Financial Planning For Retirement

The savings you will need for retirement depend on the standard of living you want in your retirement and also on your individual financial circumstances.

The Waterfront Industry Superannuation Fund (WISF) allows members to determine their contribution rate. The standard contribution rate, which is matched by employers, is 7% (with a minimum rate of 4%) but members can increase this rate if they wish to save more.

This brochure sets out information to help you decide:

- the income you will need in your retirement to achieve your desired standard of living
- the retirement savings needed to provide this income
- how much your current savings will amount to when you retire and hence what additional retirement savings you will require to achieve your overall retirement savings target
- the rate at which you will need to contribute to your superannuation account to achieve this level of retirement savings.

The figures presented in this brochure assume that your funds are invested in a Balanced Portfolio which is likely to earn higher returns but be more volatile than a Conservative Portfolio. Based on an inflation rate of 2% and a fee rate of 0.3%, the actuarial assumption that has been adopted is that a Balanced Portfolio will earn 4.6% per annum net of tax and expenses (whereas it is expected that a Conservative Portfolio will earn 2.9% per annum).

The "sorted" website can also help you plan for your retirement at:

- https://www.sorted.org.nz/tools/retirement-planner

All the figures in this documented are quoted in "today's (2016) dollars".

What retirement income do you want?

NZ Superannuation (NZS) currently pays for a basic lifestyle, well below the lifestyle that most WISF members can afford on their current income. To sustain your current lifestyle in retirement, you will need significant additional income. Unless you are anticipating significant income from other sources, you will therefore need to save for your retirement.

How much income will you need in your retirement? This is for you to consider and decide. It depends on the standard of living you have become accustomed to, and whether you expect to reduce your living costs and hence your standard of living after retirement.

Table 1 converts a range of gross annual incomes into weekly income net of tax and WISF superannuation contributions. As examples, if your gross annual income is $80,000, your income net of tax and superannuation contributions is currently $1100 per week. If your gross annual income is $100,000, your income net of tax and superannuation contributions is currently $1,330 per week. If you have other income, this should be taken into account in assessing your current income.

When you retire you could reduce your living costs by reducing your standard of living. As shown in Table 1, if you expect to reduce your living costs, say by 10% to 20%, then an income range of $70,000 to $100,000 per annum converts to a required weekly income (net of tax and superannuation contributions) in the range of $800 to $1200.

This is an indication only. It is up to you to determine your desired standard of living after retirement and the income needed to achieve it.

You need to make an assessment of the level of income you will require for the standard of living you want in your retirement.

How much income will you need from your retirement savings?

Your required income after retirement may be less if you are single, or more if you have a partner. If you are single, the level of weekly income required may be in the range of $800 to $1000. If you have a partner the level of total weekly income required between the two of you may be in the range of $1000 to $1200.

You may have some other sources of income after retirement. After the age of 65, you will at least be receiving NZS. At present NZS pays single persons living alone about $375 per week and couples about $575 per week after tax. The different rates are intended to offset the difference in the cost of living for a single person versus a couple.

As examples, if you are currently earning $80,000 per annum and expect to reduce your living expenses by, say, 10% when you retire, you will require a weekly income of nearly $1000 in your retirement. If you have a partner so that together you are receiving NZS of about $575 per week and you do not expect to receive income from other sources in your retirement, you will require income from your retirement savings of about $425 per week. If you are currently earning $100,000 per annum then, on the same assumptions, you will require income from your retirement savings of about $625 per week.

You need to deduct New Zealand Superannuation (at the applicable rate) plus any other income you expect to receive in retirement from the overall income you want in retirement. The difference will be the level of income you need to receive from your retirement savings.

For how long can you expect to be retired?

The life expectancies of NZ males and females who plan to retire at 60 to 65 years of age is shown in Table 2.

It is envisaged that most members will plan to retire at about the age of 65, at which stage the life expectancy of NZ males is 86. This means there is a 50% chance of you dying before the age of 86 and a 50% chance of you living beyond the age of 86. Hence, if you are a male, planning to retire at the age of 65 and to spend your retirement savings over about 20 years, there is a 50% risk of your savings being exhausted before you die.

This risk can be reduced by extending the period over which you draw down on your retirement savings. For example, if you are a male and retire at the age of 65, you have a 25% chance of living to at least 90. Hence, if you plan to spend your retirement savings over 25 years, you will reduce to 25% the risk of your retirement savings being exhausted before you die.

If you plan to retire earlier, say at the age of 60, your life expectancy in retirement will be extended by almost 5 years. Hence, if you are a male and want there to be only a 25% risk of your retirement savings being exhausted before you die you will need to plan for your retirement savings to last 30 years.

The life expectancies shown in Table 2 relate to the average NZ males and females. You may feel that for familial or other reasons your life expectancy is likely to be more or less than the New Zealand average. You may also wish to take into account that your partner could live longer than you and you may wish to leave some retirement savings for her/him after you die.

You need to decide at what age you want to retire, for example at 65, and how long you want to plan for your retirement savings to last, for example 25 years.

What retirement savings will you need?

The level of savings you need to target to provide various levels of retirement income is set out in Table 3 for a range of retirement periods.

Note that these figures assume that your funds are invested in a Balanced Portfolio both before and after you retire. If you invest in a Conservative Portfolio you will need to target a higher level of savings, based on the expectation that a Conservative Portfolio will earn less than a Balanced Portfolio.

As examples, if you want an income from your retirement savings of about $400 per week and the length of your retirement is 30 years, you will require retirement savings of about $450,000.

You should also consider making an additional provision for some unexpected expenses in your retirement, such as urgent house repairs, a new car or medical expenses. A prudent provision for such expenses could be in the order of $50,000.

You need to assess what retirement savings you will need to provide your desired level of retirement income, and what savings provision you want to make for irregular or unexpected expenses.

What will your current savings amount to when you retire?

You probably already have funds in your WISF (or WIKS) account. Also, you may have, or expect to have, some other assets. These should be taken into account in determining how much more you need to save for your retirement. Table 4 forecasts how much your current savings, invested in a Balanced Portfolio, will amount to when you retire.

Table 5 forecasts how much more you will save until you retire, assuming that you are contributing to WISF (or WIKS) at 7 per cent with matching contributions from your employer and, again, assuming these contributions are invested in a Balanced Portfolio.

For example, if you are 50 years of age, already have retirement savings of $50,000, are earning at the rate of $80,000 per annum, are contributing at the rate of 7% with matching contributions from your employer and are planning to retire at 65 years of age, your current savings plus earnings by the time you retire will amount to just over $70,000 and your future contributions, plus earnings, will amount to just over $166,000, giving you total retirement savings of just over $230,000.

You need to assess how much your current savings and future contributions will amount to by the time you retire.

How much more do you need to save?

When you have assessed how much your current and future savings will amount to at retirement, you need to assess whether this amount will provide your desired standard of living during retirement.

You need to take into account in this assessment any other assets you expect to have when you retire. As examples, you may have a rental property, or you may own your own home and be planning to downsize at some stage, or you may be expecting an inheritance. Also, your partner may have some savings or may be saving from current earnings, for example into her/his own KiwiSaver account.

Any assets from which you (and your partner) expect to be earning income during your retirement should be deducted from your savings target to determine what you will need in your WISF (or WIKS) account for your retirement.

For example, if you assess that you want retirement savings of, say, $500,000 (including a provision of $50,000 for unexpected expenses), if your current savings are expected to amount to, say, $200,000 by the time you retire, and if you have no other assets to provide you with income in your retirement, you will need additional savings of $300,000 by the time you retire.

You need to determine how much more you need to save to achieve your target level of retirement savings by deducting from your overall savings target what your current savings are likely to amount to when you retire plus any other income-earning assets you currently have or expect to have when you retire. You may wish to consult an Authorised Financial Advisor in determining what other assets to take into account.

At what rate will you need to contribute?

Table 6 sets out the contribution rate from your income needed to achieve your overall retirement savings target. This table assumes that your funds are invested in a Balanced Portfolio and allows for employer contributions and for the impact of future inflation on both your future contributions and future saving targets.

Your required contribution rate depends on how many more years you will be contributing. For example, if you are 40 years of age and are planning to retire at the age of 65, you can expect to contribute for another 25 years. If you are 55 years of age you may have only another 10 years to save for your retirement. Note that you can reduce the rate at which you need to contribute by planning to retire later, although this could be affected by your health or other factors. The rate at which you need to contribute also depends on your level of income.

Again, because the expected average earnings rate of the Conservative Portfolio is less than the expected average earnings rate of the Balanced Portfolio, the required contribution rate will be higher for the Conservative Portfolio.

The required contribution rates set out in Table 6 vary significantly depending on the number of years until your retirement, and highlight both the importance of starting to save early for retirement and also of saving throughout your working life.

Here are some examples, all based on an annual income of $80,000 per annum. If you are 50 years of age, wish to retire at 65 years, and wish to save $400,000 (in addition to what your current savings will amount to when you retire), you will need to contribute at a rate of 24% for the remaining 15 years of your working life. If you are 40 years of age, wish to retire at 65 and wish to save an additional $400,000, you will need to contribute at a rate of 14% for the remaining 25 years of your working life. If you are 35 years of age, the standard contribution rate of 7% is expected to be more than sufficient for you to save an additional $400,000.

You need to determine whether the standard contribution rate of 7% will achieve your savings target. If not, you need to determine the increased contribution rate required to achieve your savings target. You may also wish to review the age at which you plan to retire.

What are the risks?

Financial planning entails a number of risks. As you consider the rate at which you should save for your retirement, some of the risks are:

- future earnings on your retirement savings may be less than expected and the volatility of returns may be more than expected
- you may need to retire earlier than you are anticipating because of health or other reasons
- you or your partner may live longer than you have allowed for in your financial planning
- you may incur more unexpected expenses in your retirement than you have planned for
- a future government may reduce or means test New Zealand Superannuation.

You may wish to consult an Authorised Financial Adviser to assess your individual risk profile and help you to prepare a financial plan for your retirement. Please note that our Administrator, Aon Hewitt, is not an Authorised Financial Adviser and cannot provide you with financial advice.

