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SUMMARY OF RECOMMENDATIONS

REVIEW OF RETIREMENT INCOME POLICIES 2019

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This document lists the recommendations made in the 2019 Review of Retirement Income Policies in relation to the terms of reference, with explanations as to why the recommendations have been made. More background and information can be found in the Review report on the website **cffc.org.nz**

TERMS OF REFERENCE

Aspects of retirement income policies the review must address and the topics to be discussed in the Retirement Commissioner's 2019 report:

1. An assessment of the effectiveness of current retirement policies for financially vulnerable and low-income groups, and recommendations for any policies that could improve their retirement outcomes.
2. An update and commentary on the developments and emerging trends in retirement income policy since the 2016 review, both within New Zealand and internationally.
3. An assessment of the impact that the following will have on government retirement income policies, including KiwiSaver and New Zealand superannuation:
   a) The changing nature of work, including the increasing number of people who are self-employed and/or working in temporary and flexible jobs; Declining rates of home ownership; and
   b) Changes in labour market participation of those 65 years and older.
4. Information about, and relevant to, the public's perception and understanding of KiwiSaver fees, including:
   a) The level and types of fees charged by KiwiSaver providers; and
   b) The impact that fees may have on KiwiSaver balances.
5. Information about the public's perception and understanding of ethical investments in KiwiSaver, including:
   a) The kinds of investments that New Zealanders may want to see excluded by KiwiSaver providers; and
   b) The range of KiwiSaver funds with an ethical investment mandate.
6. An assessment of the impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current New Zealand superannuation settings.
7. Information about the public's perception of the purpose and principles of New Zealand superannuation.
8. An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.

RECOMMENDATIONS

TERM OF REFERENCE 2
An update and commentary on the developments and emerging trends in retirement income policy since the 2016 review, both within New Zealand and internationally.

A comprehensive outline of the history of reviews up to 2019 is outlined in chapter one of the report, which also provides an update and commentary on developments in recent years. This is also picked up further in chapter four in terms of comparison of international decumulation models. As a result of this analysis, we make the following recommendations:

RECOMMENDATION 1
Governance for the Retirement Commissioner and their office should be provided jointly by the Ministries Of Social Development and Business, Innovation and Employment.

There is a missed opportunity in having the Retirement Commissioner currently report only into the Commerce and Consumer Affairs portfolio, through the Ministry of Business, Innovation and Employment (MBIE). This makes sense for KiwiSaver, but at the same time, the Social Development portfolio is most relevant in terms of NZ Super and related legislation, and also in terms of the other main government support most readily available for New Zealanders as they transition to, and live in, their retirement phase.

- NZS and other benefits the Government provides through the Ministry of Social Development (MSD), need to be carefully aligned and monitored alongside KiwiSaver, to ensure impacts from both are as intended. We think that the terms of reference for future reviews should be jointly set and agreed with the Retirement Commissioner by the Minister for Social Development and the Minister of Commerce and Consumer Affairs.
- To facilitate this, the Retirement Commissioner requests that the Minister for Commerce and Consumer Affairs and the Minister for Social Development write to the Chief Executives of both agencies requesting their support to join up governance arrangements, and to co-sponsor with the Retirement Commissioner a Senior Officials Group.
- The Retirement Commissioner will, as a priority in 2020, work to establish the Senior Officials Group at Deputy Chief Executive level, with representation requested from each of the Ministries of Social Development; Business, Innovation and Employment; Pacific Peoples; Housing and Urban Development; Health and Women, and also from Te Puni Kōkiri, Statistics NZ, the Treasury, and the Inland Revenue Department. This group should commit to meeting regularly to ensure a collective view of the Government's retirement income programme can be quickly built, to help inform the research programme to support identification of emerging trends that will require a policy response, and identify gaps and options to address these trends.
- In parallel, the Retirement Commissioner will establish an Expert Advisory Group, to ensure ongoing input from experts outside of government. This group will help the Retirement Commissioner test options for improving the system, and will bring their networks to help inform design and to support engagement with specific communities and the broader public.
- With the support of both senior officials and expert advisors, the Retirement Commissioner will work to develop a policy statement on the purpose of New Zealand's retirement income system. This will be supported by CFFC, as the Office of the Retirement Commissioner, as an ongoing programme of engagement with the public, to ensure that a purpose statement articulates what it is about NZS that is most valued by the public and aligns with New Zealanders' values.
- At the same time, recognising that three yearly reviews are not regular enough to advance the most pressing priorities, CFFC will work towards providing regular updates to both the public and to government including a snapshot of highlights, new actions and identified gaps for pressing attention.

