KiwiSaver $orted

Dialling up KiwiSaver

Seminar facilitator's guide

Brought to you by the Commission for Financial Capability

Commission for Financial Capability

Facilitator's guide

KiwiSaver is a great deal, helping many of us get ahead and better off in retirement. But there is some tweaking to do – like picking the right fund to be in – in order to get the most out of it. This Sorted seminar will cover the key ways to optimise participants' entire KiwiSaver experience and get the best results.

This facilitator's guide has all the information you need to successfully deliver the seminar. The seminar will take one to one-and-a-half hours, during which participants will learn about the key steps to take in order to adjust their KiwiSaver settings.

Participants receive a free copy of the Sorted KiwiSaver booklet.

This seminar is designed to be as facilitative as possible. If you have time, allow longer than an hour and a half so that you can encourage discussion and make it possible for participants to ask questions.

Remember

Order Sorted's booklets from **sorted.org.nz/#/order** at least five working days before the seminar. All of Sorted's booklets and resources are free.

Disclaimer

Facilitators must agree not to give personal financial advice nor to promote or recommend any financial product or organisation when delivering this seminar. The information in this guide is generalised and current as at June 2016. Laws or policies may change at any time. This seminar should not be the only source of information when making financial decisions. It should be treated as a starting point before seeking professional advice.

Preparing for the seminar

Inviting participants

Encourage participants to attend by explaining that at the seminar they will learn ways to get the most out of KiwiSaver and the best results.

You may wish to keep the number of participants to between 12 and 20. As money matters are often shared, you may want to consider giving participants the opportunity to bring whānau or a friend to the seminar.

Seminar materials

You'll need:

- The presentation slides
- A computer or mobile device with Adobe Reader connected to a projector or television to run the slides
- Internet access if you wish to demonstrate the calculators and tools on **sorted.org.nz** during the seminar. They can also be demonstrated on participants' own phones.
- Pencils and erasers for participants to write their goals in their goals booklet
- A whiteboard and marker or something similar

Know your participants

This seminar is generalised so it's important that you think about the ways you can make it more relevant to participants:

- Are participants young, middle-aged, older?
- Do they have families, young children, or have their children left home?
- What sort of incomes do they earn?
- What cultural values do they bring?
- Do they have whānau and family obligations that need to be considered?

People may be uncomfortable sharing information about their personal financial situation with others. You can help overcome this by using the examples in this guide or talking about your own experiences. Encourage participants by getting them to think about other people they know rather than just thinking about their own situation.

Read the facilitator's guide and accompanying materials carefully and use the resources and tools on **sorted.org.nz** before delivering this seminar. Being familiar with the material and Sorted resources will help you to deliver it well.

Preparing for the seminar continued

Sorted booklets

Sorted booklets for participants – order now.

You'll be providing participants with this Sorted booklet:

- ***KiwiSaver:*** *How can we make the most of it?*

This Sorted booklet is used during the seminar. Copies are free and can be ordered from the Sorted website at **sorted.org.nz/#/order**. Allow five working days for delivery.

> **Remember**
> Order Sorted's booklets at least five working days before the seminar. All of Sorted's booklets and resources are free.

Sorted.org.nz tools and calculators

Familiarise yourself with the following calculators and tools on **sorted.org.nz** – so you can demonstrate them and participants can use them during the seminar on their phones:

- KiwiSaver savings calculator
- KiwiSaver fund finder
- KiwiSaver fees calculator

You can find all Sorted's calculators at **sorted.org.nz/tools**.

Presentation guide

This section guides you through the seminar. It has extra information to clarify details or make the seminar more interesting.

Key points

This is a summary of the key objectives for each slide.

Activities

These include the key things to do during each slide including suggested activities, which you may wish to use, to help discussion and get participants involved in the seminar. These activities are shown in blue text.

To say

Background information to use as a rough script for each slide. These words are shown in regular grey text.

