

Kiwi Saver, Annuities and Superannuation Protection Association New Zealand Incorporated



The Consumer Voice Protecting Your Retirement Income

www.kaspanz.wordpress.com

NEWS SHEET NO 2, 2014

This is News sheet No 2 of Kaspanz.

The intention is to produce 2 members' news-sheets per annum, chatty, simple and informative. The Kaspanz website <http://kaspanz.wordpress.com/> is our primary information tool, but a news sheet always adds value. New sheets are never easy to write, too much detail, not enough detail, material not always interesting, challenging or indeed accurate, one can go on. Comment from readers is welcomed. Snippets of information and comment will be the approach, adopted. Information may be placed onto the website.

WEBSITE RESOURCE

Good to see Kaspanz website is on the Financial Literacy and Retirement Commission list of useful websites, also Grey Power and the Government Superannuitants Association have followed suit

CASE STUDY: A women starts in Kiwi Saver at 20 yrs old when she is earning \$27,500 contributing 3% of her salary. At age 65 her Kiwi Saver account is projected to have \$452,600.

However if she takes a 5 yr contribution holiday from age 30-35, her Kiwi Account at 65 is projected to have \$420,000, \$50,000 less. ***Not adjusted for inflation. Assumes 2.5% salary increase***

Mary Holm in her excellent The Herald column September 27 spoke about the range of fees being charged through Kiwi Saver providers.

- **Defensive funds:** 0.58% to 1.89%
- **Conservative funds:** 0.75% to 1.95%

- **Balanced funds:** 0.76 to 2.04%
- **Growth funds:** 0.76% to 3.44%
- **Aggressive funds:** 0.79% to 2.09%

Her message was and Kaspanz agrees don't accept high fees. Switch to a lower fee's fund.

KIWI SAVER FOR THE SELF EMPLOYED

Two main things which should encourage the self-employed to join Kiwi Saver. First is the \$1000 kick start, and secondly the Government tax credit. Upon joining \$1000 into your account, and if you contribute \$20 per week or more, Government will put \$10 week to the account. Easy money! Join and set up an account and A/P \$20per week. Martin Hawes also says a good reason for the self-employed to join, is to diversify their savings habit. Often self- employed small businesses have their home and business and little else. Treat Kiwi Saver like an independent insurance policy

LIFE EXPECTANCY

This issue is visible and often raised. Misinformation, invalid assumptions and of course the high risk factor associated with projections applies. Martin Hawes a valuable and often conservative commentator fell into the trap of suggested *"a new average of 30 yrs in retirement"* That might apply to a baby born this 2014 yr, but it would not apply to a 65 year old born in 1949, or a Maori Male or female. One should also be very wary of accepting assumptions which don't recognize the increasing longevity of 1st year infants, also skews life expectancy projections across the age index.

Dr Malcolm McKenzie of the Retirement Commission was onto this, and *advised "Setting out today to save a nest egg for 30 years could result in over saving and forgoing a better standard of living pre-retirement. On the other hand it's true we tend to underestimate our life expectancy and there is also a risk of outliving our savings."*

New Zealand Super covers some of this "longevity risk" because it is paid on a universal non means tested basis from age of eligibility until the end of life and it gives people space to make plans to suit their own circumstances. Martin Haws guidance is sound, but it could include keeping tables on your own personal life expectancy (which keeps changing as we age). Google "how long we live" leads to Statistics NZ website and a calculator that can estimate an answer to this question"

THE ECONOMIST May 17, 2014

Policies that limit access to social pensions based simply on the age of a person have their greatest impact on the poorest and least healthy. Tying access to the "life expectancy" of a population is even more problematic, since life expectancy largely reflects survival at younger ages, not health or capacity to contribute at an older age. It is good to encourage those who can contribute to do so. But generic approaches to pensions based on chronological age can simply reinforce the cumulative impact of inequities experienced across a lifetime.

*Director Jon Beard- World Health Organisation-Geneva
Ritu Sadana
Lead Specialist
Ageing and life course*

CONSUMER PRICE INDEX

From early 2016 the Department of Statistics will produce a suite of eight household living-costs price indexes (HLPs) for four household groups by early 2016

- beneficiaries
- income groups (quintiles)
- Māori
- Superannuitants.

The HLPs will provide greater insight into the inflation these groups of household's experience. They will also produce seasonally adjusted analytical CPI series by the June 2015 quarter, to give better understanding of underlying inflation trends without the influence of seasonal price change

Whether Government will utilise the above changes is a moot point!

DID YOU KNOW

* Rates of NZS are increased with effect from April each year using the "wage band" indexation formula that is set out in legislation. Essentially this formula performs two functions: it adjusts the pension for any increases in the cost of living, as indicated by rises in the Consumers Price Index (CPI), and it can also increase the pension amount when average weekly earnings in the economy rise faster than the cost of living.

The effect is that the real value of the NZS pension (i.e. after compensating for inflation) is trending upwards. This is because, since 2007, the "wage floor" in the annual pension adjustment formula has risen to a level where, in most years since then it has required that NZS be adjusted by more than just the rate of inflation. In fact, the NZS pension, after tax, is **13.7 percent higher** in 2013 (in real purchasing power terms) than it was in 2006.

* In early 2015, an annuity package will be launched in NZ for retirement income consideration. NZ Income guarantee (NZIG) has been working on this proposal for some time. Kaspanz is supportive of such a product, and looks forward to the offer details.

* Trust Law Reform low on Government agenda. Despite earlier promises to update Trust laws (note there are 300,000-500,000 trusts in NZ) Justice Minister Amy Adams says there is no timetable for developing a new act.

* 110 countries safeguard bank deposits. Not New Zealand. We neither insure nor guarantee bank deposits.

* Little support for the Financial Services Council call for a Fair Tax for Savers Campaign. No quite sure why, with low interest rates on term deposits this was an issue, one might think would capture the attention of Kiwi Savers and term deposit savers.

*The New Zealand Herald continues its barrage of articles, re rising the age for NZ Super etc. The Herald rarely prints articles or letters adopting more moderate positions, remember the Herald editorial position is to raise the retirement age to 70, and constantly misrepresents the costs of NZ Superannuation, using projections and assumptions which are often misleading or inaccurate.

Xmas Cheer to all Kaspanz members. Remember to check that website, and if you want e-mail alerts of new information posted, go to the home page and look for **FOLLOW**.



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