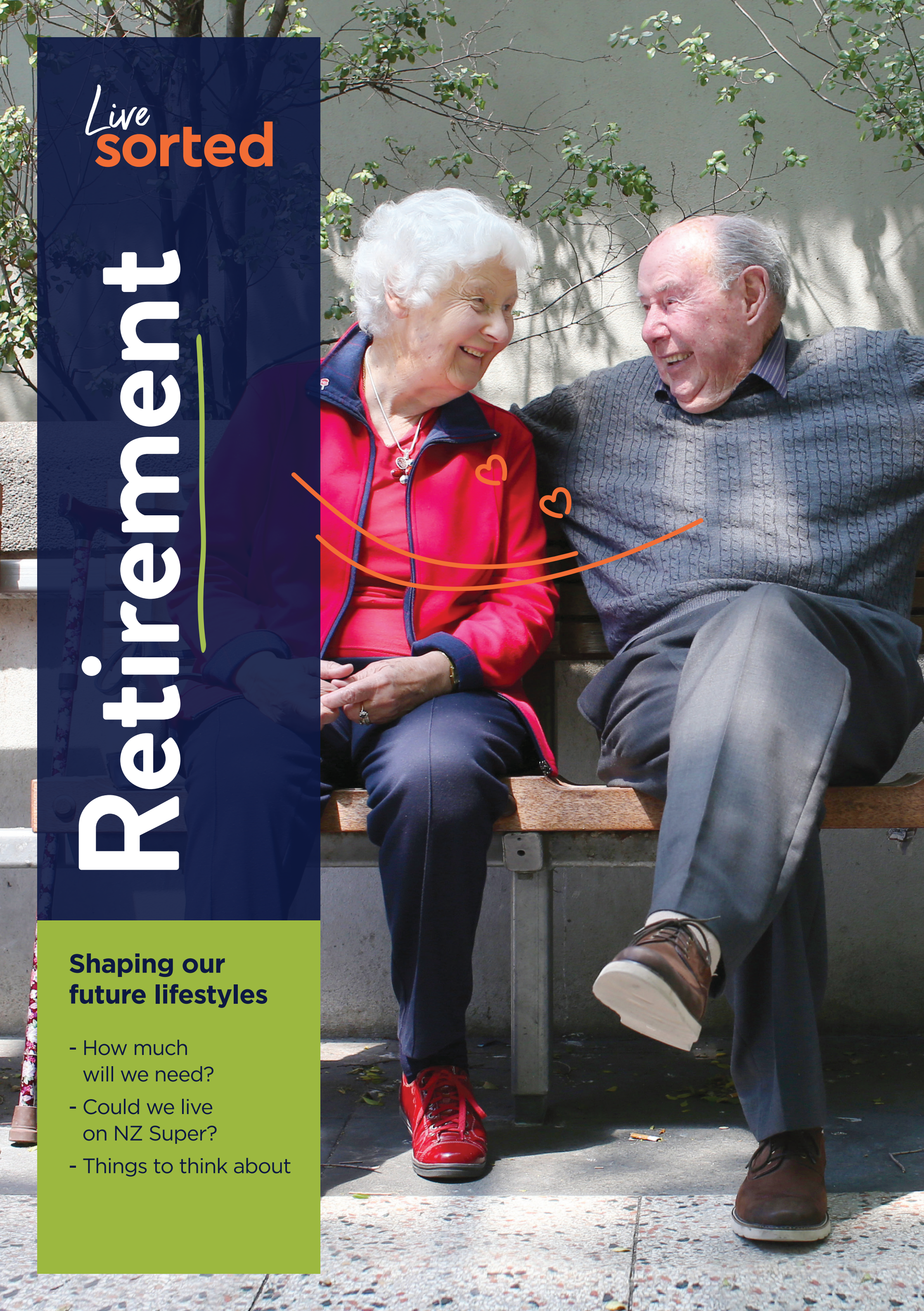
Live sorted

Retirement



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 planner on **sorted.org.nz** works out how much to aim for. The result may be at the high end – but it gives some idea of what to expect.