To explain

You may need to explain some key terms or concepts. Where necessary, definitions are included to help you do this.

Slide 1

Key points

- Welcome participants to the seminar and introduce Sorted.
- Explain the purpose of the seminar.
- Ask participants to share what they know about how KiwiSaver works.

Activity – Whole group

Ask each person to introduce themselves to the group and say what they hope to achieve from the seminar. Start with yourself.

Welcome

Welcome to Sorted's seminar on KiwiSaver. It's been a success and is a great deal for savers, but we can make some tweaks to make in order to get the most out of it. And some of these can lift our results by tens of thousands of dollars! This seminar will take about one-and-a-half hours. By the end of it we will have looked at how to optimise your KiwiSaver experience.

Slide 1 continued

Activity – Whole group

Ask the participants what they know about KiwiSaver and how it works. Write their answers on the board. If appropriate, ask one or two participants to share their experiences with KiwiSaver.

Making informed decisions

But before we continue, who's heard of Sorted before? Sorted is brought to you by the Commission for Financial Capability. Because it's impartial, we won't be giving out personalised advice in this seminar – but you will get information you can use to make more informed decisions about KiwiSaver.

Slide 2

Key points

- Introduce the key topics.
- Hand out the KiwiSaver booklet.

What's covered

In today's seminar we're going to go over how KiwiSaver works, the key choices to make to get the most out of it – especially how to pick a KiwiSaver fund – and how to look after your KiwiSaver account.

Many of the things we'll discuss during this seminar can be found in this KiwiSaver booklet.

Slide 3

Key points

- KiwiSaver is one of the best ways for us to get ahead financially.
- Provide a quick recap of how it works.
- Your KiwiSaver account stays with you even if you switch jobs.

Let's recap

Let's remind ourselves about how KiwiSaver works. If we're employed we choose to set aside either 3%, 4% or 8% of our pay before tax is taken out. So for many it's an easy way to save as it comes directly out of our pay. Our employers also put 3% into our accounts.

If we're self-employed or not working, we can contribute any amount we choose.

The government contributes, too – 50 cents for every dollar we put in, up to a maximum of $521 each year.

All this money goes in to our own KiwiSaver accounts, which are investment accounts – these stay with us no matter where we work. It's run by a KiwiSaver provider and we decide which provider we want to be with, just as we would do when deciding which bank to belong to.

Our KiwiSaver provider – or fund manager – invests the money in a managed fund that holds certain assets like bonds or shares. These investments earn us returns, or interest. Because there are a variety of fund types and funds out there, finding the right one for us is one of the most important things we can do to get the best results in KiwiSaver.

Slide 3 continued

Activity – Whole group

Ask the group if they can remember the specific situations in which people can get their KiwiSaver money before they reach 65.

When you can get your money early

You can't touch your savings until you're 65 and have been a member for at least five years, except for some situations. These are:

- You buy your first home
- You move overseas permanently
- You experience significant financial hardship
- You become seriously ill

If you die, the money in your KiwiSaver account becomes part of your estate.

To explain

Managed funds: a pool of money from many investors that is invested for them by a fund manager. KiwiSaver funds are managed funds.

Assets: What our fund invests in: things that can bring us a return and put money back into our pockets (e.g. a share of a company).

Returns: What we get back from investing. This can be from income that comes from an investment (rent from property, dividends from shares, or interest from bonds or term deposits), as well as from the change in the value of our investment over a period of time. Returns can be both positive and negative.

Slide 4

Key points

- Explain the graph and the four sources of contributions to a KiwiSaver balance.
- The earlier we start and the more we contribute, the better results we can achieve.

Activity – In groups

Briefly discuss in groups what participants notice about this graph.

Four ways money flows in

The graph here shows someone's entire experience in KiwiSaver, from age 18 to 65. This example is of someone who starts out earning $35,000 a year and contributes the minimum 3% of their salary.

