Common rules for your retirement plan

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Planning for your retirement involves managing uncertainties; interest rates change, the share markets go up and down and there are many media articles focused on the short-term and what may go wrong. This is on top of not knowing what inflation will do, how long you will live and whether or not you have enough savings. To help manage the challenges, here are several suggestions:

1. Look to be debt free
2. Work out how much savings you need
3. Retire from paid work only when you are ready
4. Don't spend too much too soon
5. Plan for the possibility that you will live longer than average
6. Don't under estimate the impact of inflation
7. Plan for medical costs
8. Don't try and avoid all market risk (but at the same time, don't be seduced by promised high returns)
9. Low fees remain important
10. Retire with a plan to live a good life.

1. Look to be debt free

It is pretty hard to protect your net wealth and live off the returns, when you still have to pay interest and repay capital. It is also generally not tax efficient to pay interest on debt while you receive taxable investment earnings, unless you take on risk by investing most of your money in shares and property, and so receive a net return above the cost of borrowing. Having debt, also increases your risk. So pay off your debt as quickly as you can.

2. Work out how much savings you need

If you have not done a household budget before, it is a good idea to do one for retirement. You need to understand how much money you will spend each year in terms of essential items and discretionary items. Then work out what savings (capital) you will need to provide the income you need in retirement. Our booklet "**saving for your retirement**" will help you do the calculations.

3. Retire from paid work only when you are ready

While the state pension age for NZ Super is 65, for many this is too early to retire. Remaining in employment longer has obvious financial benefits, but there are also significant social benefits you gain by staying active doing what you enjoy.

4. Don't spend too much too soon

Many people find it hard to adjust to moving from a regular income from their employer, to depending on investing a large capital sum. The large capital sum may seem high, but don't be seduced by seeing a large sum in your bank and SuperLife accounts, and thinking that you can spend a lot now. Your retirement savings may have to last for many years – perhaps until you are 100!

5. **Plan for the possibility that you will live longer than average**
   If you are 65 and male, you have a 43% chance of living to age 85. If you are female, it is a 57% chance. Planning for a retirement period of 25 to 30 years should be the norm. Remember, some people live beyond 100 and are still active at that age.

6. **Don't underestimate the impact of inflation**
   At 5% inflation a year, the cost of what you buy doubles every 14 years. What costs $100 today will cost $200, 14 years later. As retirement may last 30 years, the costs of what you have to buy may double and then double again.

7. **Plan for medical costs**
   For many people, the cost of medical treatment in retirement is higher than during their pre-retirement years. For some, the public health system will adequately meet their needs, but others will want the comfort of knowing that they have savings set aside or medical insurance, to meet the cost of private healthcare.

8. **Don't try and avoid all market risk (but at the same time, don't be seduced by promised high returns)**
   There are many investments that look attractive because they offer high returns. Be careful with investing based on high past returns or high promised returns. Remember, the higher the returns, the greater the risk. It is also important not to completely avoid the risk associated with investments like shares. It is best to have the right level of exposure to shares for your investment needs and personality, and to manage the associated risk. We think that the "bucket" approach is the right way to manage the investment of your retirement savings in retirement. Under this approach you allocate money to shares and property, but only of an amount which you do not plan to spend for at least 10 to 12 years, and then reduce the exposure as you get closer to spending the money. The bucket approach is explained in our guide "**thinking about your retirement**" and our booklet "**a guide to investing**".

9. **Low fees remain important**
   When you are investing your savings, after having worked out your investment strategy, one of the important rules is to minimise fees. This includes investment management fees and market trading costs. The same applies in retirement. Every dollar spent on fees, is a dollar less to spend on your retirement needs.

10. **Retire with a plan to live on good life**
   Many people retire with no plan for how they will live and how they will invest their savings to generate an income. If you do nothing else, read our guide "**thinking about your retirement**" and develop your own retirement plan.

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