Excerpts from "KiwiSaver Max: How to get the best out of it"

The smartest ways to contribute

There are many ways to be in KiwiSaver. You can just sit there, doing whatever you did when you first joined, and you should still do very nicely thank you. Or you can make the most of the scheme - using its incentives and the clever ways people have come up with for playing the game - to your advantage.

This book has already covered how minimally you can contribute to KiwiSaver. Non-employees can put in zero, and employees can put in 4% (or in some cases 2%) of pay for just one year. But contributing the minimum is not the smartest strategy, unless you are under 18. Everyone else should try to at least put in $1,043 a year to get the maximum tax credit - even if you have to borrow to do that (there's more on borrowing later in this section.) And for many people there's more to it than that.

The first question to ask yourself is: 'Do I have the self discipline not to spend my retirement savings before retirement?' If the answer is, 'No', you might want to take advantage of the tie-up of your money in KiwiSaver and put in as much as you think you will need for a comfortable retirement. If you are an employee and 8% of your pay feels right, you can contribute that through your employer. But you can make it any other amount - contributing 4% through work and paying the rest directly to your provider or via Inland Revenue. See sidebar on 'How to make extra contributions'. Non-employees can simply contribute as much as they like to their provider.

Alternatively, you might want to put less into KiwiSaver, and save the rest in a separate non-KiwiSaver retirement savings scheme that still limits withdrawals. Why bother? In an emergency, it will probably be easier to get your money out of a non-KiwiSaver scheme.

Think hard, though, before you tie up more money than necessary anywhere. Even if you are pretty sure you won't need the money in the meantime, you never know when extended family members or friends will become ill or in financial strife - or want to offer you the chance to get in on the ground floor of their brilliant new business.

For these and other reasons, many people regard the tie-up of KiwiSaver money as a major drawback - reducing flexibility to spend or invest elsewhere. If that sounds like you, but you would still like to save a considerable amount for retirement and can afford to do so, you too might want to set up two savings plans, one within KiwiSaver and the other not. But in this case the second plan should be accessible.

In the KiwiSaver fund, put in as little as necessary to receive all the KiwiSaver incentives. In the non-KiwiSaver investment - which might for example be shares, rental property, or a non-KiwiSaver managed fund or work super scheme - save whatever extra you need for your retirement, knowing you can get at that money at relatively short notice. If you particularly like the way your KiwiSaver fund invests, you should be able to find a similar non-KiwiSaver fund for your other savings plan - in some cases offered by the same provider.

How can you get the best from the KiwiSaver portion of your savings? That depends largely on your employment status, as follows:

- Employees earning less than $26,075 a year. Four per cent of your pay is less than $1,043. So if possible you should top up your contributions, either throughout the year or in a lump sum in June, so that you reach the $1,043 maximum tax credit. Your provider will tell you your contributions total in early June if you ask - although there may have to be a bit of guesswork, as they won't know how much is still with Inland Revenue. Still, it's no big deal if you get it slightly wrong. Note that in your first year in KiwiSaver, your maximum tax credit is likely to be less than $1,043, so just contribute until you reach your maximum. (See 'Tax credit timing')

- Employees earning $26,075 or more a year. You should contribute 4% of your pay for at least a year. At your pay level, that will automatically get you your maximum tax credit. After a year, you have two good options. The first is to continue at 4% of pay. The second is to take a contributions holiday but keep contributing $20 a week (or $87 a month or $1043 a year) as a voluntary contribution.

  Either way, you'll receive the maximum $1,043 tax credit. The obvious advantage of the first choice is that you will receive compulsory employer contributions - which don't apply if you are on a contributions holiday. The disadvantage is that you'll be tying up more of your own money. And, if you get along well with your employer, you may be able to talk them into voluntarily contributing up to $1,043 anyway, as they will be reimbursed that much by the government.

  Your employer might even put in $1,043 while you put in nothing – although in that case you wouldn't get a tax credit. And you should be aware that if you are on a contributions holiday, employer contributions will be taxed. For more on all this, see 'Employees - negotiating with the boss')

- Non-employees - such as the self-employed, beneficiaries, people at home looking after children or early retirees. You should contribute $1,043 a year, which amounts to $20 a week or $87 a month.

