KIWISAVER QUESTIONS DURING MARKET UNCERTAINTY

Here's our latest update touching on some of the most frequent KiwiSaver questions we are receiving.

1. Can I access my KiwiSaver due to financial hardship?

Your KiwiSaver funds are accessible in the case of Significant Financial Hardship. There is a rigorous eligibility test as these withdrawals are normally seen as a last resort after all other options have been tried. The main criteria for the withdrawal are not being able to meet minimum living expenses or being unable to meet specific payments (mortgage, medical treatment, funerals and a few others).

The government is offering some relief for those affected by the lockdown situation such as mortgage payments holidays, income subsidies and financial packages for businesses. Please see our website for further information on the support packages available.

2. Should I switch my KiwiSaver fund?

If you were in the right investment fund one month ago then that is still appropriate for you now. It's important to remember that KiwiSaver is a long-term investment vehicle, so while there is currently volatility and uncertainty in the markets, it shouldn't affect your long-term investment strategy. If you aren't planning on spending the majority of your KiwiSaver for another five years then the fund you chose before this crisis is still valid.

If you're thinking about spending all your funds in the next 12 months, you might feel more comfortable in a conservative fund with less exposure to the share market and therefore, volatility. If you are considering this, please get in touch. We are here to help you make an informed decision.

3. Has my KiwiSaver gone down as much as being reported on the news?

Your KiwiSaver fund is not a direct reflection of the daily movement extremes in the Dow Jones or NZX50. Each fund is highly diversified, being invested across different markets, countries, companies and currencies. Growth-oriented funds are higher risk as they are more invested in shares and property and will react more to market movement than lower risk income-oriented funds (primarily invested in term deposits and bonds).

In fact, it could be said that the current market volatility is a great opportunity for those long term investors; which leads us to our last point.

4. Should I keep contributing to my KiwiSaver?

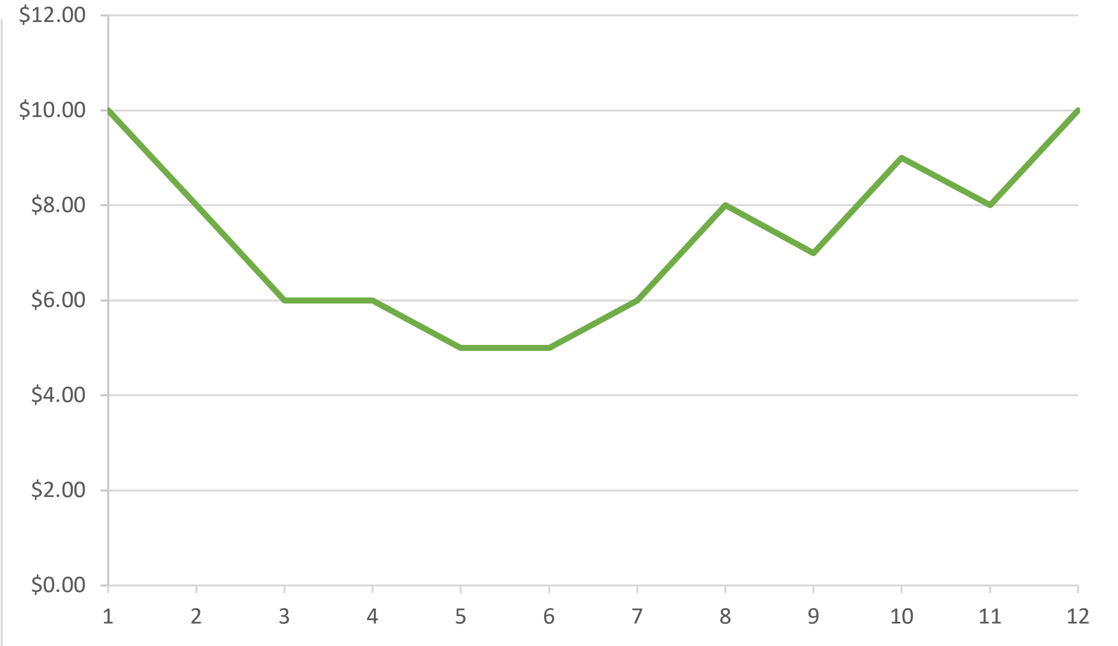
If you are able to keep contributing to your KiwiSaver then yes, you absolutely should. Each time you contribute to KiwiSaver you are buying units of your investment fund. Each unit is made up of all the different shares, bonds, term deposits and other investments in your fund. Due to the current market volatility these unit prices are lower so each time you contribute you are actually buying more. Shares are effectively on sale, which is great when we're buying.

If your KiwiSaver is a retirement cake then you want it to be as big as possible when you reach retirement. Currently the ingredients are on sale, except instead of flour, eggs, and candles, it's investments like Fonterra bonds and Kathmandu shares. You want to buy these cheap so you can make a bigger cake in the future. Does this analogy work? We think so. Below we have a graph breaking down the core idea we are getting at, 'dollar cost averaging'.

What is Dollar Cost Averaging?

Dollar cost averaging is a powerful investment concept where you regularly invest a fixed amount of money to buy investments with a fluctuating price. That's what your KiwiSaver does already.

An easy way to understand this is by looking at the below chart. Imagine the chart represents an investment fund and you have $1,200 to invest. If you invest the $1,200 as a lump sum at the start then your investment will recover its full value by the end of the tracked period.



But if you instead invested $100 per month it is a completely different story. Your investment would be worth $1,728.97 at the end of the period. Investing regularly, dollar cost averaging can work in your favour by increasing your return and reducing the risk of trying to time the market.

When prices drop, investors often get concerned because the value of their portfolio drops. However, with dollar cost averaging, investors systematically take advantage of price drops by buying more units of the same investment. As you can see in the example, as the price drops in the first 6 months, more and more units are being bought every month.

We are here to answer your KiwiSaver and investment enquiries, especially in volatile times like we are all experiencing. Hopefully the above answered some of your questions, however please do get in touch if you have further questions.

Keep safe.