

Media Release

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Dealing with dwindling returns on your investments

Retirement Commissioner Diana Crossan is urging investors faced with dwindling returns from bank deposits to do their homework before putting their money into products offering higher rates of return.

Her warning follows today's announcement of a 0.5% reduction in the official cash rate, which controls the interest rate the Reserve Bank charges on money it lends to New Zealand banks.

"In this low interest rate environment, people need to look beyond the advertising as new investment offers come onto the market. Don't be blinded by the offer of a high rate of return," she said.

"Make sure you understand what you're investing in and who you're investing with. This is particularly important for people in retirement if their financial security depends on their investments."

With more investment offers likely in the coming months, coupled with an uncertain market, Diana Crossan says it's vital that investors are clear about risk.

"All investments carry some risk. The right option for you depends on how much risk you are comfortable with, how much you can afford, what returns you want to make, how long you want to invest for, and how easily you need to be able to access your money," she said.

"The [risk](#) and [investment](#) recommenders on sorted.org.nz can help people work out what's right for them."

The Retirement Commission has also added extra information to sorted.org.nz on [credit ratings](#) and the [government investment guarantee](#) scheme to help people with their investment decisions.

The flip side of lower interest rates from today's announcement is lower mortgage rates. New Zealanders wanting to see what difference a lower mortgage interest rate will make to their finances can use the [mortgage repayment calculator](#) on sorted.org.nz.

Sorted also has new information for homeowners who are thinking of [breaking their fixed term mortgage](#) to take advantage of lower interest rates.

Note: Please find below tips for dealing with reduced investment income in retirement.

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Tips for dealing with reduced investment income in retirement

- 1. Take stock**

Make a budget for the year ahead, based on reduced income from investments. If money is tight, is there any way you can reduce your spending or find income from other sources? (e.g part-time work). Use the [Budget calculator](#) on sorted.org.nz.
- 2. Review your goals**

Now might be the time to reassess some of your short-term goals. Are they still realistic? Use Sorted's [My Goals worksheet](#).
- 3. Prepare for the unexpected**

In these uncertain times it's especially important to have an emergency fund - some money you can get hold of in a hurry. Do you have a portion of your nest egg in an account you can access quickly if you need it in an emergency?
- 4. Know what you're getting into**

If you are thinking of putting money into something that offers higher returns than a bank deposit, make sure you understand what you're investing in and who you're investing with. Check the institution's [credit rating](#) and follow the [8 rules for Sorted investing](#).
- 5. Understand the risk**

All investments carry some risk. The right option for you depends on how much risk you are comfortable with, how much you can afford, what returns you want to make, how long you want to invest for, and how easily you need to be able to access your money. Try Sorted's [Risk recommender](#) and [Investment recommender](#).
- 6. Understand the guarantee**

If an investment is covered by the government's [Retail Deposit Guarantee Scheme](#), remember that your funds are only guaranteed up to 12 October 2010. You can find a list of institutions covered by the guarantee on the [Treasury website](#).
- 7. Don't lose sleep**

As a rule of thumb, the more dependent you are on your nest egg, the more conservative your investment approach should be. However, even if you don't rely on this money, you still need to be able to sleep at night. And the 'price' you pay for extra security may have to be accepting a lower return.
- 8. Find out more**

To find out more about managing your money in retirement, visit the 60plus section of www.sorted.org.nz. Or order the free booklet "Your money in retirement" by calling 0800 SORT MONEY (0800 767 866) or online at www.sorted.org.nz/ordering.