

Nelson – Planning Our Future series

# Financial Security in Retirement

September 2017



**Commission for  
Financial Capability**

# What we do at the Commission

[cffc.org.nz](http://cffc.org.nz)

- Capability Programme
  - Schools
  - Maori and Pacifica
  - Employers
  - 50plus
- Retirement Income Policy Review
- Retirement Villages
- Sorted and Digital resources
  - Media and Stories
  - Policy and Review
  - Money Week



# Segmentation - today

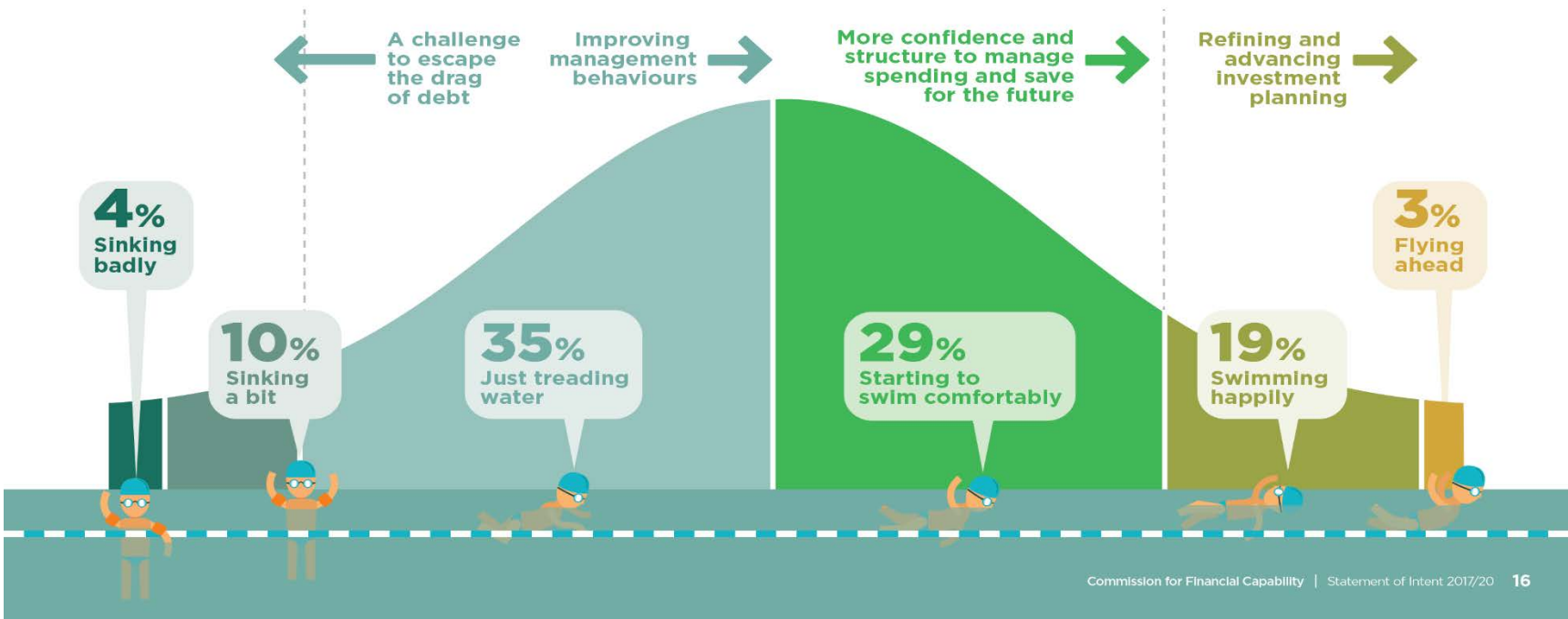
New Zealanders' financial capability

An evolved model 2017

 Intensive Care

 In the ward

 GP visits



# Snapshot of Retirement Trends

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- Life expectancy is increasing:
  - Today: 83 years Female (1970: 80) / 79.5 Male
  - 700,000 people over 65 today. Forecast 1.5m in 2050
  - **43% of the 65-69 cohort are working full or part-time.**
  - Around 25% do so because they have to.
  - Labour force aged 65+ will increase (130,000 – 2012) to 370,000 in 2036 and 460,000 in 2061
  - **Over 60% of those over 65 rely on NZ Super for 80% to 100% of their income** – (MSD 2014)
  - Around 750,000 NZ Super recipients today. Around 1.2m by 2033
  - Declining home ownership. Around 67% 20-49 year olds do not own their usual residence.

