kōura

Be Hundreds and Thousands Better Off

Your guide to KiwiSaver

kōura

The Intelligent KiwiSaver Plan

Does KiwiSaver make your brain hurt?

We can help with that

Buying a house and saving for your retirement are likely to be the two most important financial decisions of our life. So you need to think hard about it and get it right. This guide gives you a bit of help about how you can use your KiwiSaver to do just that and answers some of the common questions you may have.

Contents

What is KiwiSaver

Introduced in 2007, KiwiSaver is a government initiative to help you save and invest for your retirement (or your first home). If you're eligible to permanently live in New Zealand, you can join – but you don't have to sign up unless you want to.

Once you join, your money is not accessible until you qualify for New Zealand Superannuation (which is currently at 65), or to purchase your first home. There are only a handful of other scenarios in which you can get your money out earlier.

You can choose to contribute 3%, 4%, 6%, 8% or 10% of your gross (before tax) wage or salary. Your employer will contribute as well (unless you are on a total remuneration salary) and will put in at least 3% of your gross salary, and in some cases even more.

Along with KiwiSaver employer contributions, there's an annual government contribution that's also up for grabs (currently $521).

Your savings are invested on your behalf by your KiwiSaver provider. You can only have a single KiwiSaver provider, though you can choose your provider at any point in time. Most KiwiSaver providers allow you to sign up directly on their website. If you don't choose a provider, Inland Revenue will assign you to one of the nine default KiwiSaver schemes.

68% of New Zealanders believe their KiwiSaver will be extremely important for their retirement. Alongside your house, your KiwiSaver is likely to be the largest financial asset you will have. It's important that you remain actively engaged with your KiwiSaver and continue to make active decisions so it gives you the best possible retirement or first home.

This booklet is designed to give you information about KiwiSaver and the confidence to make the decisions to make the most out of your KiwiSaver.

A change of Mindset: KiwiSaver to KiwiInvestor

Unfortunately most people don't understand the difference between saving and investing. Saving is the process of putting money aside, investing is then what you do with that money. It's an important distinction, many of us do a great job saving. Where we stumble is the investing. It's important to get the investing right because if we don't, we're going to have to keep saving for much longer!

Savings

The process of spending less so that you can put aside money for the future

Savings Ideas:

- Changing your service providers like gas, electricity & internet
- Paying down debt as fast as you can to save on high interest repayments
- Downsizing your car or selling
- Paying your future self first on pay day

Investing

The process of making decisions about money you save taking into account your objectives and your risk tolerance

Investment Options:

- Shares
- Savings Account or Term Deposit
- KiwiSaver
- Bonds
- Property

You may not be giving KiwiSaver too much thought since you don't notice the contributions coming out of your pay. But despite its name, your KiwiSaver is an investment. And understanding what an investment is and how it works can help ensure you make good decisions for your KiwiSaver investment and avoid knee-jerk reactions. This can mean you're hundreds and thousands of dollars better off when it's time to buy that house or put up those tired feet. Wouldn't that be nice?

Choosing the right investment for your KiwiSaver

A recent kōura survey uncovered that less than half of people are sitting in the type of fund that matches their risk appetite and objectives. Not making a decision (or making the wrong one) could cost you hundreds of thousands of dollars. In selecting the right investment for your KiwiSaver it is important to understand

- The types of investment assets available
- Your risk profile
- Your objectives

What asset classes do we think about

01.

Growth assets

Assets whose return is derived from both capital appreciation and income (with the majority from capital), these assets include products like shares, real estate and infrastructure.

02.

Income assets

Assets whose primary return is meant to come from income, these assets include bonds and bank deposits.

Growth assets will typically have more volatility than income assets which makes them higher risk. Over the long term they are expected to deliver higher returns, to compensate for this higher risk.

A KiwiSaver fund is made up of growth assets and income assets, a growth fund will have more growth assets than income assets, and a conservative fund will be entirely income assets. In selecting your fund (or portfolio), you need to understand the mix of growth and income assets in that fund.

