

Managed incomes

March 2016

When you reach retirement, you need to think about how you will convert your superannuation 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 needs 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 a “managed income” through SuperLife.

A SuperLife managed income pays you a regular tax-free monthly income from your savings, at the level that you decide (e.g. \$2,000). The income is taken from your SuperLife savings account and credited to your bank account. The balance of your SuperLife savings account continues to be invested, as at present, with all the standard SuperLife investment options and flexibility.

It is important to note that the managed income need not be fixed. It can be changed at any time (up or down, or stopped). You also have the flexibility to 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 to, during your retirement.

You can also 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 should be?

There is no easy answer to setting the monthly income. 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, of your retirement, that you need to spread your savings over. Remember, the period is until the later of you and your spouse/partner die.
- How your savings account is invested and what the returns are.

Post tax NZ Super rates from 1 April 2016

| | |
|---------------------|------------------|
| Married couple | \$30,780.88 p.a. |
| Single living alone | \$20,007.52 p.a. |
| Single (sharing) | \$18,468.32 p.a. |

On the SuperLife Web site, under “calculators”, you can work out what level of managed income you should have 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 vary each of these assumptions. Also, you can recalculate the theoretical income level at any time, to reflect your actual investment return, current savings account balance and the changing life expectancy.

You should also do a budget to see how the theoretical income compares to what your actual expenditure is expected to be. The SuperLife Web site has a handy budget planning form.

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

| Monthly income per \$100,000 capital | | |
|---|-------|--------|
| Age | Male | Female |
| 60 | \$404 | \$379 |
| 65 | \$459 | \$425 |
| 70 | \$539 | \$489 |
| 75 | \$654 | \$584 |
| 80 | \$839 | \$735 |

How do I invest my savings in retirement?

In retirement, while you are receiving a managed income, you need to continue to invest your remaining savings i.e. to set your investment strategy.

As with all investment decisions, your investment strategy should be a function of the return required and the level of low and negative returns that you are prepared to experience over short periods of time, 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 an extract 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 expenditure cash flows with the investment cash flows from the underlying assets.

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 should reduce. As a rule, you should generally not be holding shares unless you want to take on risk, or you have expenditure that will occur in at least 10 years' time and you need to be protected 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 maintain sufficient cash to meet your immediate expenditure payments. With a SuperLife managed income, that 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?

Your managed income should normally be taken from your cash holdings. By taking it from your cash holdings you do not have to worry about selling any units at a loss. This is important.

As your cash units reduce 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, you should sell bond units and buy cash units.

Likewise, at some time in the next 10 years, you should sell some share and property units and buy bond units to top up your bond holdings. This should ideally be done 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”**.