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Retirement planning

Current NZ superannuation payments per couple are $$922.82 (pre-tax) a week (2024 rates), those reliant on just this (20 % of all retirees) would find their retirement years many not be that golden, with takeaways and restaurant meals a rarity, and overseas trips off the cards.
That's the finding of the inaugural Retirement Expenditure Survey.

Single: as of April 2024

Pension type	Net weekly rate (after tax at 'M')	Net weekly rate (after tax at 'S')	Gross weekly rate
NZ Super or Veteran's Pension – standard rates			
Single			
Single, living alone	$519.47	$500.62	$606.67
Single, sharing	$479.51	$460.66	$558.31
Couples			
Only one of you qualifies	$399.59	$380.74	$461.41
Both you and your partner qualify (combined)	$799.18	$761.48	$922.82
Both you and your partner qualify (each)	$399.59	$380.74	$461.41
Only one of you qualifies and you include your partner in your payments (combined) – grandparented since November 2020	$759.64	$721.94	$874.88
Only one of you qualifies and you include your partner in your payments (each) – grandparented since November 2020	$379.82	$360.97	$437.44

https://www.workandincome.govt.nz/eligibility/seniors/superannuation/who-can-get-it/index.html

A Simple 7 Step Process for Retirement Planning

Step 1: What do you want?

The first step in retirement planning is deciding on your vision for retirement. Do you want to travel the world, travel the country in a motorhome, or stay at home to read novels and play cards? Your vision of retirement is the necessary starting point because it will determine how much your retirement will cost. You need to have at least a rough outline for your dream life in retirement or you won’t be able to complete the following steps which incorporate budgeting and wealth creation planning.

Step 2: When will you retire?

Once you have a picture in your head of your ideal retirement it is time to pick a date when you will start living it. The reason this step is essential is because your superannuation may or may not be available to you then. Additionally, the number of years you have available to build your savings and the number of years your existing savings can continue growing will depend on this retirement date.

Step 3: Estimate what it will cost.

Now that you have a dream vision for retirement and a date to start, it's time to estimate what you will need and likely revenue streams to see if you will have enough money. The first step in this process is to guesstimate how much your plans for retirement will cost – i.e., make a budget. It will help immensely if you know what your current lifestyle costs.

Be overly generous in your estimates because inflation and all the stuff you inevitably forget to include will cause you to likely underestimate anyway.

Another way is to decide what weekly income in the hand you would need and go from there.

Step 4: Estimate capital required and likely returns on these investments.

Say you wanted $750 a week in the hand to cover the lifestyle you wanted; this is $39,000 pa.

If we worked on a very safe return of 3% then you would need to have capital of $1,300,000 (ignoring tax and your home).

If the return was 4% you would only need $975k, 5% $780k and 6% only $650k.

Based on this step, you now have a savings goal to achieve by your retirement date. All that's left to do is build a savings plan and strategy to achieve it.

Step 5: Build a savings plan.

This starts with getting into a super scheme, if you haven't already, Kiwi saver is the obvious one. But there is a choice of providers and a choice of schemes, so make sure you take professional advice to ensure you are with the right one and in the right scheme.

You can rely on what you can save alone, with compounding interest or you may prefer to use leverage (debt) and borrow to invest in property, shares, or other assets to accelerate your capital growth.

Seeking professional advice in helping with spreading the risk, and balancing the returns looked for from income and capital gains, is a good idea.

NB: Try not to raid the pantry either.

Step 6: Using tax efficiency.

If you have debt that is not tax deductible, say the loan to buy your home, car, holiday etc then it makes sense to concentrate on clearing these as fast as possible, but it may not always be the best use of your surplus cash! Debt taken on to create wealth and producing (or having the potential to produce) taxable income should be the last debt cleared as it is tax deductible and therefore cheaper. In the past some lenders have allowed interest on these loans to be capitalised, thus freeing up cash flow to reduce non-deductible debt.

Understanding the tax rates and tiers is also important, as are the entities and people involved. Again, it is prudent to seek professional advice.

<u>Step 7: Begin Now</u>

Procrastination is the mountain you must overcome. Simple delay destroys more plans for retirement than all other causes combined.

Time in the market allows compounding to work for you, one day lost is never regained, so begin now.

That's it! Retirement planning explained simply.

But please note:

Wealth is just part of the retirement picture so invest in your health, (physical and mental) so you can enjoy your planned retirement.

We are living life, so not all our focus should be on the end game and buying a home to enjoy and accommodate your family needs may take precedence, in the end though your home is a store of capital which can be released later.

Finally, I would like to remind you, the richest person in the cemetery loses.

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