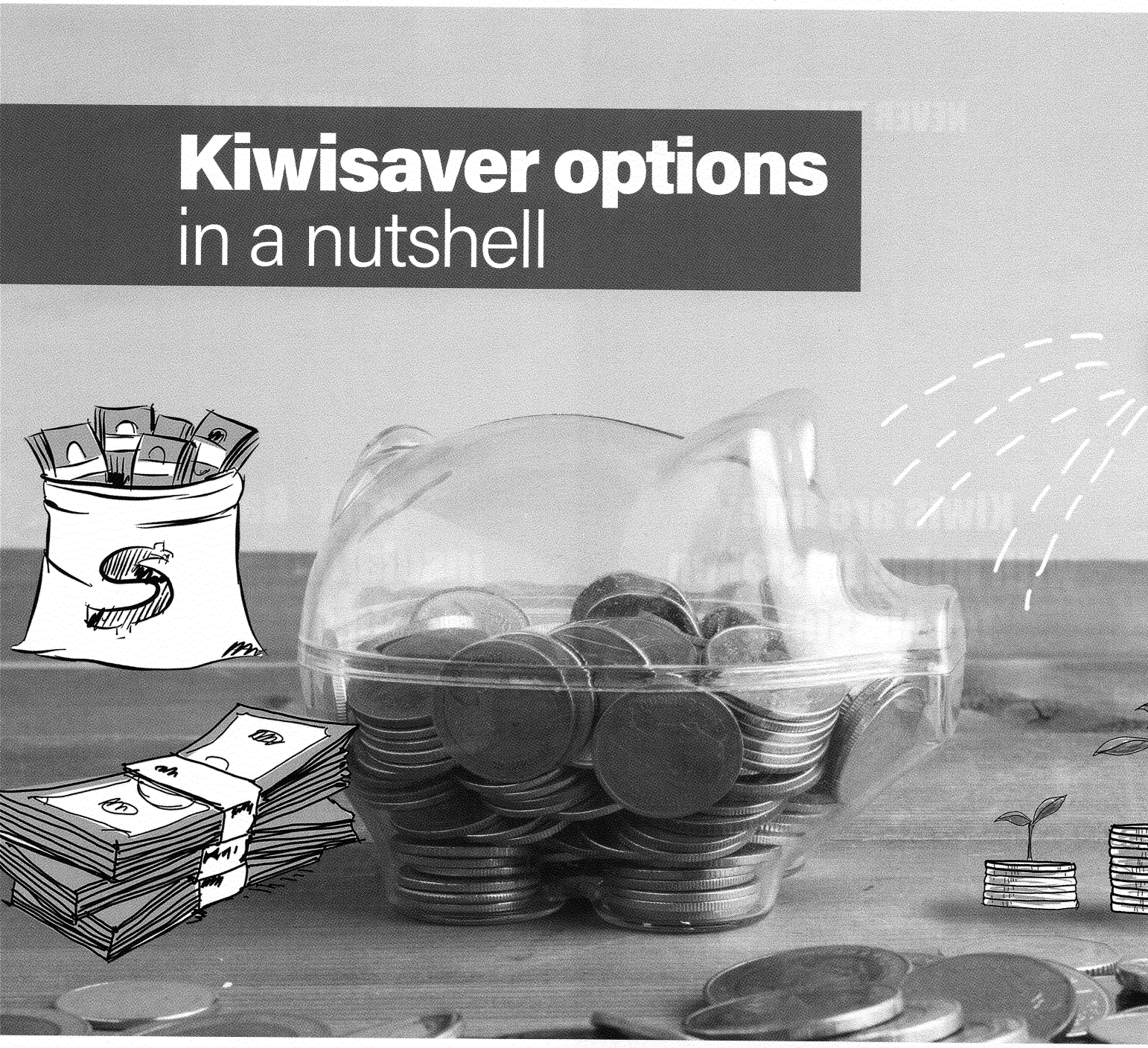
Kiwisaver options in a nutshell



BY SHANE STOREY

In last month's Business column, we looked at the employer requirements as part of the Kiwisaver scheme. This month, we look further into Kiwisaver and highlight some of the options for those involved in the scheme and how you can make them work for you.

