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Kiwisaver

Clear strategies to make sure you have your KiwiSaver set up to maximise your wealth.

Long-term retirement savings is a relatively new concept for most New Zealanders. In its short time, KiwiSaver has been a great success for many people – we have seen lots of Kiwi's be able to buy their first homes, and others retiring with a lump sum that can be used to top up their NZ Superannuation payments.

As your balance grows, invariably you become more aware of it, and what it can do for you. We get that as a 30 year-old it's hard to get excited about something that you can't touch for 35 years. However, by taking a few simple steps, you can ensure that your KiwiSaver is set for success.

1 Are you in?

KiwiSaver isn't compulsory in New Zealand, but don't be surprised one day if it is.

The first step to success is making sure that you're in!

Even if you're self-employed, and are not going to get an employer matching your contributions, you would still be entitled to the $521 from the government as a Member Tax Credit if you put in $1,042 for the year.

2 What are you contributing?

The default contribution rate is currently 3%, which your employer matches. You can increase this to 4% or 8% as well. By increasing your contribution, the money is gone from your pay before you even realise it, and making a small increase every week, fortnight, or month may make a big difference to what you end up with.

For someone earning $60,000 per annum, increasing from 3% to 4% is about $11.50 per week. For a 30 year-old, this could mean an extra $40,000 in their KiwiSaver at the age of 65.

3

Home or retirement?

Knowing what your funds are going to be used for is an important step – if you're 20 years old, it's highly likely the first time you use your KiwiSaver will be for your first home.

If that's the case, it's not such a long-term investment, so fund choice is critical. It may seem like a great idea to be as higher growth fund as possible to maximise your returns. But risk management is just as important.

Imagine you had $20,000 in your KiwiSaver, saving for your first home. You're all ready to use it to buy your first home in the next 12 months, and markets crash, wiping 20% off your fund value. It's now $16,000 and you may not be able to buy the home you want.

Therefore, it's often sensible for first home buyers to be in a conservative type fund, so it protects the capital they have worked hard to save, as they don't have time to recover the losses if markets change.

4

PIR rate

Just like everything in life, make sure you are paying the right amount of tax. There are three rates, and there's no refund if you get it wrong and are paying too much. This could be particularly applicable for someone that is nearing retirement and winding back the amount they are earning.

Just as applicable is the scenario of a student who hasn't been earning, who starts their first job and should be paying more tax.

Set it up right, and review it annually.

5

Know your risk

What fund is the right fund?

The first step is actually understanding what level of risk you're willing to take on. Similar to the first home example above, it may sound great receiving returns of 10% + per year, but you have to be prepared that there will be bad years thrown in there too, and you will see the balance of your KiwiSaver have a lot more volatility.

By understanding this, it can set your compass in the right direction.

Just as important as making returns with any investment, is risk tolerance, and being comfortable with what your fund has the potential to go up-and-down by.

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