KiwiSaver Sorted

How can we make the most of it?

- How it works
- There's a lot we can achieve
- Sooner the better
- Which fund suits?

How it works

These days, people need a really good reason not to be in KiwiSaver. There are a lot of advantages to this long-term savings scheme – it's one of the easiest ways for us to get ahead financially.

There are some key choices to make to get the most out of KiwiSaver.

We're opted in

Membership in KiwiSaver is voluntary and open to all New Zealanders living here under the age of 65. So anyone who is not yet a member can join at any time.

People who are 18 or over and starting a new job are automatically enrolled. We can opt out, but once we join we have to contribute for at least 12 months.

We build a nest egg

Every time we're paid, 3%, 4% or 8% of our pay is taken out before tax is deducted (we choose the amount) and sent to our KiwiSaver account.

After paying in for 12 months, we can take a contributions holiday or carry on as before. We can't touch that money (with some exceptions) until we have reached 65 and have been in the scheme for at least five years.

Employers pitch in

Employers must match our contributions to KiwiSaver, at a minimum of 3% of our pay. If an employer already contributes to another superannuation plan, that amount may be offset against the KiwiSaver contribution. An employer may contribute more than these amounts, too.

It's for non-employees, too

Anyone who's not employed or is self-employed can join KiwiSaver by contacting a scheme provider directly. How much we contribute and how often can be organised with the provider. We may not be getting an employer's contribution, but we will still get some money from the government.

We can get a big five hundy each year

KiwiSaver members who are 18 or over get a government contribution called a member tax credit. For every $1 we contribute, the government matches it with 50c, up to $521 per year. This is paid into our KiwiSaver accounts annually.

We can take KiwiSaver with us

If we change jobs or leave the workforce, our KiwiSaver account comes with us.

We can get help buying a first home

After being in KiwiSaver for three years, first-home buyers may be able to make a one-off withdrawal of all contributions and earnings on that money. The government may also offer up to $5,000 towards buying an older, existing house and up to $10,000 towards a new one or land to build a new house on. If we've already owned a home but are in the same position as a first-home buyer, we may also qualify for these advantages. For more information see **kiwisaver-homestart.co.nz.**

There's a lot we can achieve

A KiwiSaver account is much more than a traditional savings account – while the contributions may be regular, the money flows into a specific investment fund. There are many options, and Sorted's KiwiSaver fund finder can help with the choices we need to make.

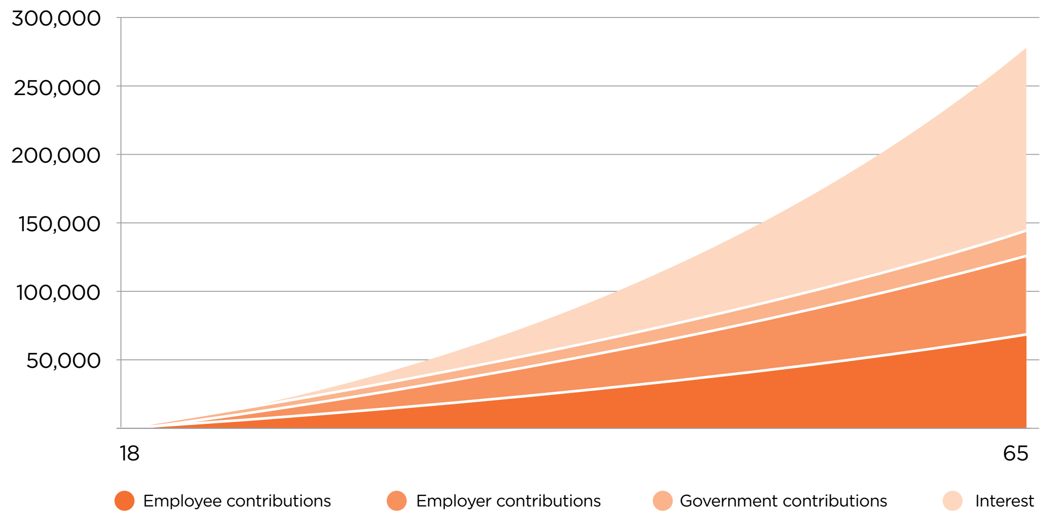
The money going in is invested for us by a fund manager, so there are returns from our investments as well. Suddenly we're all investors!

It's important to know that it's not government guaranteed, and our accounts can go up and down in value.

