end up relying on NZ Super (the state pension) and our own savings for income. So how much we need to save will depend on our own circumstances.

But the sooner we start, the more options we'll have.

Our number's up!

People are living longer these days. Many 65-year-old men can now expect to live until they're 91, and 65-year-old women until 94. In the future, we'll probably live even longer.

Planning to retire at 65? It's important to save or have another plan up our sleeves to provide income for 25 years or more.

What sort of lifestyle do we want?

That is, what will our cost of living be? Some expenses may go up (like healthcare), while others (such as education, clothing, housing, work-related travel) may go down. What will our goals be in retirement – travelling to new places? Joining clubs, going out to dinner and shows?

If retirement is a long way away, it might be hard to answer this question. To help, the pages that follow show some examples of how retirees currently manage their money.

What is retirement anyway?

There is no 'retirement age' in New Zealand. NZ Super is paid from age 65, but we don't have to stop working to get it. These days, more and more people are working beyond 65, either full-time or part-time.

Will we own our home or rent?

Renters will need more savings – but won't have money tied up in a home. Owning the place we live in debt-free reduces the risk of rent increases or being asked to find a new place to live. The trade-off, though, is having to take care of maintenance and rates.

Being mortgage-free by retirement is a great goal to aim for. Many retired people are able to manage financially because they no longer have the burden of mortgage repayments.

How to work out what we'll need

Sorted's retirement calculator on **sorted.org.nz** works out how much to aim for. You can add future lump sums, from KiwiSaver, or streams of income on top of NZ Super.

If we're close to retirement, we'll need a detailed budget.

It helps to think about what future weekly expenses might be in today's money.

- Take basics into account, such as insurance, maintaining the house and car, or replacing a major appliance.
- Build up some funds for the unexpected.
- Think about the big things we might need to pay for later on – a new car, new roof or repainting the house.

Try the budget planner on **sorted.org.nz**.

Find out...

How much of a gap do I need to fill for my future?

**Online tools at
sorted.org.nz**

Could we live on NZ Super?

Most retired New Zealanders get their income from two main sources – NZ Super and their own savings. However, close to 40% of New Zealanders over the age of 65 rely on NZ Super alone.

NZ Super

NZ Super is a pension from the government which is paid for by taxpayers. To be eligible for NZ Super, recipients need to be aged 65 or over and a legal resident of New Zealand. We also need to have lived here for 10 years since age 20, with five of those years since age 50. The 10-year requirement is transitioning to 20 in the years to come, so it's important to be informed and plan ahead.

All eligible New Zealanders receive the pension regardless of how much we earn through paid work, savings and investments, or how wealthy we are.

NZ Super may be different in years to come in terms of how much we can get, when we can get it and who can get it.

How much is NZ Super?

The level of NZ Super payments is set by the government each year. The rates are reviewed and adjusted to take into account any increases in the cost of living (inflation) and average wages.

The after-tax NZ Super rate for couples (who both qualify) is based on 66% of the 'average ordinary time wage' after tax. For single people, the after-tax NZ superannuation rate is around 40% of that average wage.

NZ Super is paid fortnightly. You can see the latest rates of NZ Super by going to sorted.org.nz/nzsuperrates.

Overseas pensions

Anyone who receives a pension from an overseas government is likely to have that amount deducted from NZ Super.

How retired people live now

The stories on the following pages feature three real-life scenarios of retired New Zealanders. Talking to retired people about their lifestyle and the plans they made for retirement can be eye-opening.

Feeling secure about retirement

Tala has been married to Paul for more than 40 years. She works part-time, while he is a retired, full-time homemaker. Their current focus is on providing a stable environment for their three grandkids, of which they have full-time custody.

With three primary school-aged kids and adult children living at home, their weeks are very busy. Every Sunday is family lunch day – after church around 20 people gather for a shared lunch.

“Our focus is on the kids’ schooling, and we’re mindful of our health – we need to keep trucking. Monday is dance class, Thursday is swimming, on the weekend we have church and family visits... there’s always something.”

Unexpected expenses have been around family support or lending. “We lent our daughter money to build their first home... This is a loan, so we are hoping for this money back.”

Other expenses are from having the grandchildren in their care. “We needed to buy a new car, that was \$40,000. With the kids, we went to movies the other week, it was... \$70 for tickets and popcorn!”

Culture impacts their spending with regard to church and meaalofa (gifting). “I know that with some people giving to church can be about their pride – they want to be the biggest givers. But this can sow the seeds for hardship. With my family we are pretty good at being sensible with meaalofa – we have a set amount that each of us siblings give as standard for funerals or occasions.”

Tala and Paul get income through a teachers’ pension, NZ Super, WINZ support for the kids and Tala’s salary. Receiving NZ Super for both Paul and Tala has made a huge difference to their income and lifestyle.

“How do people survive without government super? I feel secure about my retirement.”



Quality time with whānau

Rawiri has kept busy during retirement through his duties as a minister in the community. He also enjoys gardening and spending time with whānau.

He recently attended a relative's graduation. "That was an honour. To be there and to be invited... they even paid my fare there... I'm really proud of our family."

Rawiri also recently joined a rūnanga (council) that is focused on uniting Māori.

"Today I'm being kept very busy. Even though I'm retired, there's burials, baptisms, weddings, birthdays, and a lot of trips to and from the pā. I'm busier now that I'm retired... retirement now is as if I'm still working!"

Rawiri was not so interested in saving and retirement planning in his youth. "At the time I wasn't quite listening, to tell you the truth! I should've listened then... opportunity knocks. You need to think about how you can improve your finances."