By the end of their experience, after 47 years, they would have close to $279,070. This would come from four directions into their account:

1. Their contributions: $69,450
2. Their employer's contributions: $57,300
3. Government contributions: $15,780
4. Investment returns from the market: $136,540

(Numbers here include the effect of fees, taxes and inflation.)

What makes these types of funds grow so much is the effect of compounding. This is when the returns from our investments stay in our fund and then earn even more returns for us. Over time, this supercharges our savings. But if we were to shorten the length of this graph and slice off the right side, by say, even just five years, what would happen to the results? As we see here, we can achieve a lot with KiwiSaver, but the sooner we start the better. There is a cost to delaying.

To explain

Compounding: The effect of supercharging our savings that occurs when our returns earn even more returns for us. This can happen with compound interest in a bank account, where the interest we receive in turn earns even more interest. It can also occur when dividends from shares are reinvested to buy even more shares, which ratchets up wealth over the long run.

Slide 5

Key points

- Show the differences in results between contributing 3%, 4% and 8%.
- Demonstrate the KiwiSaver savings calculator, either onscreen or on phones, or both. **(https://www.sorted.org.nz/tools/kiwisaver-savings-calculator)**

Activity – Whole group

Group to guess the results from the following scenarios, with the participant who is closest winning. Let's say we're joining KiwiSaver at age 18 and our average salary throughout our career is $65,000. If we contribute 3%, how much is it worth? $200,000? $300,000? (Answer: $357,000.) How much will it be if we contribute 8%? 400,000? 500,000? (Answer: $651,000.)

Surprised?

Did you find those differences surprising? How much we contribute makes a big difference. It's the first way to dial up our results: contribute as much as we're comfortable with.

Activity – Whole group & individually

Briefly test drive the KiwiSaver savings calculator **(www.sorted.org.nz/tools/kiwisaver-savings-calculator)** to get an idea of participants' results in KiwiSaver. Participants can follow along on their phones if they wish.

Slide 6

Key points

- Choosing the right fund is one of the most important choices to get the most out of KiwiSaver.
- Funds fall into five groups based on their asset allocation.
- Chasing higher returns always comes with higher risks.

The right type of fund for you

There are some key choices to make in order to get the most out of KiwiSaver. Choosing the right fund is the most important.

It's all about the fund. But first we have to find the right type of fund with the right level of risk for our circumstances.

We've grouped them into five types, depending on the mix of assets in each fund. This is called "asset allocation". These types fall on a spectrum, depending on how much of the riskier growth assets like shares and property they hold.

We may want better results by chasing higher returns. But those potentially higher returns always come with higher risks and can be more of a rollercoaster ride of gains and losses (what experts call "volatility"). So the idea is to have more time to recover from the ups and downs in the market and make sure we can still reach our goals.

Our fund type can generally be determined by two things: how soon we need the money back and how comfortable we are with the ups and downs in the market to come. Let's try these three questions.

To explain

Asset allocation: the mix of investments that an investor chooses in order to get the results they're after.

Volatility: The ups and downs in value that an asset can have over time in the market. Volatility is one kind of risk, and assets that are riskier tend to experience more ups and downs, although their reward is potentially higher.

Slide 6 continued

Activity – Individually

Participants answer the following three questions to determine their fund type. Scores are given beside each answer and can be called out so that participants tally up their totals.

1. How long before you expect to start spending your KiwiSaver money – for a first home or in retirement?

a. 0–3 years (0)
b. 4–9 years (20)
c. 10 years or more (35)

2. What's most important to you while you're saving?

a. Getting back at least as much money as I put in (0)
b. Almost certainly ending up with more than I put in, despite some ups and downs along the way (10)
c. Likely high returns over the long term, even if that means big ups and downs in some years (20)

