

How to spend it?

Turning KiwiSaver balances into retirement income

NOVEMBER 2014

Introduction

The number of New Zealanders aged 65+ has doubled since 1980 and will double again by 2036. In 2036, between 21-24% of New Zealanders will be aged 65+.

We're also living longer. By 2061, one in four people aged 65+ will be 85 years or older, compared with one in eight in 2012.

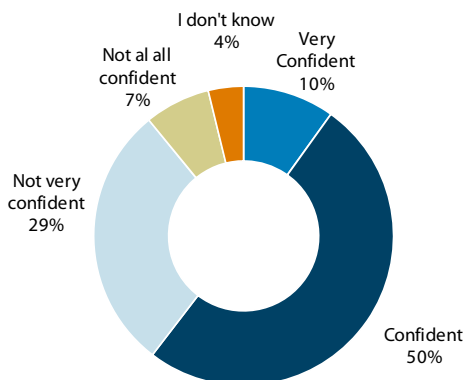
More than 2.3 million people have joined KiwiSaver. With a strong foundation, the challenge now is to ensure members are saving enough to support themselves in retirement. Looking ahead, we need to provide the best possible options so members can use their savings to help support a comfortable lifestyle throughout their retirement years.

Where are we now?

In October 2014, an ANZ survey of 1,400 New Zealanders aged 45+ found that almost 80% of those approaching 65 are saving towards their retirement.

Around 60% of people were clear on how much money they would need to fund a secure retirement, and 60% of people believed they were behind where they would like to be in terms of retirement savings.

How confident are you about what is required for a secure retirement?



What are people worried about?

Most people believed there were a number of barriers to achieving their retirement goals.

Their biggest concern was financial.

"I left it too late"

"I haven't saved enough"

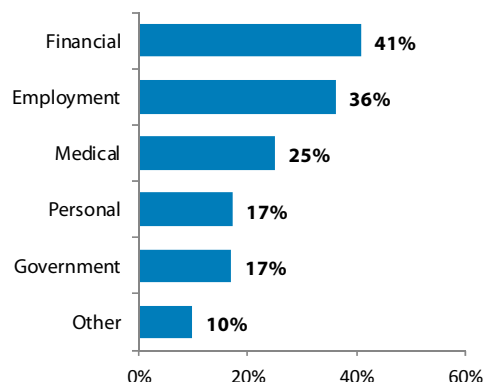
"Rising cost of living" and "increasing house prices"

"Repaying debt is my top priority"

Just over 36% of people were worried about their **future employment**; that losing their job would prevent them saving enough for retirement or that their wages would not keep pace with inflation.

One out of four people were concerned about not being able to work because of **illness**, or they feared that higher **medical costs** as they age would erode their retirement savings.

What are the main barriers to achieving retirement goals



A total 17% of people were concerned that **government action** could interfere with their retirement plans – through increasing the retirement age, changing superannuation tax arrangements or introducing a capital gains tax.

Another indicator is ANZ's regular Retirement Savings Barometer survey of 850 New Zealanders, which tracks how confident the participants are of reaching their retirement savings goal. Key findings include:

- just 5% of respondents intend to live solely on New Zealand Superannuation, with no discernible difference between women and men
- 29% of women and 34% of men believe they need more than \$500 per week on top of New Zealand Superannuation when they retire
- only 31% of women and 51% of men are confident of reaching their retirement savings goals.

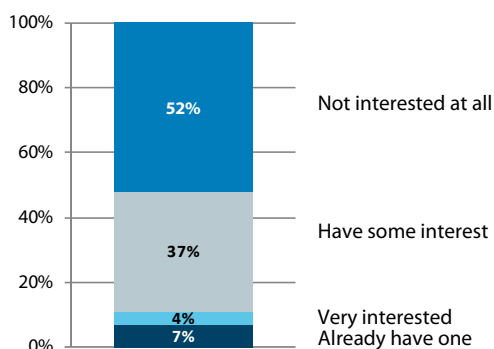
How will retirees use their retirement savings?

In April 2014, an ANZ survey of 1,500 people aged 55-75 found that:

- 40% of people intended to invest in term deposits once they reached 65
- 28% intended to leave their money in KiwiSaver and draw down from there
- 21% intended to use some of their KiwiSaver money to pay off debt
- 37% planned to use some of their KiwiSaver money for travel or leisure activities
- 16% intended to invest some KiwiSaver money in shares, with 21% stating they would invest in a managed fund.

The same survey also asked:

At what level does an annuity product interest you?



Decumulation products present many challenges

The annuities market in New Zealand is almost non-existent.

Consumers do not appear to understand or like traditional annuity products, which they perceive as illiquid, inflexible and poor value for money. At current interest rates, consumers would be handing over large amounts of money to access a relatively modest ongoing income.

Consumers tend to prefer term deposits or property investments. These provide an income stream but also preserve the lump sum and, in the case of property, offer potential capital growth.

There are also substantial barriers to providers in offering annuity-style solutions, including unforeseen improvements in mortality rates and a lack of long-term bonds and available inflation protection to cover the longer-term liabilities of annuities.

Conclusion

As the largest KiwiSaver provider, ANZ has a strong commitment to representing its members' interests. We're encouraging them to save and we want them to have a comfortable retirement.

It's also vital that as an industry we provide the right education and information to New Zealanders to help them achieve a comfortable retirement lifestyle. Without this encouragement, there's a risk that many Kiwis will 'blow' their savings, leaving them no option but to fall back on the state for financial support.