KiwiSaver is many New Zealanders' first experience of the investment market and, 11 years down the track, some of us are still getting to grips with what it all means.

What's the difference between a conservative and a growth fund? How is it that a balance can fall, even when contributions are steadily being made? What can I do to get the best result from my investment?

ESCAPE THE DEFAULT FUND

There are six main fund types; aggressive, growth, balanced, conservative, defensive and cash.

Each fund reflects the type of assets held by that fund, and they range from lower risk to higher risk. Each of these investment funds will generally invest in a mix of 'asset classes' such as shares, fixed interest (e.g. bonds) and cash.



The percentage your fund invests in each asset class will determine the overall risk level of the fund. So, typically, cash and conservative funds will hold higher percentages of lower-risk assets such as cash, making them generally lower-risk options. A balanced fund might have a more even mix between lower-risk investments like cash and fixed interest and more-risky investments like shares, making it a more medium-risk option. Meanwhile, a growth fund will primarily invest in higher-risk investments such as shares, and would generally be considered a higher-risk investment option.

If you end up in the wrong type of fund for your circumstances, you could miss out on a lot of money over the course of your life. Default funds most probably won't deliver the best returns. They are usually conservative funds, designed to reduce the potential for frequent and large drops in balance and are suitable for those looking to access their funds with the next two to six years. Those members who are more than 10 years away from retirement have the time frame to ride out any fluctuations of funds with greater exposure to growth assets like property and shares, and typically end up with a better long-term return.

MINIMISE YOUR FEES

Fees come in two forms; a flat membership fee (ranging from $0 to $60 a year, averaging around $32) and a percentage of your account balance (typically higher for riskier funds). The percentage fee usually has a bigger overall effect, particularly over a long period of time.

Of course, the amount of KiwiSaver fees needs to be balanced against the growth the fund achieves. It is possible that the fund with the most expensive fees may have the highest returns. But that isn't always the case, so don't take higher fees as a given that you'll get a greater return. Aim for the best return after fees.

GET THE FULL MEMBER TAX CREDIT

If you're between 18 and 64 years old (or older if you have been a member of KiwiSaver for less than five years), you're entitled to a member tax credit. The maximum you're entitled to is $520 per year. To get the full entitlement, you must personally contribute at least $1,043 per year, so if you're earning under $34,762 you may need to top up to qualify for the full credit.

TAKE AN INTEREST IN YOUR KIWISAVER ACCOUNT

To increase your chances of boosting your balance, it pays to take an active interest and keep track of your investment.

Your provider should be sending you regular statements. It's worth visiting your provider's website and registering online so you can log in to check your account balance and investment returns.

CHECK YOUR TAX RATE

There are four prescribed investor rates (PIRs): **0%, 10.5%, 17.5%** and **28%**. You're possibly paying more tax than you need to. Work out your correct PIR on the IRD site and adjust your Kiwisaver PIR online.

INCREASE YOUR CONTRIBUTIONS

Contributing more to KiwiSaver is a great way to boost your numbers. Just 1% increase from 3 to 4% can increase your retirement fund by $52,000. Most of that money will likely come from market gains over the years, so the more you put in and the more time it has to grow, the more you'll have thanks to the power of compounding.

TO SUMMARISE

The biggest mistake you can make is complacency, believing you're on track, just because you've joined. You need to pull the right levers to ensure your long-term savings vehicle gives you the optimum returns.

Every few years, reassess your fund, your goals and your contribution amount to make sure it's still right for you. If your circumstances change, such as if you buy a house or take some time off work to have children that should also prompt a review.

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