Retire READY

Table of contents

Why planning your retirement is vital	**1**
Choose the retirement you want	**2**
The three stages of retirement	**3**
Your financial overview	**5**
Your retirement income and expense buckets	**7**
Your retirement asset buckets	**16**
Get ahead before you retire	**24**
Conclusion	**25**
About Liz Koh	**26**
Full disclaimer	**27**
Notes	**28**

Disclaimer

While Summerset has purchased the rights to the information contained in this publication, to the fullest extent permissible by law Summerset, its related companies, employees, directors and agents, assume no responsibility for the use or misuse of this product, and for any injury, damage and/or financial loss sustained to persons or property as a result of this information.

Full disclaimer can be found at the back of this workbook.

Why planning your retirement is vital

Life has a habit of disappearing quickly. It seems the older you get, the faster time goes.

After a busy working life juggling family and work commitments, and trying to squeeze in some personal goals and interests, reaching retirement can bring a sense of relief... or it can bring a feeling of trepidation. On the one hand, many commitments and obligations fall away. On the other hand, the loss of those commitments and obligations also comes with the loss of income and creates a vacuum of time to be filled.

The time before retirement is the time to re-evaluate what is important in your life and plan ahead so that the available time and financial resources are used for the things that really do matter. Being pro-active about how you manage time and money will bring more fruitful outcomes than simply going with the flow.

Retirement is full of uncertainties...

How much money will I need?

How long will I live?

What rate of return will I get on my investments?

Standing at the gateway to retirement, a new world stretches out before you, full of unknowns but potentially the most rewarding years of your life. These days, retirees can expect to live up to thirty or so years in retirement. It's up to you what you make of your retirement years.

The aim of this workbook is to equip you with knowledge and tools to deal with the uncertainties and have a fabulous retirement.

Choose the retirement you want

Some people let life happen to them while others decide what they want and find a way to make it happen. The latter approach is based on the premise that you do actually have a choice. And you do. Obviously it is not unlimited, but you most certainly have the choice to use your available time and money for the things that matter most to you.

The starting point for your retirement plan is to clearly identify what is important to you. It might be:

- Travel
- Spending time with family and friends
- Hobbies such as gardening, photography, music, art, genealogy or playing bridge
- Sports – golf, running, cycling, walking, bowls, pétanque, tennis, etc.
- Keeping fit – yoga, working out at the gym
- Volunteer work in the community
- Participating in clubs and service organisations such as Probus, Grey Power, Rotary, Lions etc.

Deciding how you want to spend your time will determine how much money you will need. For example, if you want to spend several weeks a year travelling overseas, you are likely to need considerably more money than someone who is not interested in travel. Some retirement activities are more expensive than others. You may have to pay an expensive joining fee or annual subscription as well as additional costs for meals or outings.

Then there is the issue of where you choose to live. You may plan a move to a different home at some point. What you spend on your retirement home may be more than your present home if it is newer and lower maintenance, even if it is smaller. Where you choose to live will also have an impact on travel costs.

If you choose to live in a retirement village, you may have to allow for the weekly or monthly service fees. Or plan and budget for the eventuality that you may need to move into a rest home or pay to have in-home care.

It is not possible to plan ahead with precision over a thirty year period, but it helps to have a broad view of what you want to achieve in the long term while being more specific about short term goals. Breaking your retirement into blocks of time can help achieve a clearer picture.

The three stages of retirement

Life is a journey that has an end. We just don't know how long it will take to get there. If you are worried about running out of money before you run out of life, the most conservative approach you can take to planning your retirement is to plan to live a long time.

If you live for a shorter time than you expect, that will be sad, but at least you won't have run out of money! Of course, there may be issues that impact on your longevity, such as an already known health issue, or a family history of either long or short life spans. At the end of the day, you need to make a calculated guess, but make your estimate at the longer end of what you think might be your life span. If there is a big age gap between you and your partner, you will need to make sure your money lasts long enough for the younger person's needs, without depriving the older one of the opportunity to really enjoy their remaining time.

Once you have estimated your life span, break your retirement period into blocks of time. In general, retirement has three separate stages:

1. The **'live it up'** stage. This is the most active stage of retirement where money is spent on physical activities such as sport and travel and in general, just getting out and about enjoying life.

2. The '**fix it up'** stage. If you upgrade your car and home décor at retirement, chances are that ten or so years into your retirement you will have to do it all over again. During this stage you might also need to spend money on your health, for such things as hearing aids, cataract operations or hip replacements.

3. The **'wind it down'** stage. In the final years of life, you may need to pay for someone to care for you in your home, or you may want to allow for moving to a retirement village or rest home.

Think about how long each stage might be. This will be determined by a number of factors, such as your current age, your state of health, and how active you plan to be in retirement. If you are not sure, simply divide your estimated life span by three and adjust to suit.