Your risk profile

Mention 'risk' in the same sentence as 'your KiwiSaver' and most people get scared and tend to just go with whatever seems to be the safest option. However, in finance speak, 'risk' refers to volatility (how much an investment will move up and down).

Risk is only 'bad' if it worries you or if you're not being paid enough returns for the risk you've accepted. To make clear investment decisions you need to swap the word risk and replace it with 'volatility'. Doing this shifts your perspective and now you only have two things to consider when making the choice that's right for you:

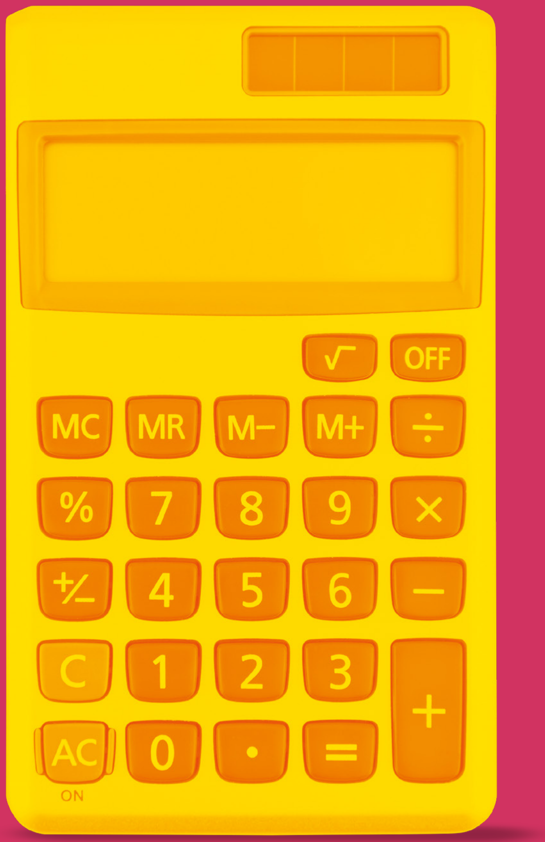
1. How long are your funds invested for? If you are investing for the longer term then you can handle lots of volatility as if the market goes down it will come back up again over time
2. How would you react in a severe market downturn? Would you be desperate to change investments thereby locking in a loss or would you be able to withstand the pressure?

Your objectives

Your underlying objectives along with your risk tolerance are key drivers of low much risk you are able to take. Markets are cyclical, (they move up and down) we would expect a market downturn at least every 7-10 years.

In determining what investment mix is best for you we need to understand when you are likely to want to use your KiwiSaver. The simple principles are:

- If you expect to use the money shortly (eg. purchase a house in the coming year) you cannot afford to take any risk as if there is a market downturn it will have a significant impact on the capital you have avvailable (so all income assets)
- If you are young and saving for retirement, you can afford to take a significant amount of risk as the value of your investments will have time to recover if there is a significant market downturn. The higher returns will outweigh the downside risk of a market downturn (so predominantly growth assets)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Don’t set and forget

Your KiwiSaver is not something you set and forget. The money you have there is for the ‘future you’, to fund your retirement lifestyle or to help you into your first home. But to do its job, it needs to be nurtured and looked after.

This starts with regularly checking in on your provider’s website how your balance is doing. You can also go through the Fund Update your provider sends you annually to understand how your provider has performed this year.

It’s important you research and change the way your investment is allocated as you grow older or edge closer to buying that home. As you change and get closer to your saving objective you need to continually assess the risk you are taking and ensure it is still appropriate for your situation.

kōura helps nurture your KiwiSaver by checking in with you every year to see how you are going. As you move closer to your objective or your situation changes, we will recommend you make tweaks to your portfolio of funds so that it always works for you!

