

# Retirement

## - Just part of the "LifeCycle"

NZ Funds unique 'LifeCycle' approach to KiwiSaver gives Dave Rohan the confidence to do what he does best – focus 100% on the client. Benn Bathgate reports

Politicians underestimate the intelligence of New Zealanders when it comes to the hard questions around retirement provision, such as raising the retirement age and making KiwiSaver contributions compulsory, instead seeing both as "a suicidal idea," according to Rohan Financial Solutions co-owner Dave Rohan.

Both issues have generated a great deal of press coverage in recent months, with increases in retirement age becoming a growing issue across the developed world as countries struggle to deal with the problems of growing debt and aging populations.

For New Zealand, as in most other countries, Rohan says, "I think it's going to be a political decision."

However, at present, "No politician is brave enough to tackle the issue."

Rohan says like another pressing global issue – climate change – it becomes too easy for politicians fearful of an electoral backlash to avoid making an unpopular decision, no matter how much evidence points to the need for change.

He believes one way round the impasse would be for a future government to establish a Commission of Inquiry into the issue with the promise they will implement its findings.

When it comes to retirement provision, KiwiSaver and investment ideas, Rohan knows what he is on about.

With brother Lawrence they have more than 70 years of experience in financial services, though Rohan Financial Solutions is a relative newcomer to the scene.

The company began operations in October 2010, emerging from the closed Money Managers Group (MMG), though Rohan's background in financial advice goes back to 1994.

It was his relationship with NZ Funds principal David van Schaardenburg (NZ Funds is the former owner of MMG), that prompted Rohan to opt for NZ Funds as their KiwiSaver provider.

However, his choice was based on more than old mates scratching each others backs.

Rohan says NZ Funds have a number of factors that set them apart from other providers.

"They're New Zealand owned and I think that's important," he said.

Their use of independent research is another factor.

"That gives us the confidence to focus on the client," Rohan says.

He also said their work on behavioral finance gives them "solutions other providers' don't have."

While these plus points are important, for Rohan the real importance is the fact NZ Funds has a KiwiSaver strategy he believes eliminates one of the main mistakes people make with KiwiSaver investments – the incorrect asset allocation.

"Both of these make it more likely people won't pack up when the market tanks."

NZ Funds has what it calls 'LifeCycle Portfolio Management', a unique process that automatically rebalances the KiwiSaver investment across one or more of three portfolios (Income Strategy, Inflation Strategy, Growth Strategy), "actively managing your retirement savings relative to your age and your investment horizon."

The benefits of NZ Funds 'LifeCycle' system is outlined on Rohan Financial Solutions website.

"NZ Funds have conducted research into the creation of intelligent asset allocation methodologies for long term savers. From that research they have developed what they refer to as LifeCycle Portfolio Management, an approach which automatically resets each members portfolio mix in a disciplined manner. The process is unique in the KiwiSaver marketplace and ensures younger members are allocated more toward growth assets and then, as they approach retirement age, are progressively rebalanced to relatively more stable, income orientated investments."

This automatic provision of an asset balance to suit age, circumstances and hedging helps dispel the key mistake Rohan believes most savers make with their KiwiSaver schemes – going into a default setting at a younger age, then becoming more aggressive as they near retirement age.

"The risk is that markets will tank a year or two before they retire. If that happens, the investors will suffer severe losses because their KiwiSaver accounts will have large balances and



**"No politician is brave enough to tackle the issue."**  
– Dave Rohan

they won't have time to recover before they retire and start consuming their capital," Rohan says.

Another common mistake he refers to as "investing in the rear view mirror".

"[Investors] change their investment strategy in reaction to economic conditions. They will get more aggressive after a boom, just in time for the inevitable correction. Or they will get more conservative after a crisis and miss out on the inevitable recovery."

Rohan also highlights NZ Funds hedging strategy as an important factor.

"Over the long term hedging is going to reduce volatility by about a third, and returns are slightly higher over time," he says.

NZ Funds ARMOR (Absolute Return through the Mitigation of Risk) process places a balanced emphasis on the preservation of capital and the pursuit of investment returns.

Rohan does have one caveat with regard to ARMOR however.

"The only concern I have is that dollar cost averaging works better if assets are volatile. Hedging through ARMOR is going to limit that. However, most investors who are making regular contributions don't appreciate that they buy more units when markets have fallen and the risk is that fear drives them away from a growth strategy. Hedging is going to give comfort to drip-feed investors so they keep investing," he says.

"On balance, I have concluded that the benefit of hedging more than offsets the disadvantage."

When it comes to KiwiSaver in general, Rohan believes the product is critical for savers, the economy and the financial advice sector.

He says that KiwiSaver makes for a good value-added service

for clients as they're "getting something for nothing."

On the vexed issue of compulsion Rohan says, "In time it will happen as the percentage [of people in the scheme] increases over time."

He believes that compulsion would become a far less controversial issue the less people are 'compelled' to join.

He also believes that over time, as balances become larger, the perceived benefit of the \$1,000 rebate will become "less significant."

He advocates scrapping the rebate and instead removing tax from contributions, though he concedes there is a possibility that as more people join KiwiSaver – especially if compulsion comes into force – "I think there is an issue of KiwiSaver diverting from other investments."

The downside to compulsion is that it "takes investment choices away" and he believes it would be especially unpopular with property investors already smarting from tax changes in the May Budget.

Despite these reservations Rohan thinks compulsion could be good for the New Zealand economy, citing the Australian example, and that encouraging younger people into the scheme will, over time, reduce pressure on NZ Superannuation.

Also, if it helped move New Zealand investors away from property, that might not be such a bad thing.

Utilising what is described on the Rohan Financial Solutions website as "Southland bluntness" – described as necessary sometimes to address short-sighted behavior – Rohan says, "There's an untrue mantra that housing never goes down in value, perpetuated by vested interests."

"It's a bloody lie." **A**

### Living the LifeCycle of Riley

NZ Funds manages its KiwiSaver scheme using a 'LifeCycle' portfolio management approach, utilising three different actively managed investment approaches that alter as the KiwiSaver in question approaches retirement, aligning portfolio risk to their investment horizon.

This investment approach has the double benefit of maximising returns early in the investment cycle – when risk tolerance is higher – and progressively reducing the member's risk as they near retirement, safeguarding their nest egg.

The LifeCycle scheme's three portfolios are:

Income Strategy - this portfolio aims to preserve capital and provide stability as the member nears retirement. The funds are invested in a diverse range of income assets managed by NZ Funds, PIMCO and Franklin Templeton.

Inflation Strategy – this portfolio aims to mitigate the effects of inflation on member's retirement purchasing power. Utilising a diverse number of external managers it specifically allocates to a number of inflation-linked investment assets such as listed property and inflation linked bonds.

Growth Strategy – designed specifically to grow capital through allocation to growth assets such as shares, much of which are managed by established offshore managers including Odey, Platinum and T Rowe Price.

LifeCycle Scheme details	
Scheme launch:	October 11, 2011
Tax Status:	PIE
Notice period for withdrawals and switches:	35 days
Redemptions:	After notice period, usually within five working days
Voluntary Contributions:	Weekly, fortnightly or monthly
Minimum voluntary contribution:	\$80 per month
Annual portfolio management fees:	Income Strategy 0.75%
	Inflation Strategy 0.95%
	Growth Strategy 1.10%
Monthly administration fee:	\$3.33 per member
Trustee/Issuer:	Perpetual Trust
Manager:	New Zealand Funds Management
Administration manager:	Aon New Zealand