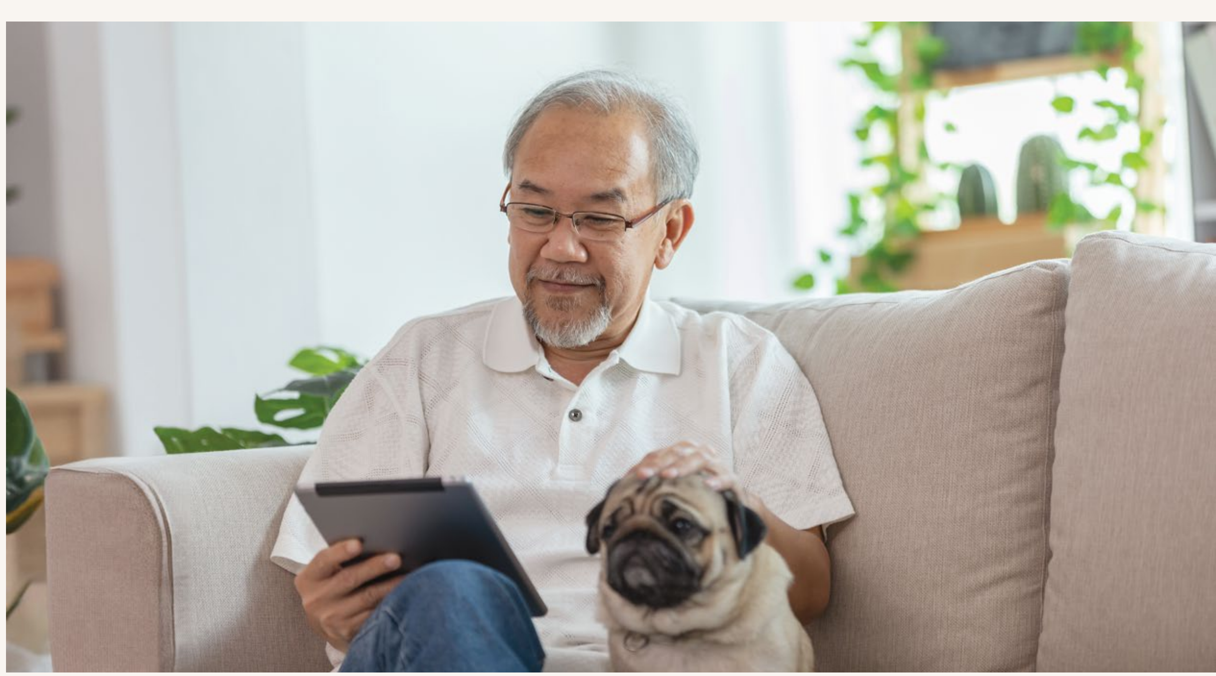
Exercise one

Take an A4 piece of paper and turn it into a landscape orientation. Divide the page into three columns. Put a heading at the top of each column. You can use Live it Up, Fix it Up and Wind it Down, or headings of your choice that reflect three different periods of time. Under each heading write the number of years in that period.

Now fill up each column with your vision of how you will be spending your retirement in that time span. Be as specific as you can.

For example:

LIVE IT UP	FIX IT UP	WIND IT DOWN
10 years	**10 years**	**10 years**
Trip to Europe for two months about two years from now	New car	Move to a smaller house
Annual trip to son in Australia	Repaint the house	Pay someone to look after the lawns and garden
Annual holiday in New Zealand	Trip to South America for three weeks	Might need hearing aids
Member of golf club	Annual holiday in New Zealand	
Part-time work for first three years	Member of golf club	
	Voluntary work in the community	



Your financial overview

You have two types of financial resources; assets and income.

Your assets

At retirement, your assets will generally comprise of your house (which will hopefully be debt free) and your investments (KiwiSaver and other investments). Something to keep in mind here is the balance between the value of your house and the value of your investments. If all, or most, of your money is tied up in your house, you will be asset rich but income poor. A rule of thumb is to have an investment portfolio value at about half the value of your house.

Exercise two

Write down the value of your house and the value of your investments:

YOUR ASSETS	VALUE
House	$
Investments	$
	$
	$
	$
	$
	$
	$
	$
	$
Total investments	**$**

How does the value of your investments compare to the value of your house?

Your income

Your income will potentially come from a variety of sources:

- New Zealand Superannuation
- Other pension, such as GSF pension, company pension or overseas pension
- Part-time employment
- Income from investments (interest, dividends, rent etc.)

You can supplement these income streams by running down your capital. Two ways to do this are to:

- Purchase an annuity
- Withdraw a certain amount of investment capital on a regular basis from your portfolio

Exercise three

Write down your estimated annual retirement income from all sources:

TYPE OF INCOME	PER YEAR
New Zealand Superannuation	$
Other pension	$
Part-time employment	$
Investment income (interest, dividends, rent)	$
Annuity	$
Capital drawdown (withdrawals from KiwiSaver and investments)	$
	$
	$
	$
	$
	$
	$
	$
Total	**$**

Your retirement income and expense buckets

There is an old saying that the best way to eat an elephant is one bite at a time. Cutting a large object into chunks always makes it easier to manage. It is no different with financial resources. The chunks need to be bite-sized; not too big and not too small; just the size that is easiest to manage.

For the purposes of this workbook, we will call the chunks 'buckets'.

If you have done the income exercise above, you will have an idea of what your retirement income will be. It may vary over time. For example, you may stop working part-time or your investment income may rise or fall. However, on an annual basis it should be reasonably easy to predict.

Now you need to decide how to use your income to cover your outgoings. You will have two types of outgoings:

- Your ongoing **Daily Living Expenses**. These are usually paid for with your fortnightly income
- **Lump Sum Expenses**. These are one-off or irregular outgoings, such as dental care, holidays, furniture, a new car, etc.. These are usually paid for out of your savings or investments.

Money buckets for daily living expenses

Why is it that our grandparents seemed to be able to manage their money a lot better than we can? Last century, before the advent of electronic banking and when employees were typically paid in cash, money management was much simpler.

Dad took out his money for beer and cigarettes, paid the rent or mortgage and gave Mum the housekeeping money. Out of this, Mum would set aside a little each week to save up for new clothes (if there was any spare). She would divide up the rest into portions, often putting each portion into a separate container, to cover food, clothes for the children, power, telephone etc..

Because everything was done in cash, both Mum and Dad always knew exactly how much money they had left until the next pay day.

The secret to getting your daily living expenses under control is to follow the same simple rules that our grandparents used.

Grandma and Grandpa's golden rules for managing money

1. Have one "account manager" for each of your bank accounts – that way, each account is somebody's responsibility rather than nobody's.

2. Separate your personal spending from your household spending.

Each partner should have their own personal account into which an agreed amount is paid each pay day. This does two things – it sets a limit on the amount of personal spending but it also gives freedom to each partner to spend money without being accountable to the other partner. These personal accounts should be clearly separated from accounts which are used for household expenditure.

3. Separate your known payments from your variable payments.

A known payment is one for which you know the amount and the date of the payment with certainty, whereas a variable payment is one for which the amount and/ or the date of payment is not known. Known payments are usually unavoidable financial commitments and they are easier to deal with than variable payments.

By setting up all your known payments to come out of a separate account from your variable ones, you will avoid having dishonour fees on direct debits and automatic payments, and you will have a clear limit as to what is available for spending on variable expenses.

4. Don't spend more than you have.

Set limits for what you will spend from each account that you set up - personal expenses, known expenses and variable household expenses - and stick to them. Once you start going over your limit or "borrowing" money from one account to top up another, you will lose control of your money.