  For tax credit purposes, it doesn't matter whether you contribute weekly, monthly, yearly, or sporadically through the year - assuming your provider will accept any contribution pattern. What does matter is your total contributions by June 30. However, do sign up for KiwiSaver as soon as possible, as in your first year of membership, your tax credit is proportionate to how much of the July 1-June 30 year you are a member. (For more on this see 'Tax credit timing'). If your maximum first-year tax credit is less than $1,043, you may want to contribute only up to that maximum in your first year.

After your first year, as long as you contribute $1,043 before the end of June each year, you will get the full tax credit. But that's not the only consideration. Read on.

How often to contribute?

Most employees, of course, contribute every payday. Non-employees – and employees on contributions holidays who continue to put in $1,043 a year - can simply make a one-off contribution any time during the year. Many will do it in June. But that's probably not your best option. If you are investing in a KiwiSaver fund that includes some shares or property - which means your balance will fluctuate with market fluctuations - there's a good argument for contributing a regular amount weekly or monthly.

Let's say you contribute $100 a month into a KiwiSaver fund that divides up its holdings into units, as most do. In a market boom the units in your fund might be worth $20 each, and your $100 will buy you five units a month. In a down market the units might be worth just $10 each, and you will get ten units a month. Automatically, you buy more units when they are cheap, and fewer when they are expensive. So, while the average market price is $15, your average price is lower. That's great! (For more on this - sometimes called 'dollar cost averaging' - see 'Invest regularly, rather than with lump sums', on page 102 of my little red book, 'KiwiSaver: How to make it work for you')

Despite this, some people think they are better off just making a one-off contribution every June, because they can then invest the money elsewhere in the meantime. They forget that if they drip-feed contributions into KiwiSaver they are earning the KiwiSaver fund returns on that money, which might be more than they earn elsewhere. Even it that's not the case, it's unlikely the difference will be big enough to counter the advantages of dollar cost averaging.

In the end, the decision might come down to budgeting issues. Some will find it easier to contribute gradually. Others, who are unsure if they can spare the money each year, might prefer to wait until June to see how the land lies. If you are in the latter group and you have a bad year, just contribute as much as you can spare. Remember, every dollar up to $1,043 a year is matched by the member tax credit.

If you do wait until June to contribute, I suggest you do it in early June. Your total, for tax credit purposes, will be noted at the end of June, but it may take your provider a while to process your contribution.

One further point: Employees with mortgages on their own home who earn more than $26,075 - and some who earn less - are likely to benefit from mortgage diversion. (See 'Diverting money to pay off your mortgage')

How to make extra contributions

Anyone can always put extra into a KiwiSaver account. There are two ways to do it. The more direct way is by sending it to the provider. All providers will accept regular contributions - perhaps as transfers from your bank account if that suits you - and most will also accept one-off payments. Ring or email your provider and ask how to do this. It should be straight-forward.

The other way is via Inland Revenue, in the same way as if you were paying tax. You can deposit the money over the counter at a Westpac bank, or send in a cheque with your IRD number on the back and a letter saying the money is for your KiwiSaver account, or you can use internet banking. On the internet, use the 'pay tax' option, put 'KSS' for the tax type, and zero for the period.

The cheeky question

Towards the end of my survey of 31 KiwiSaver providers I asked, 'Has the top New Zealand-based executive of your company joined KiwiSaver?' Some providers came back with comments like, 'I'm not going to ask my boss *that*!' But when I suggested they try, because I've found in the past that chief execs often like to tell the world how they support their own products, quite a few came back with cheerful responses. In the end, only four providers - ABN AMRO Craigs, Kiwibank, Medical Assurance Society, and Mercer - declined to answer.