3. What range of gains and losses are you comfortable with over a single year?

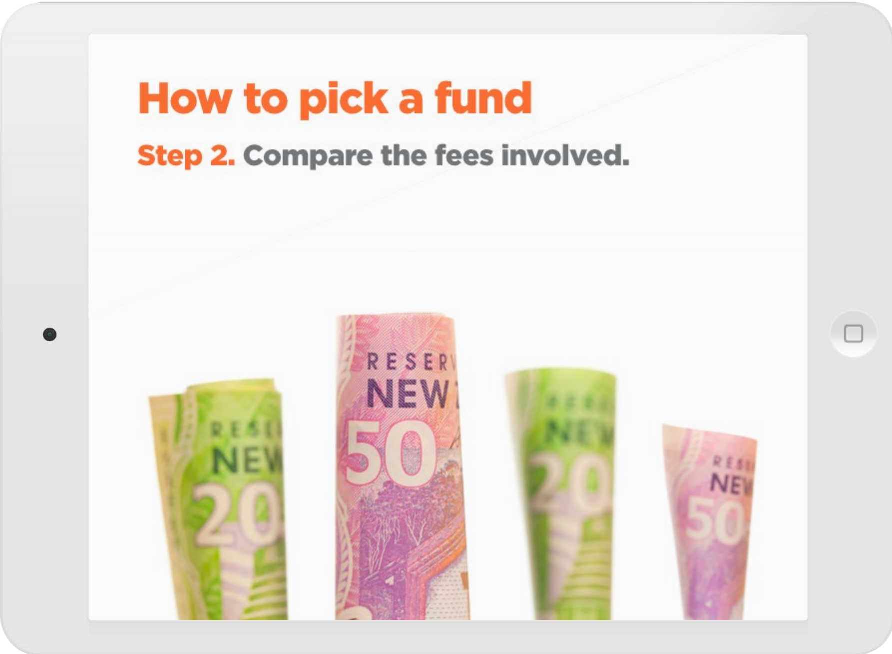
a. 0–5% gain (0)
b. 10% loss–20% gain (10)
c. 30% loss–100% gain (20)

Your results: 0–35 = Defensive funds.
36–49? Conservative. 50–60? = Balanced.
61–69? Growth. 70–75? = Aggressive funds.

So what's your type?

Now everyone should have a fund type, but don't worry if you'd like to come back to this and give it a bit more thought or change your responses. How many of you know what type of fund you're in now? According to your score, are you in the right type of fund for you?

Slide 7



Key points

- The wide range of fees can make a difference of tens of thousands of dollars over a KiwiSaver lifetime.
- Demonstrate the KiwiSaver fees calculator to give an idea of the range of fees that someone could pay over their KiwiSaver experience.
- The idea is not to just simply pick the cheapest fund, but to make an informed choice as to whether the fund is worth it for the fees being charged.
- To see how much we could end up paying in KiwiSaver, Sorted has it's KiwiSaver fees calculator at **https://www.sorted.org.nz/tools/kiwisaver-fees-calculator**.

Fees matter

Fund managers charge a wide range of fees in different ways for managing our investments. It literally pays to have a look at what fees come with our fund – this choice could make tens of thousands of dollars of difference to our results in KiwiSaver.