5. Monitor your cash withdrawals.

- Try and use electronic payment methods wherever possible so there is a record of what you have spent and where
- Use cash only for personal spending on small items
- Keep cash holdings in your wallet to a minimum
- Set a limit for how much cash you will spend every week and only make one withdrawal of that amount each week.
- DON'T take extra cash out when you make a purchase by electronic funds transfer, unless it is to take out your weekly cash allowance

6. Check your bank balances regularly.

The best money managers are those who know exactly how much is in each one of their accounts every day.

Forget budgets – Manage buckets!

Managing your daily living expenses is the biggest challenge when it comes to setting up your money management system. Most budgets fail because they take too much time to work out and are too complicated and time-consuming to monitor. Wouldn't it be great to have a simple system to manage your money that requires virtually no time and effort?

Forget making detailed lists of everything you spend money on. Don't bother tracking every last dollar you spend. Managing your money at such a detailed level doesn't work. Throw away those complicated spreadsheets and notebooks for recording all your purchases. Don't ever use the word budget again. Instead, allocate your money into different buckets.

Using Money Buckets for Daily Living Expenses is the simplest, most effective money management system you will ever find.

You need only four money Buckets:

1. Your known expenses bucket
2. Your personal expenses bucket
3. Your partner's personal expenses bucket
4. Your variable household expenses bucket

Follow these simple steps to set up your Money Buckets for Daily Living Expenses:

Step One

Start by identifying all your Known Expenses and add them up. These are all the payments you need to make that meet two criteria – you know exactly how much you need to pay, and when you need to make the payment. They might be either household or personal expenses such as rates, insurance, car registration, club or gym membership fees. You will need to set aside a regular amount every pay day to cover these items. Once that amount is set aside, you can forget about all those items.

Step two

Now agree an amount that you and your partner will each set aside each fortnight for Personal Expenses. These amounts don't need to be equal but they do need to be mutually agreed to! Your Personal Expenses will cover such things as entertainment, coffees, dining out, gifts, haircuts, clothes, makeup, books, magazines etc..

Personal Expenses are expenses that are discretionary; in other words, they are not necessities and you could do without them if you really had to. Overspending on discretionary expenses is one of the key reasons why people fail to achieve their financial goals. The best way to keep them under control is to set a limit that you stick to.

It is important that each partner in a relationship has their own money for Personal Expenses that can be spent within the agreed limit without getting permission from the other partner.

Step three

Subtract your Known Expenses and Personal Expenses (for you and your partner) from your estimated fortnightly income. This is the amount you have left to cover your Variable Household Expenses such as food, power, phone etc.. These are expenses which are necessities but which you have some control over. For example, you can be very frugal with how much you spend on food or you can be extravagant. Do a quick check to see whether the amount you have available for your Variable Household Expenses is going to be enough to live on. If it's not enough, you will need to cut back on your Known Expenses or your Personal Expenses.

On the next page is a Money Plan to help you record your Daily Living Expenses. The items shown under each heading are a suggested guide and you may need to add or delete items to suit your personal situation.

Exercise Four

Money Buckets for Daily Living Expenses

Following Steps 1 to 3 above, break down your daily living expenses and record them on the table on the next page.

EXPENDITURE	FORTNIGHTLY	ANNUAL TOTAL
Known Expenses		
Rates	$	$
Insurances (house, vehicles, health)	$	$
Vehicle registration	$	$
Club membership fees	$	$
Subscriptions	$	$
Other	$	$
Total	**$**	**$**
Variable Household Expenses		
Food	$	$
Power	$	$
Telephone	$	$
Transport	$	$
Car maintenance	$	$
Petrol	$	$
Ongoing medical and dental	$	$
Other	$	$
Total	**$**	**$**
Variable personal expenses – Partner 1		
Gifts	$	$
Hair cuts	$	$
Clothing and footwear	$	$
Entertainment	$	$
Other	$	$
Total	**$**	**$**
Variable personal expenses – Partner 2		
Gifts	$	$
Hair cuts	$	$
Clothing and footwear	$	$
Entertainment	$	$
Other	$	$
Total Expenditure	**$**	**$**
This compares to estimated income	**$**	**$**

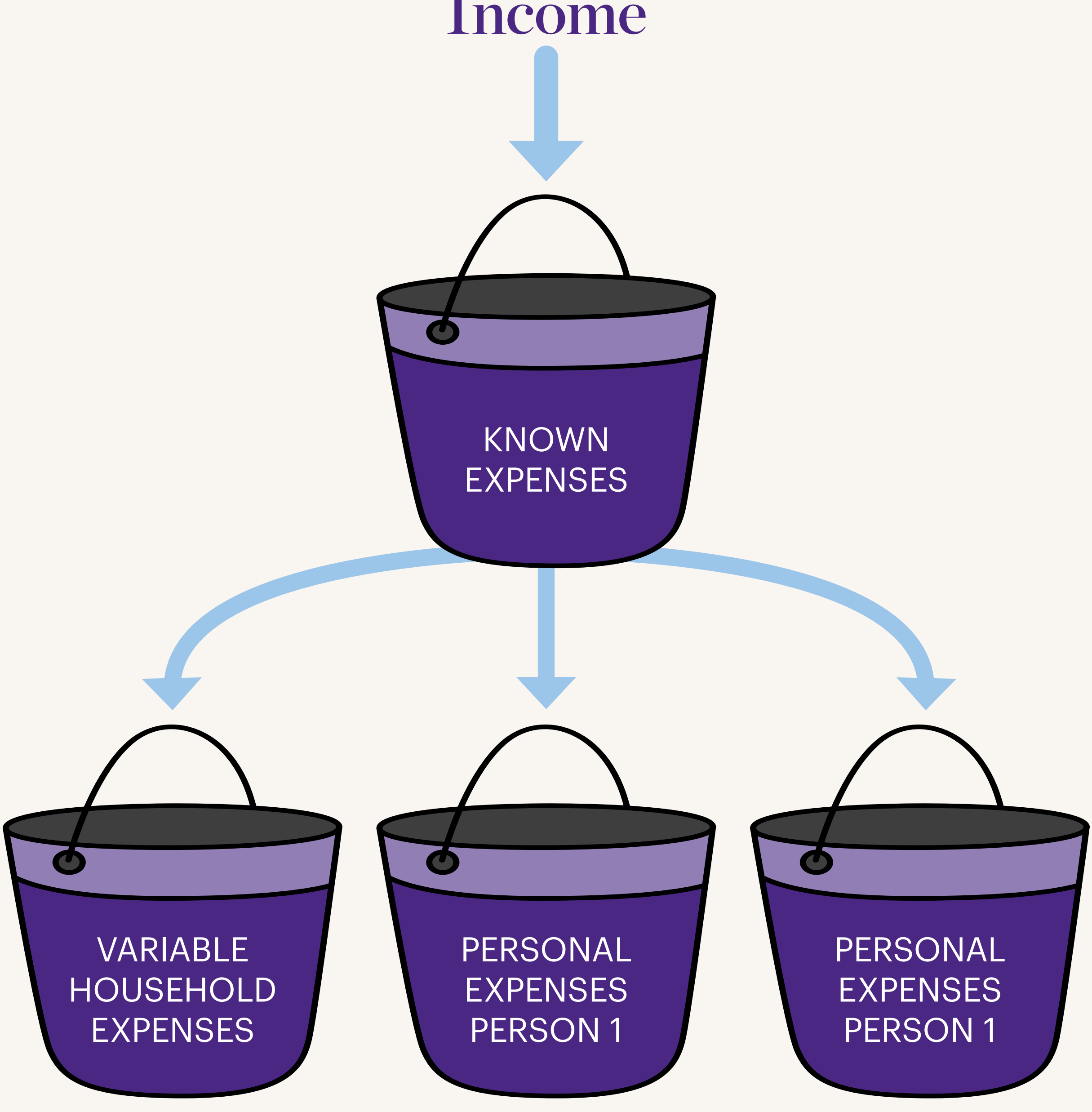
Now you need to cross check your total expenditure on Daily Living Expenses against your fortnightly and annual income in Exercise Three. Clearly, if your estimated income is less than your estimated expenditure, you will either need to cut back your spending or find more income!

