



# Savings: Will they be sufficient?

By Joy Scandlyn, New Zealand Financial Planning Co. Ltd

*As New Zealanders transition from a very strong DIY investment approach to an “Over To You” environment where managed funds are becoming a more dominant way of investing, there is a need for greater education to help people understand and appreciate some broader financial issues.*

Government projections expect KiwiSaver to have a take-up rate of 50%. But other commentators have their sights set on an even higher rate of joining. This is excellent news for the fund providers, individual Kiwis’ savings record and the economy as a whole. People across the income spectrum will join in and have money taken from their pay packet before it is absorbed in the usual household spending. This is a powerful way to accumulate a portfolio – one marked especially for retirement.

Even though KiwiSaver has been designed to make this accumulation easy, you should still take time from your busy life to make a financial plan. It is only knowledge (comprehensive or just a guide) of the direction you’re heading, the obstacles you might encounter and the timing that will give you an indication of the likelihood of achieving these goals. Saving 4% of your gross income into KiwiSaver might be enough for you, and it is certainly a good step. But you might need to do more.

Whilst doing a financial plan is an important step, the future goal of having a particular portfolio value might seem an impossible task, especially if you are starting from a zero balance. Then watching your portfolio grow very slowly, as it does when you first begin, can be frustrating. Therefore, it is important to keep your eye on the end goal and save consistently and regularly. In time, depending upon your risk profile and consequent return, the savings will begin to gather speed.

The end value of your portfolio will depend upon your level of savings, the timeframe and expected return. The following illustrates the impact (approximate numbers) of a medium and high growth return on varying levels of saving.

Lump Sum by Age 65 Medium Growth Investor (today’s dollars)			
Income	\$45,000pa	\$75,000 pa	\$100,000pa
Total annual contributions	\$4600	\$7,000	\$9,000
<b>Begin Age</b>			
30	\$306,000	\$467,000	\$600,000
40	\$170,000	\$273,000	\$351,000
50	\$88,000	\$135,000	\$174,000

Lump Sum by Age 65 High Growth Investor (today’s dollars)			
Income	\$45,000pa	\$75,000 pa	\$100,000pa
Total annual contributions	\$4600	\$7,000	\$9,000
<b>Begin Age</b>			
30	\$375,000	\$570,000	\$733,000
40	\$205,000	\$312,000	\$401,000
50	\$96,000	\$146,000	\$187,000

These amounts are in today’s dollars and the difference between the two risk profiles shows the advantage of investing into a higher risk profile over time.

Your financial plan will have answered the crucial question of “How much money will I need to enable me to have the lifestyle I want when I retire?” It’s a question everyone should be able to answer. If you don’t know, then you should do a budget then develop a financial plan to find the answer because everyone will be a little different.

What I do know is that most of us do not want to drop our standard of living in retirement. So, if your lifestyle currently costs you \$30,000 annually (after tax) then that’s what you need to plan for in retirement. Likewise if you need \$150,000 now, then you have a lot of work to do, but you need to accumulate sufficient investment resources to enable you to enjoy that standard of living once you stop work.

Planning will guide you on how much you need safely invested at retirement age, your risk profile and how much you need to save. If planning shows you may fall short of your target then you may need to compromise, save more, adopt a higher risk profile or adjust your expectations.

Your money will be working harder for you i.e. over time your return will be higher, with a higher percentage invested in the growth assets of property and equities. But you must keep saving, even through the times the market declines.

Setting up an arrangement whereby you set aside some of your income before it slips through the spending sieve is a golden opportunity. The earlier you do this, the easier it will be as your will maximise the time for your money to grow. Doing so means taking control of what you are doing with your income and investment money.