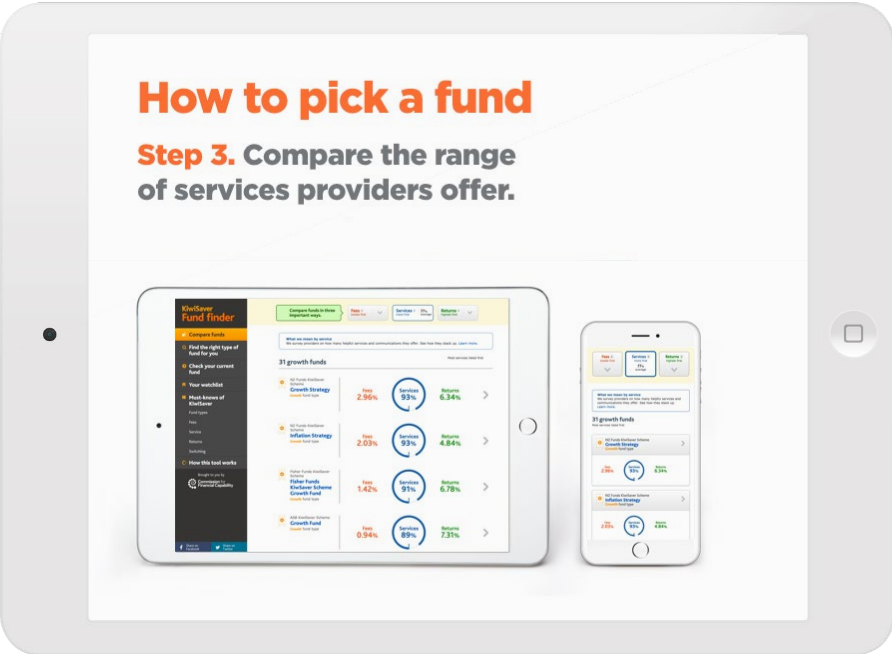
Activity – Whole group & individually

Briefly test drive the KiwiSaver fees calculator to get an idea of the range of fee levels in the market. If a participant is game, input their details and look at their results. Participants can follow along on their phones if they wish. How much might they be paying?

Are the fees reasonable?

Fees eat into whatever returns we'll earn through our fund. So the more we're paying in fees, the lower our returns. This is one instance where we don't necessarily get what we pay for! That said, if our fund manager is able to do their job well and improve the fund's performance, it may be worth paying for. In that case we'd pay more, but we'd be getting more back. But here's the thing: we cannot tell the future, or how a fund will perform. So the criteria we can base our decision on is whether the fees we're paying are reasonable.

Slide 8



Key points

- After fund type and fees, services are the third criteria to base our choice on.
- Introduce the KiwiSaver fund finder.

What's on offer?

Each KiwiSaver provider offers certain services and communications with their funds. But these would be difficult to compare if we had to call around to all the KiwiSaver providers out there to ask them what's on offer.

To help, Sorted surveys all the KiwiSaver providers every six months and asks them about their range of services. How much help do they give their members in choosing their fund and managing their accounts? What channels do they use to communicate? What extra help do they offer?

We can see this and more in the KiwiSaver fund finder. Follow along on your phone at **fundfinder.sorted.org.nz**.

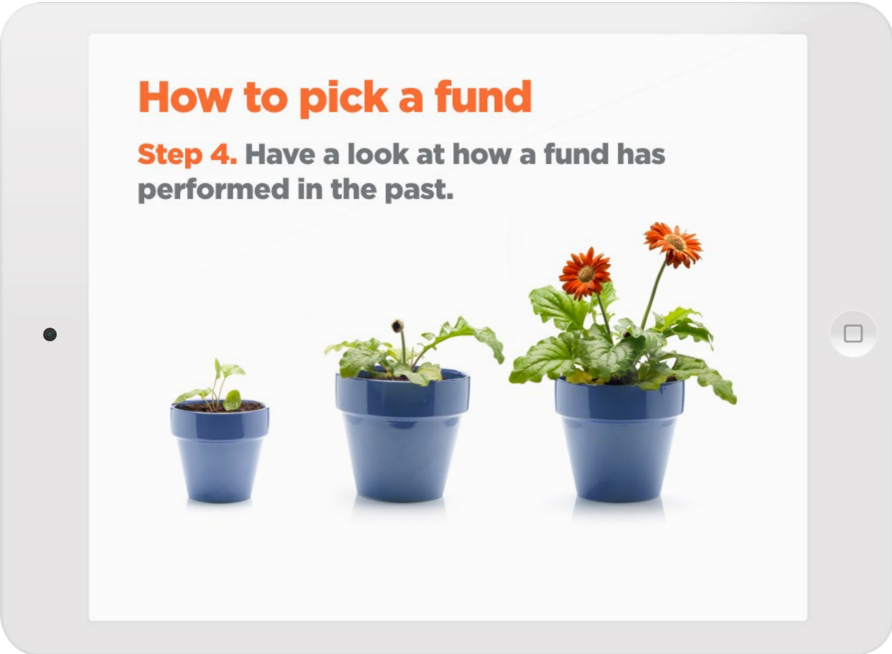
To explain

Sorted's services percentage, which is based on provider survey responses, essentially shows how many services they offer, not necessarily whether they do a good job of it. Sorted can't tell us whether a provider has a well-run call centre, but it can say if they have one and whether it takes our calls in the evenings and on weekends. But the idea is that if a provider has put in the work to set up many services, that says a lot about what we'll get.

Activity – Whole group & individually

Demonstrate the KiwiSaver fund finder (**fundfinder.sorted.org.nz**), with participants trying it on their phones as well if possible. Mention the three fund type questions already used in slide 6. Pick a fund type as suggested by participants. Also mention the fee comparison column (in red) before sorting the funds by services (in blue). Explain how to compare with the average services for that type of fund (it's shown in the blue sorting button).

Slide 9



Key points

- After fund type, fees and services, past performance is the fourth important criteria to consider when picking a fund – especially to check that it hasn't consistently been subpar.
- Past performance is no guarantee of future performance. If we make our choice just based on returns, we're chasing something that's already gone.

Looking at returns

Finally, after fund type, fees and services, it's time to look at the numbers that everyone wants to know: how did a fund perform? How much did it earn in returns? How much did our money grow? This is what it's all about: the results.

The number that counts most is the return after fees and taxes are taken out. These are the net returns. It's also best to compare returns over the longest timeframe possible. The fund finder stacks funds based on their five-year return.

Activity – Whole group & individually

Sort by returns for each of the five fund types (defensive through aggressive) in the KiwiSaver fund finder (fundfinder.sorted.nz), showing the top funds for each type. Again, participants can try it themselves on their phones. Explain how to compare with the average returns for each type of fund (it's shown in the green returns sorting button). If there's time, open up a single fund's details page and show how to see annual results for as far back as the fund has existed.

To explain

Many KiwiSaver members fall into the trap of choosing a fund based on a familiar brand. They end up choosing from a small selection of funds, which could result in selecting an expensive, poorly performing fund. The key criteria when choosing a fund are fund type, reasonable fees, good services, and avoiding those that have consistently underperformed in the past.

Slide 9 continued

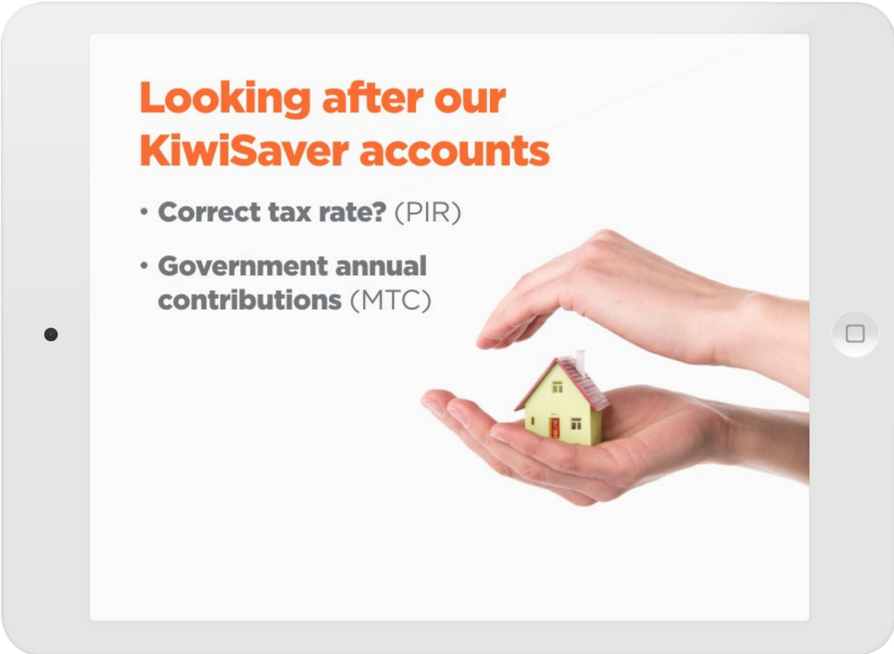
How do funds compare?