Once you have a balance, you are now ready to set up a system for your Money Buckets that will manage your money **automatically.**

Manage your money buckets automatically

The reason most budgets fail is because they are simply pieces of paper with numbers written on them. To make changes in the way you manage your money you have to change the things that you do. There's an old saying, "If you do what you always do, you'll get what you've always got". The easiest way to change what you do is to set up a system that will manage your money automatically. These days, banking technology makes automating your money management very easy to do.

Allocate a different bank account to each of your four Money Buckets (Personal Expenses for you and your partner, Known Expenses and Variable Household Expenses). The main account into which your income is paid should be either your Known Expenses account or your Variable Household Expenses account. From this account, transfer a fixed amount every fortnight to your three other accounts. The following diagram shows an example of how this works:



Dealing with your daily living expenses in this way means that instead of trying to manage one big pool of money you now have four accounts of which three manage themselves (your Known Expenses account and Personal Expenses accounts). You have substantially reduced the size of your problem. Now you have only one smaller pool of money to worry about, which doesn't get hit by as many unexpected items.

The key to making this system work is to keep the spending in each of these accounts within the limit you have set. If your Personal Expenses account runs out two days before the end of the fortnight then, tough, you will have to go without for those two days! Your Known Expenses account should automatically remain in balance if you have done your calculations correctly. The Variable Household Expenses account will require the greatest amount of effort to keep under control, but it will be a lot easier than managing your total income and expenditure from one account.

While there may be additional bank fees involved with setting up more bank accounts, many people will find the benefits of this simple money management system outweigh the costs and give them an ability to get their money under control. This is because they will experience increased savings despite any additional bank fees. Some banks are now offering multiple accounts to customers for a fixed monthly fee, which makes this system both easy to use as well as cost effective.

Setting up accounts for daily living expenses

1. Pay all household income into your Known Expenses account. This should be a joint account accessible by internet banking but not by EFTPOS.

2. Arrange for all Known Expenses (automatic payments, direct debits etc.) to be deducted from this account.

3. Set up a joint account for Variable Household Expenses. This account should be accessible by EFTPOS and should be set up as the 'Cheque' option on your card. Transfer the required amount for Variable Household Expenses each fortnight from your Known Expenses account.

4. Set up a Personal Expenses account for each partner which is accessible by EFTPOS and arrange for the agreed amount to be transferred to this account every fortnight from your Known Expenses Account. Each partner will have this as their 'Savings' option on EFTPOS.

Some people prefer to use credit cards as well as EFTPOS cards. There are three rules with regard to using credit cards:

1. Use a credit card for ONLY ONE category of expenses, that is, EITHER Variable Household Expenses OR Personal Expenses.

2. Each month, pay off the credit card IN FULL from the account the spending relates to, that is either Variable Household Expenses or Personal Expenses.

3. Do not use your credit card for Known Expenses as you are likely to be charged additional fees for direct debits from your credit card.

Ideally, consider using a DEBIT card instead of a credit card. You can use your debit card to make purchases online and in most other situations where you would normally use a credit card. The only difference is, the funds come straight out of the bank account attached to the card; so there is no period of free credit.

Banks have different account types on offer with a variety of fee structures and you should spend time with a knowledgeable person from your bank to determine the best account structure for you.

Making your Money Management System work

Once you have set up your Money Management System, the key to making it work is to use some basic rules for spending your money:

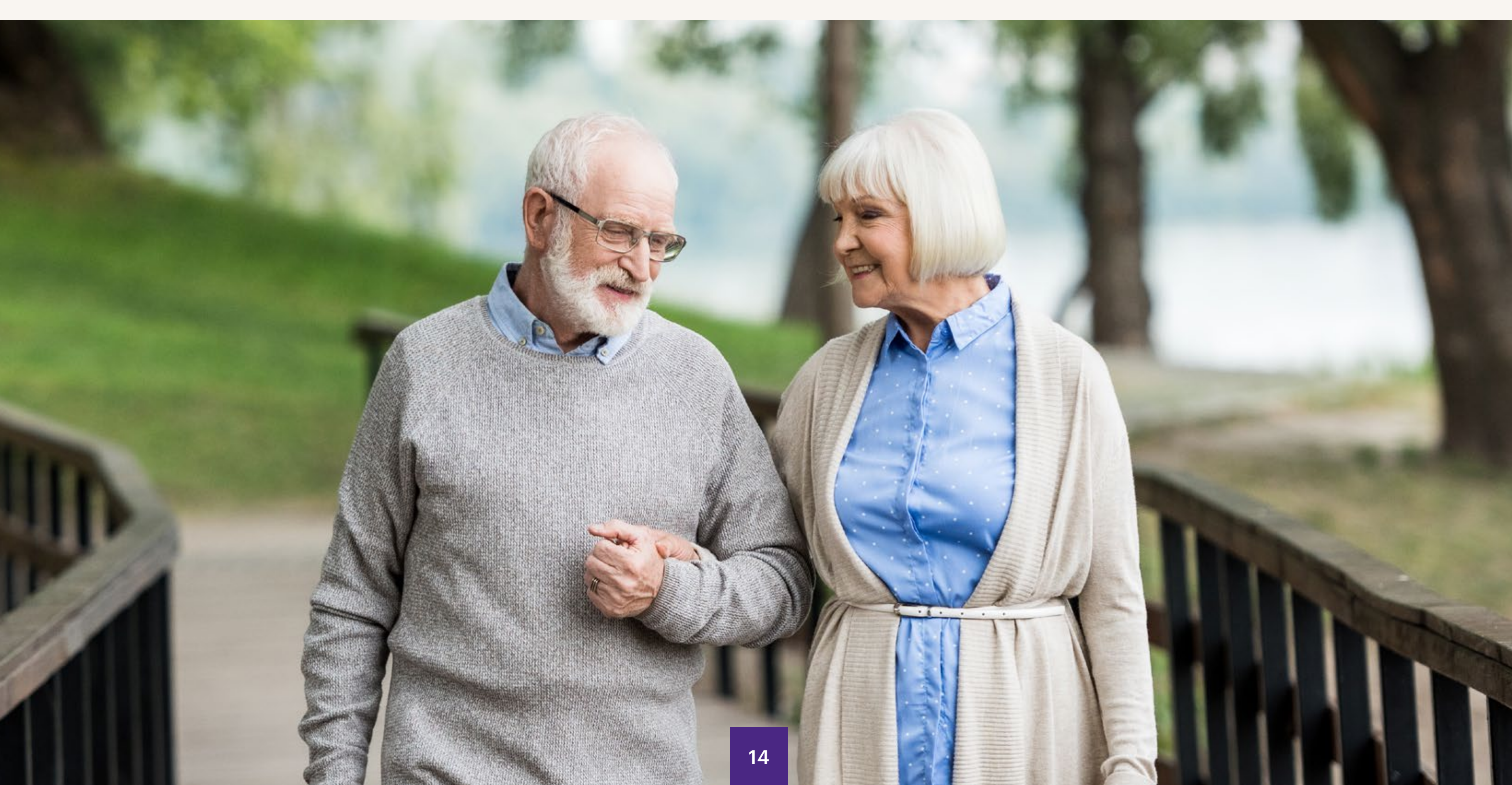
1. Arrange for your income to be allocated into each of your categories by automatic payment, transfer or direct debit as soon as you receive your income.

2. Be clear about which expenses are covered by each of your different accounts.

3. Only use money in an account for the purpose that has been allocated for that money (for example, don't use your Variable Household Expenses account to buy personal gifts).

4. Don't spend more than you have in your account.

5. Don't transfer money from one account to the other in between income periods so that you can spend more.



To start with, setting the totals for each of your categories will involve a little trial and error. If you find after a few months that you need more money in one category and less in another, then modify your system.

You can alter the items covered by each category within reason. For example, if your power or phone bills are reasonably constant from one month to the next and you prefer to pay them by direct debit, you may wish to put them in your Known Expenses account.

You will need to regularly update your Money Management System to allow for changes. For example, your Known Expenses may change as a result of an increase in your insurance premiums.

A few minutes spent each quarter reviewing your Money Management System will enable you to keep control of your money with a small amount of effort.

Money buckets for lump sum expenses

Lump sum expenses are one-off or irregular expenses that may be planned or unexpected. They might include an unexpected medical or dental bill, an unexpected car repair bill or a planned overseas trip. These expenses are not paid for from income, they are paid for from savings or investments.

To cover unexpected expenses, it is best to keep some cash on hand, at call, in a savings account.

For planned expenses, money should be kept aside in either a short term, medium term or long term investment bucket depending on when the money is planned to be spent. Investment buckets are outlined in the next section.

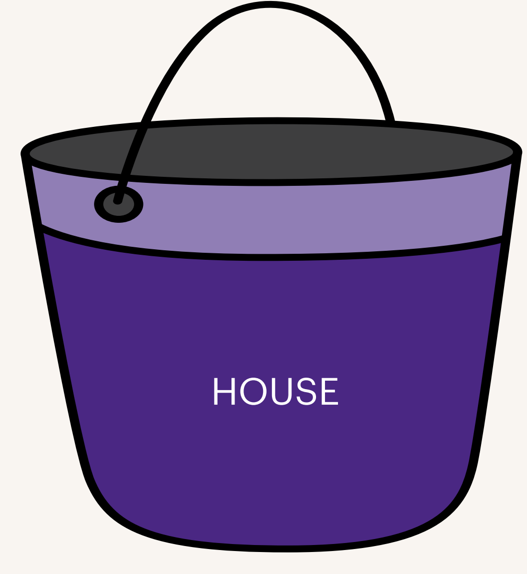
Your retirement asset buckets

Your retirement assets will generally consist of your home and a sum of money which is invested.

Your home

As a rule of thumb, the value of your home should not be more than twice the value of your investments, or you will be in danger of being 'asset rich but cash poor'. It is best to plan ahead for your living arrangements and the financial implications of changing your home. Moving to a smaller, newer home may cost as much as, or more, than the home you move from. Moving to a retirement village means paying a weekly service fee which needs to be budgeted for.

How big is your 'house bucket' relative to your 'investment bucket'?



Your investments

Before we get into the detail of managing your money there are some basic principles to understand.

Principle one – focus on cash flow not income

In retirement, you need cash. If you try and live off the income from your investments while leaving the capital intact, two things will happen. Firstly, you will have significantly less to spend and secondly, the beneficiaries of your estate will have a lot more to spend.

The value of money is only crystallised when it is spent and, as they say, you can't take it with you to spend. You must choose how much of your capital you want to spend in your lifetime, how much you want to leave for your beneficiaries to spend, and how much you would like to give to others (such as charitable organisations) to spend.

Having made that choice, it is a matter of deciding the time frame in which you plan to spend it – the Live it Up stage, Fix it Up or Wind it Down. Your available cash for each of these time frames is the income from your capital, PLUS the capital you have allocated to that time period.