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

Online tools at sorted.org.nz

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 budgeting tool on **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.

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

Remember though, there are no guarantees for the future, and 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.

A contented lifestyle

Great-grandparents Charmaine and Hamish enjoy a contented life in the Wairarapa, where they live on the NZ Super. Hamish worked as a printer in Masterton and Charmaine was a parliamentary secretary's assistant in Wellington.

Their lifestyle hasn't changed too much in retirement, since they were accustomed to living on a reduced income after Hamish's health problems led him to retire early at 57.

"We find we can make our couple's allowance go a long way. We make the most of our money and are lucky the things we enjoy doing don't cost us much," Charmaine says. "But travel is definitely one of the things we can't do much of. One of our sons lives in Italy, and we've visited him once. It would be nice if we could afford to go again."

The couple didn't think much about saving for retirement, concentrating instead on paying off their lifestyle block.

In retirement they downsized their home and bought a property in town, with better access to local facilities.

They are grateful for the public healthcare system, which has paid for a lot of Hamish's health needs, including upgrading their bathroom for wheelchair access. But they've had to cover many of the costs themselves.

"Our home is freehold, but when we need extra money we take out a small mortgage. It means we can afford to pay for things like home maintenance, which we pay back as quickly as we can," Charmaine says.

The sweet part of my life

Jens stopped working decades ago and says he's been loving retirement ever since. He lives in his Point Chevalier home on the NZ Super with some extra income from other sources.

Before retirement, Jens owned a successful bakery business. The money from the sale of his business and income from three investment properties means that he has more than $900 a week to live on.

In an average week, however, he spends a lot less than this on himself, usually around $250. Jens puts money aside to maintain his properties, as well as to fund his travel, which he enjoys annually, often to see his son who lives in New Caledonia or an occasional trip to Sydney.

Jens says he learned money lessons early in life. He has been careful with the way he spends his money, only borrowing for investments, never for consumable goods.

Having moved to New Zealand in 1949 from Estonia at the age of 20, Jens worked as an apprentice baker and went on to buy the business. He put extra money into low-risk investments, never betting more than he could afford to lose.

In retirement he has more time to spend with his two children and three grandchildren. His wife passed away seven years ago, and since then he has taken in a boarder – a retired friend. "I've been very lucky. This is a sweet part of my life, and I'm making the most of it," he says.

Fulfilled by volunteering

Wellingtonian Duncan retired years ago and often jokes he needs to go back tofull-time work to get some spare time back.

"We have a busy and fulfilling lifestyle, and want to keep it that way," he says, keeping occupied in various volunteer roles. His wife Valerie retired in 2012 from her role as a senior administrator in a top law firm.

Duncan and Valerie's plan is to downsize and release some capital, to live on their NZ Super plus around another $200 per week.

Their idea is to sell the large house they own in a desirable Wellington suburb, which they hope will release around $200,000 after they have downsized. There is also Duncan's life insurance policy, which will pay out $100,000 when it matures in a year, and a bank fixed-term deposit that pays out $200 each month.

Saving for retirement was never high on the McDonalds' priority list. After 10 years working overseas, the McDonalds returned to New Zealand and bought their first house, when Duncan was 41. As a deposit they used money they had invested in the pension scheme Duncan belonged to while working in the Middle East for the United Nations.

"We have relied heavily on property investment," Duncan says, "which of course is dependent on the state of the housing market."

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

Picking the right fund

Sorted's Smart Investor (**smartinvestor.sorted.org.nz**) can help with choosing a KiwiSaver 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 a fund's fees, the services that come along with it, and its past performance – so we can make an informed decision about where to invest our money.

Sorted's Retirement planner

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

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, interest from savings, 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?

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Where to now?

1. Work out how much we'll need in retirement.
2. Make a plan to get there.
3. Start saving or reduce debt.

Next steps:

e.g. visit **smartinvestor.sorted.org.nz** to compare your KiwiSaver funds and find the one that suits us best.

Retirement

Notes: