

STEPS TO A SECURE FUTURE

Allistar Walker highlights five investment strategies to boost retirement income.

If you think KiwiSaver at 4% will be enough to take care of your slower body in retirement, think again! A survey in Australia showed that they are fast recognising that the 9 per cent super paid there will not be enough.

Shortfall strategies could be to continue in some form of paid work in retirement, to sell or downsize the family home, to buy an investment property to provide retirement income, to contribute more to super and to invest in shares.

What are some of the pros and cons of these shortfall strategies?

Work part-time in retirement

This could be called “The fear of running out of money”.

For many people this is a preferred option. There is however a ‘but’, with recognition that it might be difficult to find paid work that suits them, largely because of negative attitudes to older workers.

This could well change over time as our population ages, with fewer young people paying tax and employers recognizing the need to employ greyer staff.

Working longer gives you an opportunity to save longer, and then draw this money down for a shorter period in retirement. One of the problems is that at 60 or 65 being normal retirement ages, people have no idea how much longer they will live. With life expectancies increasing they could ostensibly be retired as long as they were working. The thought is if you have difficulty making ends meet during your working life, it won't be any better when you retire, without some supplementary income from full or part-time employment.

Sell or downsize the family home.

We find a number of clients take this option. There has been a tendency for New Zealanders to concentrate their ‘savings’ into the family home, where there is often a strong emotional attachment.

A word of caution here. The amount of money realised in downsizing may not be sufficient. Land Agents and legal expenses can take a significant amount of equity. Also you need to consider whether downsizing fits into your existing lifestyle or preferably will add to it.

Home Equity Release loans or Reverse Mortgages are a potential option for some but not necessarily the panacea required.

Buy an investment property

Financial planners will often frown on this option because of its ‘lumpiness’ as an investment. However, a strategy of purchasing investment properties to build wealth ahead of retirement is indeed valid, but to purchase as an income provider once you stop work is flawed, particularly, when you look at lessened returns on residential property at present. Some commercial property yields are still however solid, if not substantial.

The appeal of an investment property is that it is bricks and mortar, the downside is its lumpiness, in terms of cashflow and modest rental yields. The capital gains may end up being fantastic over a period but if you don’t realise them those gains are inconsequential.

If you focus on the last five or six years then property has been a hot asset class but it’s unlikely that capital growth over the last few years will be sustained in the immediate future. There are also significant tax concessions that have made this investment option attractive for many investors.

Contribute more to Super

New Zealanders have been resistant to this where superannuation hasn’t been compulsory. There seems to have been a more ‘feel good now’ and let the future take care of itself attitude. However, of those who think about these issues, this is an option they would like to explore with affordability being one of the main barriers. KiwiSaver is getting increasing attention by the public with more and more taking up this option, partly because of the goodies on offer by the government and for some to help with home financing down the track. It is also reasonably tax effective, particularly once employer contributions kick in. Salary sacrifice for higher income earners is also an option, to maximise tax concessions. A word of warning for KiwiSavers who have gone straight into a default fund – talk to a finance advisor as to best placement of your money. Otherwise, in time you may not be happy with your returns.

Invest in Shares

We have found that the everyday person tends to mistrust this option. However, those who skill themselves up in this field and are prepared to spend time monitoring their portfolios, this can be a very rewarding experience. Bricks and mortar it is not, investment in industry and commerce it is but hard for some people to relate to ‘those little bits of paper’. Its advantage over property is that it is more liquid but the dynamics are similar. You can take advantage of margin lending and other forms of gearing if you are outside the super environment.

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Two key advantages to investing outside of super funds including KiwiSaver, are accessibility to the funds and the ability to borrow to invest (leverage). People should consider a combination of property, shares and super. Super is driven by property and shares anyway – often in a more tax effective way.

However you invest, it all points to building up your reserves. The reality is that unless you do, then you may well find yourself faced with a shortfall when you come to retire.

The only alternative, in what might be called a sixth option, is you elect to live a lesser lifestyle in retirement. It's hard to see this strategy winning support among baby boomers!

Allistar Walker
www.mortgagehelp.co.nz
Ph 0800 005 066