Principle two – investment return is income plus capital gain

There are two types of return on investment:

Income – such as interest and dividends.

Capital gain – the change in value of investments, such as an increase in the value of an investment property or a portfolio of shares.

Income is generally paid in cash and is generally taxable. Capital gain can only be accessed when part or all of the investment is sold. In many cases, capital gain is not taxable, providing certain criteria are met.

Some investments provide income only (for example, bank deposits), some provide capital gain only (for example, shares that do not pay dividends) and some provide a mixture of both (for example, shares that pay dividends, or rental properties). As a general rule, income-producing investments offer a lower rate of return after tax over the long term than those which provide capital gain.

Principle three – match your investment strategy to your investment time frame

Income-producing investments are best suited to a short investment time frame. They are usually quite liquid (that is, they can be easily converted to cash) and they provide cash returns. They are also typically more stable in value. Their disadvantage is their generally lower return after tax, which means that over the long term they struggle to keep ahead of inflation.

Investments which produce capital gain are best suited to a long investment time frame. While they offer a higher rate of return after tax over the long term, the value can fluctuate in the short term. If you invest money in assets that change in value and you know you need to use the money in the short term, you run the risk of loss if the value drops. Over time, despite short term fluctuations, investments which change in value often show an increase in value. The longer your investment time frame, the more suitable these investments are.

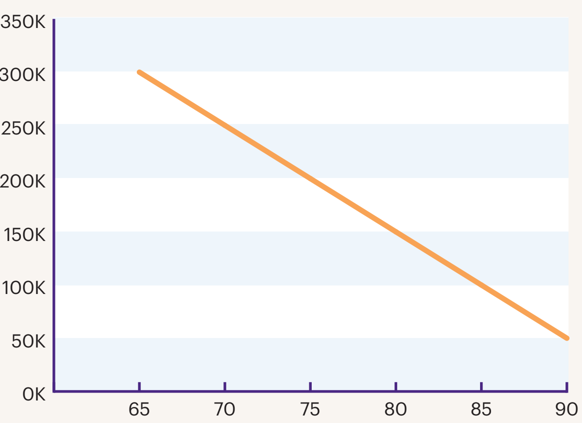
Setting up your investment buckets

The best system for managing investments is one which provides cash for income in the short term while getting a good return on money that is not needed for a while.

Step one

The starting point is to decide how much of your investment capital you wish to run down over your expected lifetime. Whatever you choose not to run down will form a bequest for the beneficiaries of your estate. It can also be a contingency in case you live longer than expected. In the chart below, the investment capital would be run down from $350,000 at age 65 to $50,000 by age 90.

INVESTMENT CAPITAL



At this stage, you might also want to consider the possibility of converting part of your investment capital into an annuity, which will provide an income for the rest of your life. While this will lower the investment capital amount, it will also lower the amount of top-up needed from your capital for your Daily Living Expenses and Lump Sums.

Step two

Set up three buckets to cover the short term, the medium term and the long term. For investment purposes, short term is a period of less than 5 years, medium term is 5-10 years and long term is 10 years or longer. Using the example above, the first bucket would contain $50,000, the second bucket would contain $50,000 and the third bucket would contain the remainder ($200,000).

The aim is to run down your investment capital over your lifetime in a way that provides enough income and capital in each stage. Once you have used up your short term portfolio, money is transferred from the medium term portfolio to the short term portfolio and from the long term portfolio to medium term. In other words, there is a trickle down from each bucket to the next, so that by the time you reach the last stage of life, all that is left is a short term bucket. See the diagram on the next page.

Bank account (known expenses account)

Your bank account should at any one time have sufficient funds to cover:

- Your income top-up needs for Daily Living Expenses for the next 6 months
- Lump sums you plan to spend in the next six months plus a contingency for unexpected expenses (such as dental bills or urgent car repairs)

Short term bucket

Your short term bucket should contain sufficient funds to cover:

- Your income top-up needs for Daily Living Expenses for the next 5 years
- Lump sums you plan to spend in the next 5 years

Medium term bucket

Your medium term bucket should contain sufficient funds to cover:

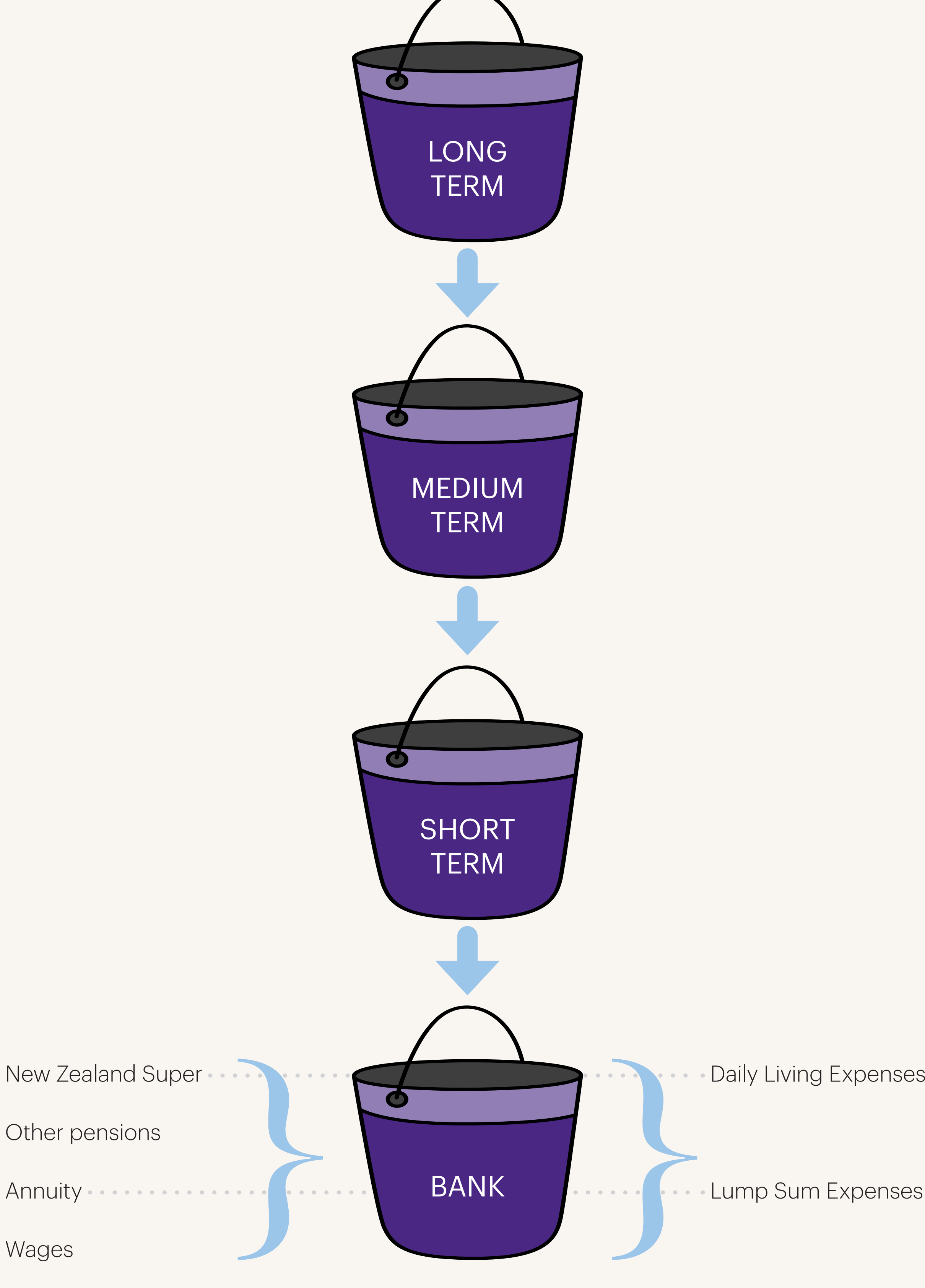
- Your income top-up needs for Daily Living Expenses for the period from 5 years to 10 years from now
- Lump sums you plan to spend in the period 5 years to 10 years from now