These days, Rawiri and his wife are able to live within their means. "We've got everything that we want and we keep paying for what we use. You can't take any worldly goods with you."

But he does wish they were more comfortable financially. He and his wife are supporting their retirement solely through their NZ Super and do not have any savings to fall back on.

"We're managing alright. We don't complain much. Everybody our age is getting the same."

"It is a big difference. But you pay all your taxes, and you work all your years, and you get thrown in the deep end, and you come out with sufficient benefit..."

"Sometimes we share a bit of our money with families when they need us. It's not easy to bring up seven adults and not contribute to making them more happier."

Happy at my stage in life



Liz is currently looking for part-time work to keep herself busy and help further supplement her lifestyle after losing her job.

She still feels young at heart and keeps a positive outlook on the years ahead. When possible, she enjoys spending time exploring the city and making the most of the free public transport for seniors.

“I look at life as: be happy at my stage in my life. Financially, I’m not struggling. I just want to make the most of every day.”

After a discussion with colleagues when she was in her early fifties, Liz worked out a rough budget and a savings goal for retirement. From then on, Liz also contributed to the superannuation scheme offered by her employer.

“I thought I better do something... I sort of worked out a plan. I’ve banked on spending \$12,000–\$15,000 to supplement my pension.”

These savings, combined with the pension and her redundancy payment, have been paying for her retirement.

Liz is a spender by nature and does not intend on cutting back entirely. She still has plans and goals she would like to achieve in the next 10 years.

“By the time I’m 80, I won’t be as active travelling and doing things... I’ll be quite happy to just sit at home. But in the next 10 years, I want to go back to Europe, etc.”

She feels today’s youth have saving “drummed into them” and on reflection feels she would have appreciated more advice when she was younger.

“In reality, I should have done it 20 years before, but nonetheless I didn’t. Never thought of the future and getting old and what you’d need. I don’t regret it though. I could have a lot more in the bank... but I’ve had fun.”

Mind the gap

For most of us there will be a gap between the income NZ Super provides and the income we want in retirement. So we'll need to have other income sources of our own, such as:

- Savings – income from retirement savings schemes like KiwiSaver, other pensions and workplace savings, investments and cash deposits
- Employment – we may be able to keep working part-time (as long as we have the skills and capacity). More than a third of Kiwis continue working after the age of 65
- Gifts or inheritance – it helps to be conservative though, as circumstances can change quickly
- Other sources of income, such as the sale or rental of property, or the sale of a business.

How much personal savings we need will depend on whether we want to live off just the income generated by our savings (such as the interest on investments), or the capital as well as the income. In order to live only off the income, we'll need to save and invest a lot more.

The family home

If we own our home, it may be possible to raise some money by renting out part of the house, taking in a boarder, or taking out a reverse mortgage or other form of equity release. The plan might be to:

- Subdivide the property
- Move to a cheaper house
- Sell our home to family or whānau (while keeping the right to live in it).

Getting out of debt

Paying off debt in retirement can be extremely hard. We need to make being debt-free before retiring the number one priority.

Hard to save?

If it's difficult to save regularly and pay off debt, we can still try to set aside a few dollars to build up a small nest egg. Even \$10,000 or \$20,000 in the bank when we retire will make a real difference.

KiwiSaver

The benefits KiwiSaver offers make it a great option for retirement saving. As well as the money we put in and any growth in our savings over time, we also get regular contributions from our employer. These are on top of the member tax credits that KiwiSaver members receive from the government.

All this extra money means our own savings will go a lot further than, say, another option where we are the only one contributing. That makes it easier to reach a retirement savings goal.

To find out more, read our free KiwiSaver booklet.

Picking the right fund

Sorted's KiwiSaver fund finder can help with choosing your fund. It's designed to help us find funds with the level of risk that suits us and compare different providers' funds.

The tool allows us to see how a fund's fees add up to retirement, the services that come along with it, and its past performance – so we can make an informed decision about where to invest our money.



Try Sorted's
KiwiSaver calculator
to see what your
contributions will add
up to by age 65 at
sorted.org.nz.

Sorted's retirement calculator

Minding the gap

Since most of us will have a gap between what NZ Super provides and the lifestyle we want, it's important to see how much it will be and find ways to fill it.

Sorted's retirement calculator plugs in the variables and shows a variety of scenarios, so we can all see how we're tracking and plan ahead.



Try Sorted's
retirement calculator
at **sorted.org.nz**.

Six things to think about

Let's take a moment to think about life in retirement.

1. How much will we need to live on?

Will NZ Super be enough? Will we need a bit more or a lot more?

2. Where will that extra money come from?

Paid work, returns from investing, rental income? Something else?

3. How long will we have in retirement?

How long will our money need to last? Twenty-five years? Longer?

4. What will our living costs be?

Will we still be paying a mortgage or renting? How will our spending change in retirement? How will we cope with big expenses?

5. Will we be debt-free?

Will we have paid off the mortgage and be free of any other debts? Can we increase our current repayments to be debt-free faster?

6. What's the plan?

Do we have a long-term savings plan? Will it be enough? If not, can we start saving now, even if we can't afford much? Or do we have another plan to fund our retirement, like the sale of a property or business?

Notes:

Where to now?

- ✓ Work out how much we'll need in retirement.
- ✓ Make a plan to get there.
- ✓ Start investing or reduce debt.

Next steps:

Compare KiwiSaver funds and find the one that suits us best at **sorted.org.nz/fundfinder**