Choosing the right KiwiSaver Scheme

There are over 30 different KiwiSaver schemes to choose from. Most of the time, comparing various KiwiSaver schemes is a bit like comparing apples and oranges – with a few nuts mixed in there too. No wonder most of us Kiwis put investing in the 'too confusing' basket and leave our KiwiSaver where it is. Here are some things worth considering:

Historical returns

It is important to understand that historical returns are not a sign of future returns. Research has consistently shown that it is very rare for fund managers to consistently outperform the market, they will have strong periods, often followed by periods of underperformance.

If you are choosing a scheme because of their historical returns it is important to understand how those returns have been generated, is it because they have taken more risk, or have they picked an appropriate theme.

Importantly, watch the fund carefully, and be prepared to move pretty quickly once the fund stops generating the returns, because more than likely something has changed and their strategy no longer works.

Fees

In our view, fees are the most important metric to consider. Your investment performance will fluctuate, and funds will have periods of strong performance and weak performance, but fees will always be a constant and they increase as your KiwiSaver balance grows.

In thinking about the fees you need to consider a few different components:

- **Management fee** – most funds will charge a management fee based on the assets in your KiwiSaver account. The average KiwiSaver growth fund fee is 1.19% though it can go as high as 1.9% for some growth funds.
- **Administration fee** – many funds will charge an administration fee to recover some of the costs of administering the accounts. These fees average $27 per member per year, though can range from $0 all the way up to $49.80 for some providers.
- **Performance fee** – a number of growth funds may also have performance fees in place. If the fund performs above a certain threshold then a portion of the return is given to the manager as a performance fee. This can make a significant difference – one provider that charges a performance fee has seen their annual fees grow from their fees grow from 1.1% to 1.5% as a result of the performance fees.

At kōura we like to keep our fee structure simple and transparent. kōura has an assets under management fee of 0.63%, a little over half the average management fee of the growth funds in the market. We also charge a $30 annual administration fee which is broadly in line with everyone else in the market.

Investment style: Active vs Passive

The investing world is splitting into two separate camps: the active world and the passive world. Active investing takes a hands-on approach and carefully selects every investment and the timing of that investment.

The goal of a KiwiSaver provider with an active approach is to beat the market's average returns and take full advantage of short-term price fluctuations. It involves deep analysis into companies and markets and the expertise to know when to buy and sell.

Passive investing is when your KiwiSaver provider invests your money in a market index like the S&P500 or NZX50 rather than picking individual investments.

Since KiwiSaver is a long-term investment you will be making for your retirement, time spent in the market is more important that timing the market. Passive investing is therefore becoming the norm rather than the exception.

How do I change funds or providers?

You can switch to another fund with the same provider, for example, from a Growth or Moderate fund to a Conservative fund. Often this is easily done online either through your provider's portal itself or by sending your provider an email.

You can also transfer to another provider by signing up with them directly. Your new provider will take care of the transfer process for you and inform you when it's done. There is no need to get in touch with your current provider.

How much to contribute, things to know

Think back to the day when you completed your KiwiSaver contribution form and fixed your contribution rate. How did you decide what that figure would be? It's hard deciding how much you should contribute to your KiwiSaver - here are some things to consider:

- Maximising the free money
- How much will you need
- What can you afford to contribute

Maximise the "Free Money"

If there's one thing we learnt growing up with grandparents is that if someone gives you a gift (or free money), you don't refuse. With KiwiSaver, there are two types of "free money" involved - government and employer contributions.

Most employers will match contributions to a minimum of 3% for your KiwiSaver - if you contribute 3%, your employer will also match this and some may even agree to matching your contributions at a higher rate. One the flipside, some employers will have you on a Total Remuneration Package which means that they will deduct their 3% contribution from your salary. You should ask your employer whether KiwiSaver is on top of your salary or included in your salary.

The Government also matches contributions 50c in every dollar up to a maximum of $521 per year for New Zealand residents over 18 and under 65. If you contribute up to $1,041 in a year, you will get an additional $521 free money.