Long term bucket

This bucket should include all remaining funds, including any planned bequest.

Overview

Here is how your complete financial system should look:



Exercise five – Your investment buckets

Refer back to Exercise One to review the time frames for planned lump sum spending and to Exercises Three and Four for the amount of capital drawdown you will need from your investments to top up you income to cover Daily Living Expenses.

Now estimate the amount of money you will need in each bucket:

	CAPITAL DRAWDOWN FOR INCOME	PLANNED LUMP SUM SPENDING	TOTAL
Short Term – First five years			
Medium Term – 5-10 years from now			
Long Term – 10 years or more from now (plus bequest)			
		Total retirement capital	

Step three

Now you can set up your investments.

Short term investment bucket

Your short term bucket needs to offer liquidity and stability. Short term funds are generally best invested in fixed interest investments. One way of setting up your fixed interest investments is to use a fixed interest 'ladder'. This is series of bank deposits or bonds with staggered maturity dates to provide liquidity. For example:

Maturity	Amount
At call	$10,000
6 months	$10,000
12 months	$10,000
18 months	$10,000
2 years	$10,000

As each term deposit matures, funds can be withdrawn to top up the bank call account to cover Daily Living Expenses and Lump Sums for the following 6 months. Surplus funds from the maturing deposit can be reinvested for 2 years (that is, 6 months longer than the longest maturity of current investments).

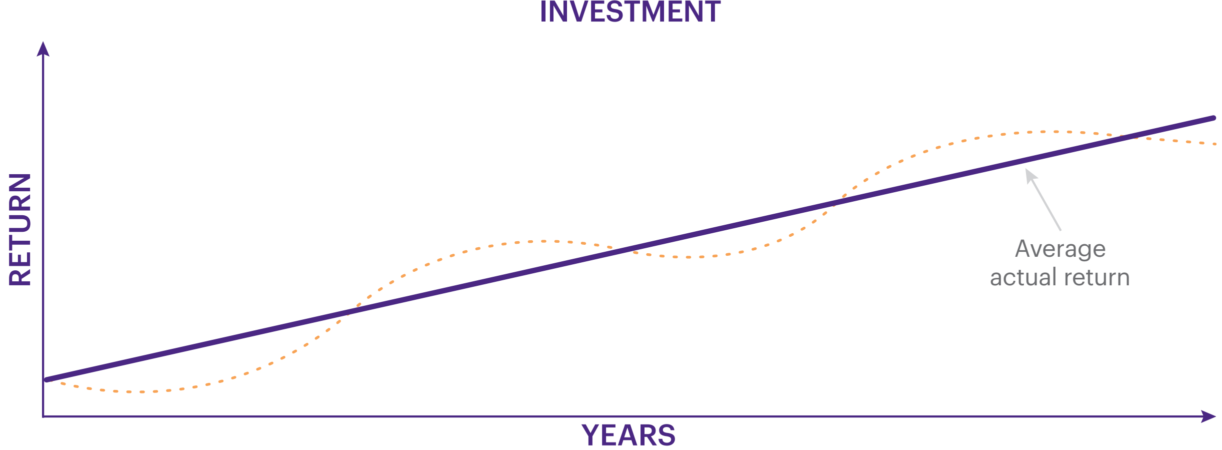
For example, let's assume at the end of six months you had used up $5,000 of the cash at call. You would withdraw $5,000 from the maturing deposit and reinvest $5,000 for two years. Your deposits would then be:

Maturity	Amount
At call	$10,000
6 months	$10,000
12 months	$10,000
18 months	$10,000
2 years	$5,000

Setting it up this way means you are able to take advantage of higher interest rates for longer terms while still being able to access funds as required. If instead the whole amount of $50,000 was invested for 2 years, you would only be able to access the income (interest) over that period unless you broke the investment.

Medium Term Investment Bucket

Funds that are to be invested for a period of 5 to 10 years are generally best invested with some exposure to growth assets (property and shares) to provide a higher rate of return that helps keep ahead of inflation. This means investing in a diversified portfolio of cash, fixed interest, property and shares. The portfolio will often be volatile in value in the short term. However, while historical information does not guarantee future results, historically investors who have been able to remain invested for 5 to 10 years and ride out any short-term volatility, have been rewarded with a good return. It will look something like this:



You can't use a portfolio such as this for funds you need in a period of less than five years, because there is a danger of having to cash up your investments at a time when they have dropped in value. For these sorts of investments, there will often be an upward trend line. Where this is the case, over a period of 5-10 years you should be able to cash up part or all of your investments at any time without suffering a loss.

