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STUART + CARLYON

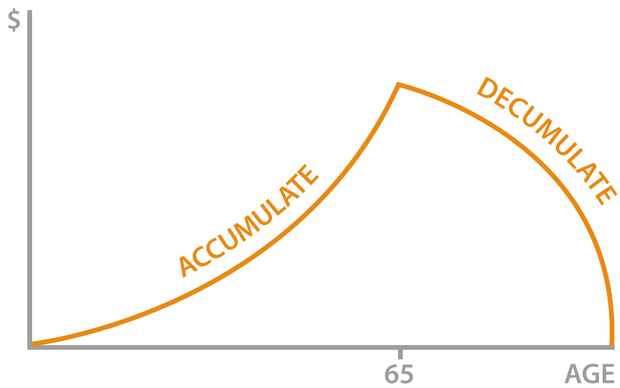
Financial advisers for your lifetime goals

The sweet retirement question: One lump?

The English language is full of lost positives: negative versions of words for which the positive has fallen into disuse. Sometimes people are implacable, for instance, but when are they ever *placable?* Horrific events make us distraught, but do happy events ever make us *traught?*

So we weren't nonplussed the other week so much as perfectly *plussed* to learn that the Commission for Financial Capability has found not so much a lost positive, but, rather, a lost negative. They were holding a "Decumulation Forum" which featured Deborah Carlyon as one of the panel speakers.

Isn't 'decumulation' just an economist's word for spending? No; not quite. Rather, it describes the planned release of your retirement savings at just the right pace so that your income meets your life needs. In fact the Commission's website has a neat picture of what they mean.



The whole topic has become a big issue especially now as the first wave of KiwiSavers hit retirement age. A recent online poll conducted by the Commission highlights the concerns of working aged New Zealanders:

- While 66 per cent have a financial plan for funding their retirement, a third don't.
- Plan or no plan, 80 per cent are concerned about living longer than their savings.
- And instead of being handed a lump sum upon retirement, 90 per cent would like to see more investment options that provide a regular retirement income.

At issue is the way we might best mete out our retirement funds. A lump sum can be too easy to blow compared to having a planned annuity which conserves capital while offering a monthly income.

Deborah's perspective as financial adviser was well received at the conference and the points she made are summarised below.

Transitioning to retirement has its challenges and common concerns

- Do I have enough money? How much can I spend each year?
- What income sources are there?
- Review of assets, liabilities and household budget.
- Include your ability to earn e.g. career prospects, part time work.
- A conversation with an adviser can replace panic with perspective.

Working past 65 (part time or full-time) has multiple benefits

- Save your NZ Super rather than spend it.
- Delay drawing from your retirement fund.
- Smaller initial drawings needed while part time earnings continue.
- Make renovations to support aging in your own home.
- Extra spending money (for travel!) while active and healthy.

Suggestions to maximise home equity

- Earn income from your home – e.g. airbnb or take in a boarder.
- Downsize to release capital – though sometimes smaller isn't cheaper.
- Stay in your home and have a flexible credit facility from the bank or a reverse mortgage.
- Move to a Retirement Village – release capital and reduce property maintenance costs.

Multiple sources of income are good

NZ Super is universal and at $19,000 net for a single person and $15,000 each for a couple it is a solid base that increases annually – useful when interest rates keep falling. It proves a great counterpoint to most retirement funds because it is really NZ's only annuity.

A few retirees have company pensions but KiwiSaver has replaced most work schemes these days. A trawl of provider websites sees very little about how to draw a regular income

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from KiwiSaver when you retire. Few even attempt to answer the pressing question: how much you could safely withdraw so the money lasts. The Sorted website is useful for uncomplicated financial situations.

Planning is our core business

We design tailored portfolios for our clients, modelling a range of retirement scenarios to illustrate:

- A safe withdrawal rate – and what happens if returns are far lower than expected. Will your money still last?
- Higher drawings in those early years when you have the desire and stamina for travel. Don't park all your life goals until too late!
- Will you need to release equity in your house as part of your plan?
- Factoring in other retirement risks – living longer, kids "decumulating" your money, health scares.

The art of decumulation is not easy because there are so many unknowns and risks. These include:

- Longevity risk. A 65 year old woman today has an average life expectancy of almost 90 so there's a 50% chance she will live longer and she may not have planned for that. This is usually when home equity is tapped into for long term care.
- Spending shocks. What happens when adult children ask to raid the "Bank of Mum and Dad" to help with their house purchases or business problems. Does this come at the cost of your own retirement?
- What will be the returns on investments? Will there be an economic meltdown at the start of my retirement years when I have more to lose?
- How much money should we leave to our children? We encourage most clients to enjoy their retirement by using up their financial assets and just leave the house to the family, or the proceeds of their retirement village unit.

Not everyone can afford financial advice and a tailored portfolio. The challenge is for the Retirement Commission, the FMA and KiwiSaver providers to map out some rules of thumb to educate and guide those with growing KiwiSaver balances about how best to decumulate. To make the savings last the distance; now that would be absolutely…er, *gusting* don't you think?

Rise of Populism

While we're on the subject of conferences and their dry names, let's mention the Portfolio Construction Symposium that we recently attended. The keynote speaker was the marvellously eloquent, thoughtful Niall Ferguson, MA, D.Phil., Professor of History at Harvard University. His topic was "Secular stagnation or inflection point? The post-crisis world in historical perspective."

Dry? Not at all. Anyone familiar with his PBS series "The Ascent of Money: A Financial History of the World", from 2008; or his more

Niall Fergusson

recent three-part television series "China: Triumph and Turmoil" will recognise that Niall Fergusson really assembles a convincing picture.

He focused his talk on the aftermath of the 2008 crisis and the rising populist politics. What's it all about?

- Despite a number of central banks resorting to negative interest rates and the IMF acknowledging the risk of stagnation, he is optimistic for the global economy.
- There is evidence that the global economy may be at a turning point because commodity demand is strong, labour markets are tightening and both China and the USA are managing their monetary policies in a sensible, stable manner.

But he points out there are five key risks, all political, that could derail this global recovery:

1. China aborts its structural reform.
2. Trump wins the presidency.
3. Populists gain in Europe (not only the Brexit groundswell).
4. Russians exploit populist gains and increase their power over Europe.
5. ISIS continues to gain adherents – using social media.

Trump. Even though economic conditions particularly in US are actually improving, voters are engaged in a kind of delayed backlash against globalisation, immigration and free trade. This is occurring against corrupt political establishments but also happening in other countries such as Britain and Spain.

Ferguson says the closest parallels are not so much the Germany of the 1930s, but the restrictive immigration policies and tariffs that were a source of instability in the late 19th Century.

He reminds us that global free trade actually keeps the peace. "Don't shoot people in other countries – they are our customers!"