Get up to

$521.43

Government Contribution Annually

How much will you need

Your retirement may be just around the corner or way down the road but the one question that everyone really wants an answer to is, "How much will I need to retire?".

Like everything in finance, there is no clear and simple answer. International research states you will need atleast 70 – 100% of your current income when you retire.

Rather than rely on the generic benchmarks, we suggest that you create a simple retirement budget for yourself, taking into account:

- What are your current household expenses?
- What expenses will you no longer have when you enter retirement?
- Will your mortgage still be around?
- Or, would you be open to selling your home and downsizing thereby using the equity in your home to fund your retirement?
- What are the additional things you would like to do in retirement and how much are they likely to cost?
- Will you be prepared to lower your standard of living when you retire?

Add up all the costs above and then add a buffer to provide for the unexpected costs that will inevitably crop up. Make sure you revisit these figures and decisions annually to ensure you're tracking well against your goals.

Making well-informed and sound financial decisions while you're still working is critical to enjoying the lifestyle you want in retirement. At the same time, there's also no point in saving for a wonderful retirement at the expense of your current standard of living. It's a balancing act to make sure you're not making too much of a financial sacrifice, either now or in your retirement.

What you can afford to contribute

You may be thinking, "it's all well for kōura to be suggesting I max out my KiwiSaver but I can't afford to do that!" We agree that what you can afford to contribute is really up to how much you earn and what your expenses are. However, there are a lot of small expenses you can focus on to find savings in unexpected places. Simply reviewing your power or broadband bill annually can save you hundreds of dollars per year that can go straight into your KiwiSaver.

When it comes to saving for the long term it pays to remember that even a little change can make a big difference. A small contribution today properly invested can turn into a big amount into the future. This means, the more you contribute the more money you can make on your contributions which in the end makes your KiwiSaver even bigger.

A pay rise is also the perfect time to trick your mind into saving more. By timing the increased contribution to your pay rise, you won't notice the extra money leaving your account and hence you won't really miss it. The same goes for using annual bonuses and monetary gifts from family. Using these to make voluntary contributions into your KiwiSaver is a great idea as you weren't expecting to use this money towards your day-to-day expenses and hence a portion of it can be used as a 'gift to your future self'.

Changing or Stopping Contributions

Investments go down as well as up. As humans, we are more likely to worry when that figure goes down than we are to celebrate when it grows steadily.

It can be tempting to change or stop contributions altogether when there is a market downturn to limit your exposure but even a small change or a few months of not contributing will have a huge impact on your final balance.

Research proves that the best way to grow your portfolio is to keep investing through a downturn - think of it like the equities market being on sale! This is because, the more you invest through a downturn, the higher the gains you will make when the markets bounce back (and they do always bounce back, eventually).

However, if you still wish to change or stop contributions then the answer is yes, you can. You can change the amount you put into your KiwiSaver account easily, but only once every three months. Just let your employer know in writing and complete the deduction form.

Stopping contributions for a time is also easy. You can put your contributions on hold for between three months and five years, if you really need to. Over that time, you won't get government or employer contributions. You can restart at any time by asking your employer to start putting the money into your KiwiSaver account again.

If you're self-employed, speak with your KiwiSaver provider.

How do I join KiwiSaver?

Employee

You'll be automatically enrolled in KiwiSaver if you're aged from 18 to 64 years and you start a new job.

You have 8 weeks to decide whether to stay in KiwiSaver or opt out – your future self will really thank you if you choose to stay in it! If your employer hasn't spoken about KiwiSaver, ask them.

Remember, you'll go straight into a default fund unless you ask for a different fund. If you haven't changed your investment fund since you first joined, there is a chance you might not be in the right type of fund for your needs. Default funds are usually conservative in nature, which means they are generally lower risk but offer smaller returns. Think of them simply as a 'holding pen' until you make an active decision.