Contributions to our accounts actually come from four sources:

- Our savings (usually either 3%, 4%, or 8%)
- Our employer's matching 3% (if we're employed)
- The government's member tax credit of up to $521 a year
- Returns from our investments

Sooner the better



Serious money in the long run. An 18 year old earning a salary of $35,000 who contributes 3% to a KiwiSaver growth fund would typically have close to $279,070 when they reach 65. Over those 47 years, they would have put in $69,450, their employer $57,300, the government $15,780, and market returns would have earned them $136,540. (Figures here are after fees, taxes and inflation.)

The important thing is that the earlier we start and the more we contribute, the better results we can achieve. There is a cost for delaying! The sooner we start, the better.

KiwiSaver savings calculator

Run the numbers and see what contributions could add up to by the time we're 65.

sorted.org.nz

The power of compound interest

Over long periods of time, we can take advantage of what Einstein called the "eighth wonder of the world": compound interest. This is when interest earns even more interest, like a snowball grows as it rolls downhill.

With KiwiSaver, when our investment returns are left in our accounts and reinvested, they generate many more returns themselves and really supercharge our results.

Jane finds her fund

"Would you like to bring your KiwiSaver over to us? You'll be able to see all your balances together."

Meeting with her banker on another matter, Jane quickly responds "yes" – all too quickly. She agrees to switch her existing KiwiSaver account over from her current provider, without paying attention to what fund her money's ending up in. Is it the right one for her?

A couple of months later she hears about the KiwiSaver tools on **sorted.org.nz** and decides to plug in her details and have a closer look at the fund she ended up with.

She checks her fund in the KiwiSaver fees tool and is disheartened to find that she had unknowingly switched to a fund that seems costly. Running her numbers, she realises that if she keeps going, she'll end up paying $34,400 in fees – is it worth it? There is no way of telling.

Turning to the KiwiSaver fund finder, she answers three short questions and figures out the type of fund with the right level of risk for her situation – "growth" funds. Then she quickly sorts through the 34 growth funds on offer from all the KiwiSaver providers (not just her bank).

She can easily see what the funds cost and the range of services she would get in return.

She also checks out how the funds have performed in the past (after fees and taxes have been taken out). Although there is no way of telling if they will do as well in the future, she can avoid those that have been consistently low.

Settling on a fund that is right for her, she contacts the KiwiSaver provider and makes the switch – and they do most of the work to make it happen.

Which fund suits?

We need to get savvy about how and where we're investing. With KiwiSaver, everyone needs to make a choice about which fund to be in.

Investing our savings in KiwiSaver means we're paying a fund manager to buy assets like shares and bonds for us that can increase in value over time and give us returns. (For more on investing in general, go to **sorted.org.nz**, **invested.co.nz** or see our investing booklet.)

The most important things to consider when choosing a fund

- The right level of risk for us
- How much it costs us
- The range of services a provider gives us
- Whether its past results have been consistently low

Choosing the right fund makes a big difference to our results in the long run. Yet many of us have not made an active choice about which fund to be in.

To help, Sorted's KiwiSaver fund finder has three questions – based on how much time we have to invest and our attitude towards those ups and downs in the market – that can help us select the right type of fund for us. It also lets us see all the different funds of that type and sort through them by fees, services and past results.

Getting advice from an independent financial adviser can be worthwhile when choosing. Yet no one can tell us which fund is best for us – we need to decide that for ourselves.

Returns and fees are important

Choosing a fund just because it's performed well in the past is not a great way to predict future returns. However, if a fund has consistently had poor results, that might be a sign of poor management and a reason to look at others.

It's important to look at returns after fees, which are the net returns. This helps us to see the money that actually goes into our KiwiSaver account.

Sorted's KiwiSaver fund finder lets us sort through funds by how much they cost, and the KiwiSaver fees calculator estimates how much we'll pay in fees in a given fund until we're 65. We're talking about tens of thousands of dollars!

We all need to decide what's reasonable to pay for the range of services and results we're getting, and pick the right fund for us.

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Where to now?

Joined KiwiSaver?

Found the right fund?

Contributing regularly?

Next steps:
e.g. log on to the KiwiSaver fund finder (fundfinder.sorted.org.nz) to compare funds

Notes:

For more help, order our Sorted booklets at **sorted.org.nz/order-sorted-resources**.