RECOMMENDATION 2
The regular review cycle should be amended to fall in the year after an election, rather than prior.

We make this recommendation as it is clear from the commissioned research into the history of reviews (set out in chapter one of the report) that the intention of previous governments and across the political parties who collaborated through the 1993 Accord onwards, was that reviews should be purposefully sequenced away from election cycles. Moreover, the appointment of future Retirement Commissioners should be timed so that they can cover the full three-year review cycle.

TERM OF REFERENCE 1
An assessment of the effectiveness of current retirement policies for financially vulnerable and low-income groups, and recommendations for any policies that could improve their retirement outcomes.

TERM OF REFERENCE 3
An assessment of the impact that the following will have on government retirement income policies, including KiwiSaver and New Zealand Superannuation:
a) The changing nature of work, including the increasing number of people who are self-employed and/or working in temporary and flexible jobs;
b) Declining rates of home ownership; and
c) Changes in labour market participation of those 65 and older

RECOMMENDATION 3
Value and ensure the ongoing provision of NZ Superannuation at its current settings.

We believe it is clear from the evidence that NZ Super (NZS) is working effectively to support New Zealanders in maintaining a foundational standard of living, is affordable in the medium term and should be secured for future generations.

- We estimate that 15-20% of those retiring experience significant levels of material deprivation prior to receiving NZS. NZS helps to improve their material standards of living, and also their mental and social wellbeing. NZS is, in effect, the backstop intervention that addresses inequalities experienced and accumulated during New Zealanders' lives. We should recognise and celebrate the very significant and positive impact of NZS, particularly for vulnerable New Zealanders.
- We are concerned that the percentage of New Zealanders who are vulnerable to poorer outcomes in their future retirement is growing. The profile of today's NZ Superannuitants should not be assumed to set the template for how future retirees will look even in the near term.
- We therefore do not think that the best step in terms of addressing vulnerability and improving retirement outcomes for more New Zealanders is to focus at this point in time on raising the age of eligibility, nor that taking this step would necessarily achieve the intended outcomes, or at least not without putting significant costs elsewhere on the system.
- In addition, we believe raising the age of eligibility in the next two to three decades could significantly risk heightening equity issues for those groups of New Zealanders whose lower life expectancies mean they are not able to enjoy the benefits NZS delivers for comparable periods for New Zealanders generally. This includes Māori and Pacific New Zealanders, for whom life expectancy rates are still significantly lower than the national average. While, from current demographic trends, rates for both look likely to gradually catch up over the coming twenty years, we believe that it would not be consistent with the Treaty and general principles of equity and fairness, nor fair or efficient by other measures, to raise the age of eligibility for NZS just as more Māori and Pacific New Zealanders start to be able to access and benefit from it for longer periods.
- The focus in the near to medium terms should first be on lifting retirement outcomes through improved impact from the pre-retirement system, and particularly through ensuring adequate employment and incomes to enable savings and asset accumulation, and housing support that

provides New Zealanders with options for where they live throughout their lives.

- While expensive, NZS delivers good value for money, is affordable on current settings and projections at least for the medium term (through to mid-century), and should be secured for future generations. The Government should make clear that NZS is valued and will be protected to continue to provide for New Zealanders in future, on current settings.
- We state this as it was apparent from submissions and focus groups that younger New Zealanders, as well as their parents and grandparents, are feeling very concerned that NZS will not be made available to future retirees, or at adequate levels. We received a lot of comments to the effect that 'NZS won't be there for us'.
- This uncertainty is causing unnecessary stress, and we think should be put to bed so New Zealanders can have certainty that NZS will provide a stable level of state support for them to plan around. It is enough for younger New Zealanders to have to worry about where they will live and how they will earn enough to support their and their families' current and future wellbeing, without having to face additional uncertainty as to whether they will lose an effective government backstop.
- If the Government does not agree with this assessment as to affordability of NZS in the medium term, then there are other options that should be considered as well as changes to the age of eligibility. These include changing tax rates for all or some New Zealanders, for example to claw back more NZS from wealthier recipients, length of residency for eligibility, international pension agreements, and exploring options to develop innovation leading to economic growth from the increase in longevity.
- In the meantime, a purpose statement for New Zealand's retirement income system should be developed, so that we all have certainty as to what the system is aimed at achieving, and who within government is responsible for each part of it, as well as for the whole.

RECOMMENDATION 4
Establish a new government 'employment connection' service.