As an example, a diversified portfolio for medium term investing might be made of up of 40% income assets (cash and fixed interest) and 60% growth assets (property and shares).

Long Term Investment Bucket

For the long term, that is a period of 10 years or more, an even greater exposure to growth assets is appropriate. A diversified portfolio for long term investing might be made up of 20-40% income assets and 60-80% growth assets. The mix would partly depend on your attitude towards risk and return (your investment risk profile). A growth portfolio would behave similarly to a medium term portfolio but with a higher return and greater volatility (so therefore higher risk).

Get ahead before you retire

The last five years or so before retirement are some of the most important in your life. Your choices between spending and saving in those few years will determine the quality of your retirement. The wealth you have accumulated at the time of your last day of paid employment will determine your financial future for the rest of your life – which could be around thirty years.

Set your goals

In these last few years, it is really important to decide how you wish to spend your retirement and therefore how much money you will need in each of the three stages. Then you will need to calculate how much you will need to save each year to reach your target level of retirement savings.

Adjust your spending and saving

The transition from a high level of income to a low level of income after retirement is not an easy one. It is always a lot easier to find ways to spend extra money than it is to find ways to spend less! As you approach retirement, try and adjust your spending to fit what your retirement income will be. You will need to make allowances for any work-related spending, such as transport. The benefits of doing this are:

1. You will be able to test how realistic your retirement budget is before you give up your job.

2. You will be able to adjust gradually over a period of time to your new income instead of going 'cold turkey' from a high level to a low level of income.

3. You will be able to save even more for your retirement.

So if, for example, you are planning to live on $30,000 a year after tax in retirement from all sources of income, and you are currently earning $65,000 a year after tax, you might want to try and live on, say, $35,000 a year (allowing for work-related costs) and save the remainder.

Start creating your money buckets

Income and expense buckets

Set up your money buckets for your Daily Living Expenses as a way of managing your income and expenses in the final years of your working life.

Investment buckets

Decide which of your current investments you can put into each bucket now and then add to them. For example, you may decide your KiwiSaver fund can be used for your long term bucket, in which case it can be invested with a heavier weighting towards growth assets. If you have an investment property, that can also be included as part of either your medium or long term bucket.

In the years leading up to retirement, you might want to start adding money to your short term bucket to provide funds for the early years of your retirement.

Conclusion

After a lifetime of hard work, you deserve a fabulous retirement. With any luck, your retirement will be a long one.

Sadly, there are increasing numbers of people who arrive at retirement age with insufficient financial resources. In some cases, this is due to factors outside their full control, such as relationship breakdown, redundancy, severe or chronic illness or business failure. However, if you have managed to escape these traumatic life events, it really is up to you to plan and save for the retirement of your dreams.

I have seen many people on modest incomes use their money wisely and arrive at retirement well resourced. On the other hand, I have seen people who have had significant incomes during their working lives who struggle to save for retirement.

The purpose of this workbook is to give you the tools to make the most of your money and enjoy a long and prosperous life.

Wishing you every success,

About Liz Koh

LLiz Koh is a financial planner whose mission is to help you enjoy life - to the max!

Liz established her financial planning company - Moneymax – in 1999, after a successful career in management. Her practical, common-sense advice led to a flourishing business and she soon found she was in demand from newspapers, television, magazines and websites for commentary and insightful articles on managing money. She has published a best-selling book – Your Money Personality: Unlock the Secret to a Rich and Happy Life, Awa Press, 2008.

In 2020, Liz sold her Moneymax business. While she no longer provides personalised advice, she has dedicated her time to sharing her knowledge and experience with as many people as possible. She is still actively writing and speaking on money matters and through her business, Enrich Retirement established in 2021, she aims to bring together experts to provide information and resources to help people get the most out of their retirement years.

Liz has a Master's degree in Economics. She is a Certified Financial Planner, retired Chartered Accountant and former Chartered Member of the Institute of Directors. She is actively involved in local community affairs on the Kapiti Coast where she lives, and has interests in philanthropy, economic development and genealogy.

The advice given by Liz is general and does not constitute specific advice to any person.

LIZ KOH, MONEYMAX

PO Box 598, Paraparaumu

04 4 297 2294

liz.koh@moneymax.co.nz

www.moneymax.co.nz

www.moneymaxcoach.com

Follow me on Twitter

OFFICES LOCATED AT

Corner Rimu Rd and Ihakara Street, Paraparaumu

Level 5, 49 Boulcott Street, Wellington

Full disclaimer

While Summerset has purchased the rights to the information contained in this publication, to the fullest extent permissible by law Summerset, its related companies, employees, directors and agents, assume no responsibility for the use or misuse of this product, and for any injury, damage and/or financial loss sustained to persons or property as a result of this information.

The information provided in this publication is not intended to constitute advice to any person. To the extent that any such information, analysis, opinion or view constitutes advice, it does not take into account any person's particular financial situation or goals and, accordingly, does not constitute financial advice under the Financial Markets Conduct Act 2013.

The information, analysis, opinions and views in this publication, do not constitute advice of a legal, accounting, tax or other nature to any person. Reference to taxation or the impact of taxation does not constitute tax advice. The rules on and bases of taxation can change. The value of any tax relief will depend on individual circumstances.

Any representation or statement expressed is made in good faith on the basis that Summerset is not able to be liable in respect of such representation or statement. Summerset does not guarantee the accuracy of any third-party information used to prepare this report. This information is intended for general information purposes and should not be relied upon as a substitute for detailed advice from a professional financial adviser.

This publication contains statements which may be perceived to be forward-looking statements. Forward-looking statements can be identified by the use of terminology such as 'expect', 'may', 'should', 'will', 'continue', 'annualised' or similar words. These statements discuss future expectations concerning the potential future performance of certain types of investment products, or provide other forward-looking statements.

These forward-looking statements are not guarantees or predictions of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are beyond our control, and which may cause actual results to differ materially from those expressed in the statements contained in this presentation. Readers are cautioned not to put undue reliance on forward-looking statements. Past performance cannot be relied on as a guide to future performance.

The reader is encouraged to seek independent and competent legal, accounting and financial advice before engaging in any financial decision.

Notes

Retire READY

Details for event
Village address and room
Phone number RSVP