Time to Get Serious About KiwiSaver

A recent study by Massey University showed that a lot of New Zealanders can expect a "no frills" retirement if they aren't saving enough now. Although essentially all New Zealanders are eligible to receive NZ Superannuation from the age of 65 (currently) the study shows this will likely not be enough for people to have the freedom to continue living a comfortable lifestyle once they stop working.

There has been a lot of talk recently around exactly how much people need to save for a comfortable retirement and a number of financial commentators and organisations have come up with figures ranging from $250,000 to $450,000. Whatever the figure is for you, where is this extra savings going to come from? For more and more Kiwis going forward it will be from their KiwiSaver.

Studies show that education around KiwiSaver is still low and roughly half of New Zealanders think that KiwiSaver is a state savings scheme somehow guaranteed by the government. KiwiSaver is privately run by professional investment managers who invest in hundreds of different assets around the world and those investments are at the whims of the markets. The next time you flick over the news from that story about a European bank in financial turmoil you may want to pay attention because you may own a small slice of it.

Other recent surveys also show that roughly 45% of kiwis have their KiwiSaver funds invested in conservative and moderate funds, which are invested mostly in stable bonds and cash. Although these funds don't often have negative annual returns, after tax and fees returns are likely to be barely above the rate of inflation. Balanced, growth and aggressive funds on the other hand are what's needed for those who want to grow their balances and who have the time and ability to withstand market volatility.

Recently in August there was a relatively large pullback in global markets and some growth fund balances fell by over 5% in the month. Reports showed that during this time KiwiSaver members switched funds at a rate five times higher than normal. Many of them would have been unnerved by the volatility and switched to more conservative funds, crystallising those losses and not realising how it might affect them in the long run.

It's vital that people receive good financial advice and know the best way to achieve their own retirement savings goal. Being in the most appropriate fund now can mean the difference in balances of tens or hundreds of thousands of dollars over 30 years and the difference between a no frills retirement and a comfortable retirement.

Chris Crouchley is an Investment Adviser with First Capital Financial Services. The views in this article are of a general nature only and should not be considered personalized advice. A disclosure statement is available and free of charge.