By selecting individual fund pages, we can go back even further to whenever the fund began. It's easy to compare how the fund did against its peers by seeing the average return for that type of fund.

Since we can't predict how a fund will do in the future, it's not a good idea to choose solely on how it has done in the past. (That's why performance is criteria number four, after all.) Research has shown that looking at performance on its own is not a great way to choose a fund, since often a top performer for one period can get low results in the next. So we can't just pick the fund that has had the best returns lately.

No one can pick a fund for us, but we can make an informed decision thanks to the information available.

Slide 10



Key points

- Make sure your PIR is correct.
- Make sure you get the government contribution (member tax credit) every year.

The right tax rate

We need to make sure we're taxed at the correct rate. Since the KiwiSaver scheme we're now in is a PIE (portfolio investment entity), we'll need to give our provider our correct PIR (prescribed investor rate) so we don't pay more tax than required.

This could be 10.5%, 17.5% or 28%, depending on our income. To check yours, go to ird.govt.nz **(http://www.ird.govt.nz/toii/pir/workout/toii-pir-workout-how.html)**. Then make sure your provider has the right one for you.

The big five hundy

Can anyone explain what the member tax credit in KiwiSaver is?

Each year the government will add to every dollar we put in with 50 cents of its own, to a maximum of $521. To get that full amount, we have to put in at least $1,043.

If we're earning $34,762 or more and already contributing 3%, we're already getting it. But if we're contributing less than $1,043 each year, we'll need to top up by mid June each year to get our full amount. But even if we're contributing less than the full amount, we're still getting 50 cents for every dollar we put in.

Hundreds of thousands of people miss out on this every year because they don't contribute enough in time, and on average this can mean a difference of $36,000 over someone's KiwiSaver experience.

To explain

PIR: Prescribed investor rate. The individual tax rate for KiwiSaver.

Member tax credit: The government contribution to our KiwiSaver accounts. Despite its name, this contribution has not much to do with tax.

Slide 11

Key points

- KiwiSaver is a great deal because we're not the only ones contributing.
- There are some important decisions to make, like picking a fund that suits our situation.
- We need to look after our KiwiSaver account, but not watch it too closely and panic.

Ups and downs are normal

How closely should we be watching our KiwiSaver accounts? Is it better to look at it often, or is it better to "set and forget"?

With KiwiSaver being a managed fund that is invested in assets such as bonds, shares or commercial property, there will be swings in value that are natural to the market. Sometimes we'll lose money in the short term; other times we'll do well.

Looking at a falling balance can be disconcerting to say the least, and it's normal to want to flee to less volatile investments. But if we have a long period before we need to use the money (e.g. more than a decade before retirement), we have time to ride out the ups and downs and take advantage of the highest growth.

If we panic and pull our money into less risky types of KiwiSaver fund, we may be walking away from that high growth and locking in our losses.

And when our money is going into our fund regularly, we are actually still buying assets at cheaper prices when the market is down – ready to bounce back even higher when the market does.

So while we need to stay connected with what's happening with our KiwiSaver accounts, it's probably better not to be watching them too closely, in case we cave in to the urge to run when things get rocky.