Self Employed

If you're an entrepreneur or a freelance professional, you can join a provider directly. Remember, you don't have an employer matching your contributions and so it's a great idea to make as many voluntary contributions as you can.

kōura's digital advisor can help you understand what the right contribution rate should be for you and how it will impact your KiwiSaver at 65.


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Tax – calculating my PIR

You pay tax on the money you earn from your KiwiSaver investment. The IRD calls the tax rate you pay a 'PIR', which is short for 'prescribed investor rate'. Unless you're from overseas, it's currently one of these rates: 10.5%, 17.5%, 28%.

Check which rate you should be on at ird.govt.nz/toii/pir/workout/ and let your employer or provider know.

If you're not on the right rate, you could be paying more tax than you have to, and you can't get that money back.

10.5%

17.5%

28%

When can I withdraw from KiwiSaver

KiwiSaver has been designed to help fund your retirement and to help you get into your first home.

You can only withdraw your funds when you turn 65. But in certain circumstances you might be able to get your money out earlier if you're buying your first home, leaving the country for good, or if you're in financial hardship or seriously ill.

First Home

If you've been in KiwiSaver for three years and you're buying your first home to live in, you might be able to withdraw your money. You may also be able to get a KiwiSaver HomeStart grant.

Moving Overseas

If you've moved overseas permanently (other than to Australia), after a year, you might be able to withdraw your money.

Significant Hardship or Illness

If you're in major financial strife, you may be able to use some of your KiwiSaver money for hardship. Or if you have a major illness or injury, your provider might let you withdraw it.

If you'd like to withdraw your money, contact your provider to see if you can and what their exact procedure to do so is.

What happens at 65

Throughout this book we've spoken about 65 like it's a magic number. And in some ways it is, because this is when you're finally allowed to touch your KiwiSaver and use it towards your retirement.

Even though you may keep working post 65, its important to know that you will no longer get the government money and your employer no longer needs to contribute (though some of the good ones offer it as an incentive to retain experienced staff).

If you're still working and you can afford it, it's a good idea to continue contributing to your KiwiSaver. However, you may want to check on it and move it to a more conservative option to ensure you don't lose your savings in a market downturn.

We recommend leaving some or all your balance invested and drawing down on your KiwiSaver only as you need it. Retirement could be short but with life expectancies going up and NZ being such a great place to live you may need your KiwiSaver to sustain you for another 30 years!w

Contact your provider to understand what's the best way for you to draw on your KiwiSaver.

Hi, I'm kōura

I've been built to help every day Kiwis make more intelligent KiwiSaver Invesment decisions

For the average Kiwi, making the right KiwiSaver decisions could lead to **hundreds of thousands of dollars more** at there retirement.

This can be the difference between an OK retirement and a great one.

I am a digital financial adviser, here to help you make sure you are making the right decisions for your KiwiSaver.

How confident are you that you have made the right decisions? **Come and ask koura**

Personalised advice

+

Low annual fees

+

Two minute sign up process

+

Socially responsible investing

=

kōura (gold)

kōura
The Intelligent KiwiSaver Plan

The intelligent KiwiSaver Plan

Personalised advice

kōura builds personalised portfolios for each KiwiSaver based on your own individual risk tolerance and objective. Having the right mix of funds is the single most important consideration for your KiwiSaver.

Has anyone ever offered to personalise your KiwiSaver just for you?

Low annual Fees

kōura charges a low annual fee of 0.63% per annum plus an annual membership fee of $30. Though we won't charge the membership fee for kids under 18.

Kōura is significantly cheaper than the average growth fund cost of 1.19%

Two minute sing up process

The whole sig up process takes only 2 minutes and importantly you can do it from the comfort of your couch.

You don't need to talk to your current provider, our team will get in touch with them to arrange the transfer.

Socially responsible investing

We are big believers that we should only invest in things that we want to support. So that means we avoid nasty things like **weapons, gambling, fossil fuels and tobacco**

kōura

www.kourawealth.co.nz