# Snapshot of Retirement Trends

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- Estimated by 2050: 100% increase; 60,000 – 80,000 people living in retirement villages
- 12.5% of people over 75 years currently live in Retirement Villages ( RVs are not rest homes!)
- **Estimated 20% growth between 2025-30 in number needing residential care, we need at least 58000 more residential care beds by 2030**
- 50,000 dementia sufferers today – will triple by 2050
- Average tenure of needs-assessed rest home care residents is 18-24 months.
- **Residential care subsidy eligibility thresholds mean most home-owners may need to asset strip to pay for their care.**
- 75% of elder abuse cases involve family members (Age Concern – Elder Abuse Awareness)

# Trends – What it all means...

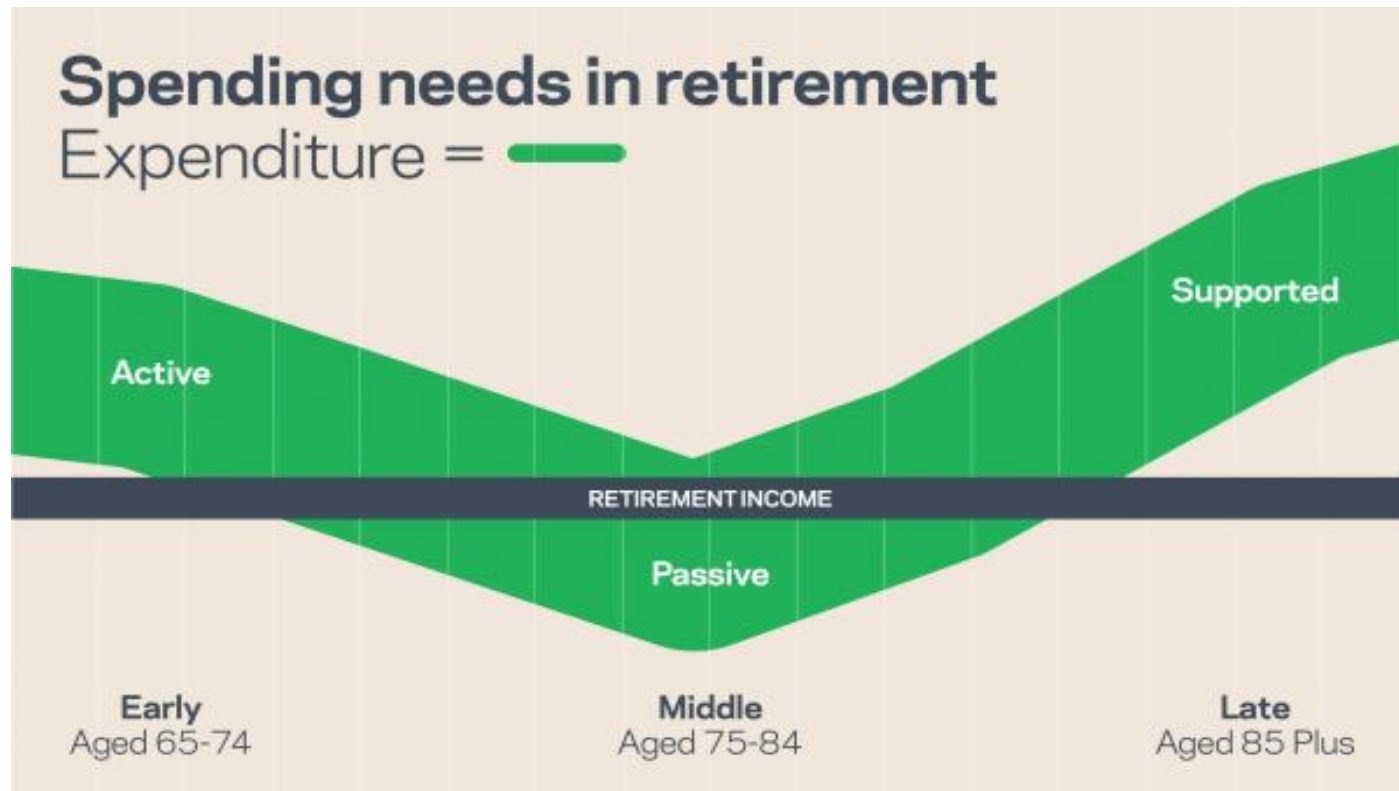
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- We are living longer, in good health or in bad
- We are most likely going to be working longer
- **We need our income to live as long as we do**
- We should understand words like ‘Decumulation’
- Know how and where to get advice and information
- Build a plan, know what it should have in it
- **No ‘one size fits all’ answer**



