Managed incomes

July 2018

When you reach retirement, you need to think about how you will convert your savings into a future income. This involves deciding how to invest the money throughout your retirement and when to spend it. You need to decide whether you are going to simply live off the investment return, and leave the capital to your children, or whether you will spend both the investment income and the capital over time. To some extent this is governed by your income requirements and the level of retirement savings that you have.

In the context of the alternatives in the New Zealand market, one of the best options is setting up a "managed income" through SuperLife. A SuperLife managed income pays you a regular tax-free income from your savings, at the level that you decide (e.g. $2,000 per month), to complement NZ Super or other income you may receive. The income is deducted from your SuperLife savings account and paid into your bank account. You can choose to receive weekly, fortnightly, or monthly payments to suit your needs. The balance of your SuperLife savings account continues to be fully invested, as at present, with all the standard SuperLife investment options and flexibility.

It is important to note that the managed income is flexible. It can be changed at any time (up or down, or stopped). You can also take out a lump sum at any time and for any reason, e.g. to buy a new car. This way you can spend your savings when you need them, during your retirement.

You can also choose to pay more money into your savings account at any time. If you have other assets, it may be a good idea to consolidate all of your assets under your SuperLife membership, to give you greater control and to make it more convenient to manage your retirement income needs.

How do I work out what the income amount should be?

Every person's situation is different. It will be affected by:

- The level of income you need to live on, allowing for NZ Superannuation.
- The balance in your savings account.
- The period, during your retirement, that your savings will need to be spread over. Remember, this will be until the latter of either when you or your spouse/partner dies.
- How your savings account is invested and what the returns will be.

Post tax NZ Super rates from 1 April 2018

Married couple
$32,157 p.a. = $616.72 week

Single living alone
$20,903 p.a. = $400.87 week

Single (sharing)
$19,294 p.a. = $370.03 week

On the SuperLife website, under "calculators", you can work out what level of managed income you require from time to time, based on your total savings account balance. The calculator uses a set of assumptions about the future. The default assumptions are:

- The investment return is 2.5% p.a. after-tax on average. By assuming a "low" rate, you can use the extra return to increase the future income that you receive - for example, because of inflation.
- Your life expectancy is at the 75th percentile. The 75th percentile is the date or period such that out of 100 New Zealanders your age, 75 will live less than that date and 25 will live longer than that date. This assumes that you live longer than average (the 50th percentile). To understand how long you might live in retirement you should read the SuperLife article **"How long will I live in retirement?"**
- You will spend both your investment return and your capital over your future lifetime.

The calculator lets you change each of these assumptions so you can look at different scenarios. Also, you can change your assumed income level at any time, to reflect your actual investment return, current savings account balance and the changing life expectancy.

It's a good idea to also do a budget to see how your assumed income compares to what yourexpenditure might actually be. The SuperLife website www.superlife.co.nz has a handy budget planning form you can use.

Monthly income per $100,000 capital

Age	Male	Female
60	$404	$379
65	$459	$425
70	$539	$489
75	$654	$584
80	$839	$735

Based on the standard assumptions we use, the theoretical monthly income (paid tax-free), at different ages, for each $100,000 of capital available at that age, is shown right:

How do I invest my savings in retirement?

In retirement, while you are receiving a managed income, you'll want to ensure your remaining savings are in an investment strategy that best suits you.

As with all investment decisions, your investment strategy should be a based on the return you require and the level of low and negative returns that you are prepared to tolerate over short periods of time, in order to achieve a higher return, on average, over the long term.

To work out your investment strategy, you should read the **SuperLife investment guide** together with the SuperLife article **"Investing in retirement?"** The table below is taken from that article and sets out the suggested "average" investment strategies at different ages.

	Suggested investment strategy for a male at			Suggested investment strategy for a female at		
	Age 65	Age 75	Age 85	Age 65	Age 75	Age 85
	%	%	%	%	%	%
Cash	17	24	45	15	21	36
Bonds	35	51	55	31	43	64
Property/ Shares	48	25	0	54	36	0

The strategy at each age is based on the SuperLife belief that your investment strategy should align your future spending requirements with the investment income from the assets held by the funds

As your future life expectancy reduces, the portion of your future lifetime that is more than 10 years away reduces. This means that, the level of shares and property you hold should be reduced. As a rule, it is generally recommended that you don't hold shares unless a) it is a portion you plan to transfer as an inheritance, b) you are comfortable taking on the risk of a period of low and negative returns, or c) you have planned spending that will occur in at least 10 years' time and you want to protect it against the impact of inflation. This gives you time for your investments to recover if the sharemarket goes down. It will do that every 3 to 4 years on average.

You should aim to adjust your strategy from time to time to reflect the theoretical strategies for your remaining lifetime. However, you don't need to change it each year and/or precisely to the strategies shown. What is important is that:

- you hold sufficient cash to meet your immediate spending requirements. With a SuperLife managed income, this means the amount you intend to receive in the next 2 to 3 years.
- you reduce your exposure to the assets like shares and property, that can fluctuate over the short term, as you get older.

Where do I take my managed income from?

It is generally recommended that your managed income normally be taken from your cash holdings. By taking it from your cash holdings you do not have to worry about selling any investment at a loss. This is an important point.

As your cash balance reduces you should top them up from your bond units. At some time in the next 3 years, e.g. when 10 year Government bond yields are low, it is a good idea to sell transfer funds from your bond fund(s) into your cash fund.

Likewise, at some time in the next 10 years, it is a good idea to sell some share and property units and buy bond units to top up your bond holdings. The ideal time to do this is just after the share markets have gone up, or when you can sell without taking a loss.

More information

For more information, phone SuperLife and ask for a copy of the booklet "**Thinking about your retirement**".