Another four said their bosses hadn't joined KiwiSaver, and gave the following reasons:

- ANZ National: 'Graham Hodges joined an Australian superannuation scheme on the first day he started work while still at university. He is now in a compulsory superannuation scheme in Australia, as well as private schemes in the Australian market - both through ANZ and a scheme he set up through a previous employer.'
- AXA: 'KiwiSaver is a fantastic new initiative, but AXA had been in the superannuation industry since 1940 and offers a very good workplace super scheme to staff, to which the chief executive is a long-standing member.'
- NZ Credit Unions: The CEO reported, 'I am absolutely committed to the Credit Union KiwiSaver scheme, but when I started my own superannuation planning this was not an option available to me. Now I have my own superannuation plan already in place and it would not be financially viable to break it. Members of my family have signed up to the Credit Union KiwiSaver scheme, including my grandchildren.'
- Westpac: 'Chief Executive Brad Cooper has chosen not to. Brad already has a long-standing savings/superannuation plan in place that meets his needs. He recognises that KiwiSaver offers a great incentive for retirement savings and is

particularly appropriate for those who don't have existing retirement plans. He notes he would be part of KiwiSaver if he didn't have other plans already in place.'

I'm sure they all know that it is often worthwhile to be in KiwiSaver as well as other schemes. But perhaps we should be grateful to them, as they are saving taxpayer money by not joining, and I'm sure they will all have comfortable retirements anyway. In any case, I do appreciate their honesty.

The top execs at all the other providers are in KiwiSaver and - surprise, surprise - they are all in their own schemes. Many have chosen higher-risk funds, often pointing out that that is appropriate because KiwiSaver is a long-term investment. And I think we can assume they all understand markets well enough to cope with volatility! In many cases, too, KiwiSaver is not the executive's main retirement savings, so their choice is affected by what other investments they hold. Some of the providers' comments:

- Huljich: The chief executive is in Huljich's growth diversified fund, which includes local and international shares, property, infrastructure, fixed interest and cash. 'To protect and build wealth correctly, I believe it is necessary to invest across all asset classes. A fund with a wide variety of asset classes will, over the long term, achieve high returns with lower risks than non-diversified funds.'

- SuperLife: Some of its chief executive's less-than-obvious reasons for being in 100% shares include: 'When you are drip feeding, which is what KiwiSaver does, it is in fact better to be in a volatile option – this is the dollar cost averaging effect.' Also, 'The money will form a small part of the person's retirement savings and therefore they will be able to time the exit ie they will not need to realize it at age 65 if the markets are down.' And 'The tax laws make it tax efficient.'

A few have also put at least some of their money in ethical funds, for example:

- Asteron: 'I have made a significant allocation to our SRI fund, given the opportunity to do so within the Asteron product and the attraction of supporting socially responsible and sustainable businesses.'

And a couple of top execs have chosen funds that gradually reduce risk, for example:

- Civic Assurance: 'In the Automatic Fund the asset selection is determined by your age on entry. The younger you are the greater the exposure to growth assets. Then the need to make decisions to move to less risky investments as you age is taken care of by the automatic monthly incremental switch to income assets.'

Unsurprisingly – given that we would expect most senior managers to already own their own homes - only one has invested with the KiwiSaver first home incentives in mind:

- eo: 'In eosaver's balanced investment option. It is intended that the accumulation be used for the purchase of the first home. This means that the investment is short to medium term. However, prepared to be slightly more aggressive as the probability of shares outstripping cash in the next three years is 69% in three years and almost 75% in five years. Closer to the time, a switch will be made to a more conservative option to provide more certainty around the value available for the deposit at that time.'

Top points for enthusiasm go to Tower, whose new chief exec, Sam Stubbs, says this:

'I have the largest KiwiSaver account balance with Tower and have committed to our staff that it will continue to be the largest if possible. I contribute 8% of my salary and Tower contributes 2%. I'm a firm believer in walking the walk on this and challenge all other KiwiSaver CEOs to be members and the largest contributors (if possible). KiwiSaver is the reason I returned to New Zealand and joined Tower. I'm a believer!'

What does all this tell us? Perhaps not a whole lot in terms of which provider to choose. But how else do we get a bit of gossip into a book about KiwiSaver?