To explain

The graph shows how when we contribute regularly, we may see higher peaks and troughs over time, but we harness the market for the greatest growth. (The blue line here shows investing $10,000 and adding $50 per week, which grows to $121,100.) If we just left a lump sum of $10,000 in for 25 years, it would grow much less (the ora nge line grows to just $21,170).

(These figures have been adjusted for fees, taxes and inflation.)

Slide 12

Key points

- KiwiSaver is a great deal because we're not the only ones contributing.
- There are some important decisions to make, like picking a fund that suits our situation.
- We need to look after our KiwiSaver account, but not watch it too closely and panic.

Let's recap

Would anyone like to have a go at summarising what we have covered today?

Let's recap a few key points:

- KiwiSaver is a great deal. Who can explain why?
- There are some key things we can do to get the most out of it. What are some?

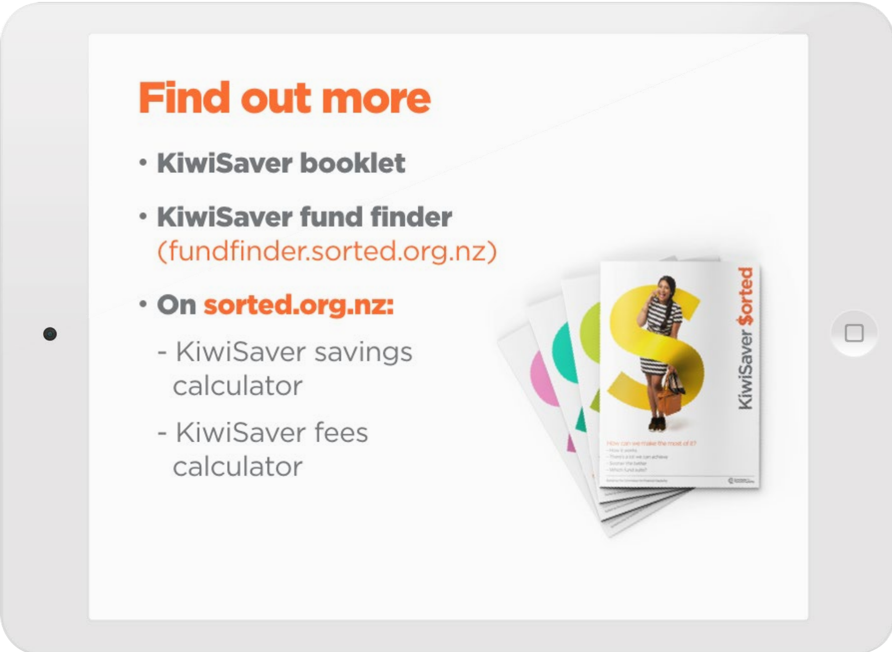
The most important are:

1. Contributing as early and as much as possible
2. Picking a fund that suits
3. Getting the full $521 from the government each year
4. Confirming that our tax rate is correct

What are some of the barriers for us to make these adjustments? What are some things we can do to overcome these?

How often do we plan on checking in to see our KiwiSaver accounts? Monthly? Quarterly? Annually? Why?

Slide 13



Key points

- Thank participants for attending.
- Encourage participants to find the fund that suits them best on the KiwiSaver fund finder.
- Remind participants to use the free Sorted booklets and tools on **sorted.org.nz**.

Thank you and all the best

Our thanks to everyone who helped organise this seminar and to all of you who participated today.

We now have the tools we need in order to make informed choices about our KiwiSaver settings, especially which fund to be in. By doing so, we can all get the most out of KiwiSaver, which will mean better results for our future.

Commission for Financial Capability
Building wealthy lives

The Commission helps New Zealanders prepare financially for retirement, through education, information and promotion. Our Sorted information programme helps Kiwis of all ages to understand money matters and manage their personal finances throughout life. The Sorted programme is made up of the website sorted.org.nz, a range of Sorted booklets and Sorted seminars.

If you have any feedback on this seminar material we would like to hear from you. Please email the Sorted team at **office@sorted.org.nz.**

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