# Trends – What it all means...

- Spending varies in retirement. Spending is not in a straight line through the three stages of retirement



# What are your income options from 65?

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- Salary or wages / Self-employment or business
- National Super
- Other Government benefits (housing subsidies etc ..)
- Bank deposits
- Rental income from property (boarders, tenants, Air BnB)
- Indirect investments – managed funds, company super schemes, third party investments
- Direct investments – shares, bonds, other investments
- Your kids... yeah right 😊
- High interest rate returns (20+%) like the 1986 levels are unlikely in near future...



# Decumulation?

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- Capital drawdown of KiwiSaver
- Capital drawdown of other investments like Bank TD, managed funds and direct investments
- Shifting locations/‘right-sizing’ your own home releasing capital
- Family buying into your residential home
- Annuities – Lifetimes Income
- Moving to a Retirement Village
- Equity release mortgages



# Annuities

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- Lifetime Retirement Income - <http://www.lifetimeincome.co.nz/>
- Savings invested in a balanced fund provide **guaranteed income** for a fixed period / life regardless of how the fund performs
- Can receive payments from 65 or defer when you start receiving them
- Fund purchases 'longevity insurance' so you continue to receive income if you outlive original capital
- Any remaining capital in Fund is paid to your estate on your death (or transferred to surviving spouse for their life)

# Annuities

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- The initial money you invest, minus any Adviser service fees you agree to pay, is called your **Protected Income Base**
- You can invest anything from a minimum of \$100,000 to a maximum of \$1,000,000
- You cannot draw an income until you're 65
- The insured income is called your **Lifetime Withdrawal Benefit** - calculated from the size of your Protected Income Base and the age at which you begin your income payment.

# Annuities

Dave has just retired with savings of \$250,000. He and Sharon are still fit and active so they feel NZ Super won't be enough to meet their needs. They want to invest \$100,000 into the Lifetime Income Fund and start drawing an income immediately to supplement NZ Super.

The table on the right shows how their income is calculated.

<b>Protected Income Base</b>	<b>\$100,000</b>
<b>x Withdrawal Benefit Percentage</b>	<b>x 5%</b>
<b>Lifetime Withdrawal Benefit</b>	<b>\$5,000 per annum</b>

The red dotted line in the graph to the right shows how the account value of Dave and Sharon's investment slowly declines as they withdraw income.

Eventually it runs out when Dave turns 90. The darker green bars represent the \$5,000 annual income that's paid out over that time.

However, if Dave lives past the age of 90 the insurance provision of the Lifetime Fund continues to pay that \$5,000 every year until he dies. These payments are shown by the lighter green bars.



Note: The case study is for illustration only and makes broad conservative assumptions of market performance and timing of withdrawals in order to show future account balances. It is not a prediction of any particular outcome.

# Equity Release Mortgages

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- Amount you can borrow depends on age, home value, being debt free to start. Fees apply
- Designed specifically for seniors with no regular re-payments
- Enable seniors to continue living in their home and benefit from any increase in value
- Free up some cash to enjoy a better retirement
- **Total amount you draw plus accumulated interest is repayable when you sell or permanently move from your home.**