What do you need to do?

If you wish to change your contribution rate you should instruct your employer and advise the:

Administration Manager
Maritime Retirement Scheme, PO Box 11330, Wellington 6142
email: maritime@mjw.co.nz
Ph: 0800 947 357

Disclaimer

Your choice of savings target and contribution rate is your sole responsibility and should be determined with regard to your particular financial situation and goals. The Trustees are not liable for the choices you make, nor are they in any circumstances to be regarded as representing or implying that any particular savings target or contribution rate is appropriate for you.

The information contained in this document is provided for general information purposes only and does not constitute financial advice or take into account your particular financial situation or goals.

Many of the figures presented in this document are based on expected long-term average returns. There are many uncertainties. Actual returns may vary significantly from the expected returns. While reasonable care has been taken to ensure the accuracy of the information in this document, the Trustees do not give any warranty of reliability or accuracy and do not accept any responsibility for any error or omission. The Trustees shall not be liable for any loss (including consequential loss) or damage arising in any way from reliance on this document.

You may wish to consult an Authorised Financial Adviser to assess your individual financial requirements for your retirement and to assist you set a savings target and determine a contribution rate for achieving this target.

Table 1. Required Weekly Income as a Proportion of Current Income ($)
(Net of tax and superannuation contributions at 7%)

Current Gross Annual Income ($)	Equivalent Annual Net Income ($)	Proportion of Current Income		
		100%	**90%**	**80%**
70,000	51,000	980	880	780
80,000	57,000	1100	990	880
90,000	63,000	1210	1090	970
100,000	69,000	1330	1200	1060

Table 2. Life Expectancies

Chance of Living to Specified Age	Age (years)	
	Males	**Females**
50%	85	87
25%	90	93
10%	95	97

Table 3. Required Savings to Provide Desired Weekly Income ($)
(Assuming retirement savings are invested in a Balanced Portfolio)

Desired Weekly Income From Retirement Savings ($)	Length of Retirement		
	20 years	**25 years**	**30 years**
400	330,000	390,000	450,000
500	410,000	490,000	560,000
600	500,000	590,000	670,000
700	580,000	690,000	780,000

Table 4. Expected Savings at Retirement from Current Savings ($)
(Assuming savings are invested in a Balanced Portfolio)

Current Savings ($)	Years to Retirement						
	5	7.5	10	15	20	25	30
50,000	56,000	59,000	63,000	70,000	79,000	88,000	99,000
75,000	84,000	89,000	94,000	105,000	118,000	132,000	148,000
100,000	112,000	119,000	126,000	141,000	158,000	177,000	198,000
125,000	140,000	148,000	157,000	176,000	197,000	221,000	247,000
150,000	168,000	178,000	188,000	211,000	236,000	265,000	297,000
175,000	196,000	208,000	220,000	246,000	276,000	309,000	346,000
200,000	224,000	237,000	251,000	281,000	315,000	353,000	396,000
225,000	252,000	267,000	282,000	316,000	355,000	397,000	445,000
250,000	280,000	296,000	314,000	352,000	394,000	441,000	495,000
275,000	308,000	326,000	345,000	387,000	433,000	486,000	544,000

Table 5. Expected Retirement Savings from Future Contributions ($)
(Assuming 7% contributions to a Balanced Portfolio)

Annual Earnings ($)	Years to Retirement						
	5	7.5	10	15	20	25	30
70,000	43,000	67,000	91,000	145,000	206,000	274,000	350,000
80,000	49,000	76,000	104,000	166,000	236,000	313,000	400,000
90,000	55,000	86,000	117,000	187,000	265,000	352,000	450,000
100,000	62,000	95,000	131,000	208,000	294,000	391,000	500,000

Table 6. Required Contribution Rates to Achieve Retirement Savings Targets

(Assuming savings are invested in a Balanced Portfolio and allowing for employer contributions and for future contributions and future savings targets to be linked to the CPI)

Additional Savings Target ($)	Years to Retirement	Weekly Total Savings Required ($)	Gross Earnings Per Annum			
			$70,000	$80,000	$90,000	$100,000
50,000	5	155	12%	9%	8%	7%
100,000	5	310	21%	18%	16%	14%
	7.5	220	14%	12%	11%	10%
	10	174	10%	9%	8%	7%
200,000	5	620	41%	36%	32%	29%
	7.5	438	27%	24%	21%	19%
	10	348	21%	18%	16%	14%
	12.5	295	16%	14%	13%	12%
	15	259	14%	12%	11%	10%
300,000	10	522	31%	27%	24%	22%
	12.5	442	25%	22%	19%	17%
	15	390	21%	18%	16%	14%
	20	327	15%	14%	12%	11%
400,000	15	520	27%	24%	21%	19%
	20	436	21%	18%	16%	14%
	25	391	16%	14%	13%	12%
500,000	15	649	34%	30%	27%	24%
	20	546	26%	23%	20%	18%
	25	489	21%	18%	16%	14%
600,000	20	655	31%	27%	24%	22%
	25	587	25%	22%	19%	17%
	30	548	21%	18%	16%	14%