# Equity Release Mortgages

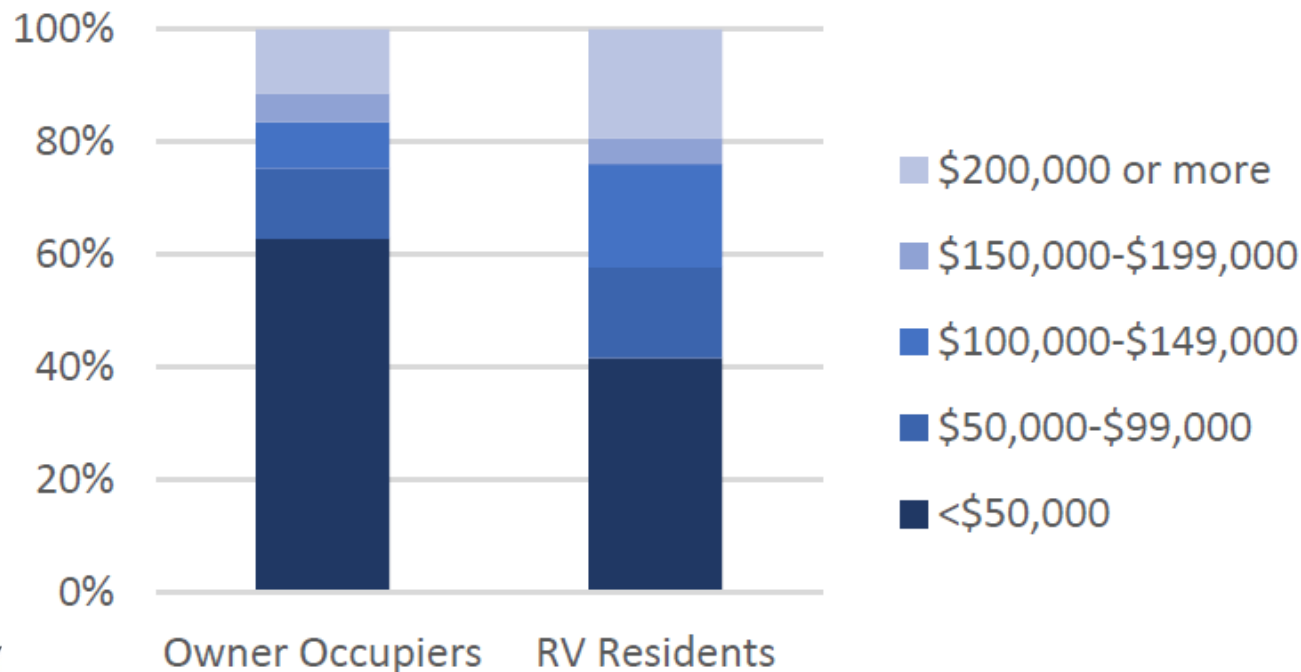
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- Compounding interest on lump sum drawn down may eat into value of your home faster.
  - May be OK in appreciating market conditions but less so in declining markets
- Fixing a regular smaller payment amount may be better option. Interest calculated on balance drawn down.
- Often only a modest amount makes a big difference
- Keep occupancy of your home
- No negative equity guarantee
- Robust fulfilment process including mandatory independent legal advice

# Equity Release – Moving to a Retirement Village

- A survey showed how much cash they had left over after buying into their village (equity released from the sale of their home). 20% had over \$200,000.
- Overall 42% had more than \$100,000 to supplement their lifestyle.
- Know the entry costs, costs while you are there (different weekly fee models) and exit costs.
- Most villages retain up to 30% of your original capital when you terminate your occupancy.

Source: CRESA: Equity Release – Realities for Older People – August 2016



# Wills and Estates

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- Update your will and review your estate planning - Personal and financial circumstances change.
  - Avoid claim risks: Family Protection Act / Testamentary Promises Act
- Things to consider relative to family and assets:
  - Executor / Trustee
    - Appointing family and/or professional
    - Estate administration fees
  - Ways to leave property
    - Life interests, equal vs unequal shares
    - Trusts
    - General or specific gifts
    - Testamentary debts and funeral expenses



# Scams - Support

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You can get help and support from :

- ✓ MBIE/Scam Watch [www.scamwatch.govt.nz](http://www.scamwatch.govt.nz)
- ✓ The DIA [www.dia.govt.nz](http://www.dia.govt.nz)
- ✓ NetSafe [www.netsafe.org.nz](http://www.netsafe.org.nz)
- ✓ Financial Service Providers Register <https://www.fma.govt.nz/help-me-invest/risks-involved-in-investing/being-alert-to-scams/checking-the-financial-service-providers-register/>
- ✓ Banking Ombudsman Scheme <https://bankomb.org.nz/news-and-publications/quick-guides/item/financial-abuse-of-the-elderly>