This service could sit between the Ministry for Social Development (MSD) and the Ministry for Business, Innovation and Employment (MBIE), focused on providing practical support and specific job and skill-matching services for any New Zealander who needs support to connect to their next job. We believe this would also be helpful for employers.

- We saw from our research and heard from submitters and members of our focus groups that New Zealanders are often forced into straitened circumstances from which many do not have adequate time to recover before they transition into retirement. The requirement for people to have exhausted their ability to support themselves before becoming eligible for state support can affect their wellbeing and that of their families, while putting higher costs on the state long-term.
- We think establishing an employment connection service would help New Zealanders of all ages and with a variety of skills to connect with employment in their area. The service should include a specific focus on helping young New Zealanders to connect with the workforce, and older New Zealanders to remain connected or to reconnect, as it seems to be the young and older who face particular 'age-related' challenges in employment.
- We think this would help address the concerns from employer organisations that their workforces are ageing and they need support to develop retention and planned transition options for their workers. We note that not enough employers and sector groups are taking a lead in developing pathways to support people to stay in work as they age, so this would help enable their leadership to develop more active transition planning for their industries and employees.

RECOMMENDATION 5
Introduce a 'small steps' employee contribution programme to KiwiSaver as the default for new members, and as an option for current members.

This proposal would see new KiwiSaver members being automatically defaulted into 'Small Steps', with contributions rising 0.5% each 1 July, until they either reach 10% or they opt out. Existing members should be able to choose to opt into 'Small Steps'.

- An outcome we see occurring as a result of the current default KiwiSaver setting of a 3% contribution rate is that some savers assume that 3% is being signalled as the 'right' level required to prepare for retirement. This can have the perverse effect of reducing overall accumulation of savings for those who may have been prepared to save at a higher rate than the default. At a 3% contribution rate, they risk arriving at age 65 with a shortfall in accumulated savings to fund their intended lifestyle.
- The default settings continue to be a powerful tool in terms of delivering automatic enrolment to KiwiSaver. 'Small Steps' would augment this tool. After an employee has been contributing at 3% for at least one year, their contribution rate would automatically increase by 50 basis points each 1 July, culminating after 14 years at 10%. 'Small Steps' would therefore promote contribution escalation, but without causing significant financial discomfort for savers as the steps each year would be small.
- 'Small Steps' would become the default setting for all new KiwiSaver members, including those who choose their own provider, with the option to opt out at a certain rate ceiling, or to opt out of 'Small Steps' altogether. If they chose to do so, opting in again at any time would be an option. Existing members could sign up for 'Small Steps' also. As is the case now, all KiwiSavers could also reduce their contributions at any time.
- Taking inspiration from the successful Save More Tomorrow programme in place in some countries, which links contribution increases to salary increases, 'Small Steps' focuses on annual increments that are gradual and relatively painless in the short-term. For an employee earning $50,000 a year, contributions would rise by $250 a year, or less than $10 per fortnightly pay. But these small annual increases could deliver significant results in the long-term. Above a baseline result of $194,000 from 3% contributions (in today's dollars), Small Steps could result in $369,000 (today's dollars) by age 70, thereby achieving a significant lift in savings for utilisation in retirement to maintain standards of living.

RECOMMENDATION 6
Target the government contribution to incentivise voluntary contributions to KiwiSaver by non-employees.

We recommend the Government increase its match of voluntary contributions by KiwiSavers to an amount that is significantly more likely to incentivise saving behaviour. For example, $2 for every $1, up to $2000 per annum. This could replace the government contribution currently given annually on employee payroll contributions.

- The government contribution's current structure of 50 cents on the dollar, up to $521.43 per year, means it is being perceived as more of an entitlement than an incentive. The majority of employees receive the government contribution automatically, without having to take any additional saving steps. Without it, most employees would still contribute as the employer contribution is an effective incentive.
- According to our regular CFFC surveys, 25% of those who are in KiwiSaver have not received the government contribution in the past 12 months. A further 27% do not know if they received it – either because they have not checked their KiwiSaver account or because they are not aware of the incentive. That suggests that for more than half of KiwiSaver members responding to our surveys, the government contribution incentive is not working.

- Furthermore, each year hundreds of thousands of non-employee members, for whom the Government money should be their primary incentive, do not engage and receive it.
- KiwiSaver has always been employee-focused. Full-time and part-time employment – ie, not self-employment, contracting or working in own business – is the strongest predictor of being a contributing member (more than age, gender, or ethnicity). Of those employed, 75% were in KiwiSaver and making contributions, compared to 29% of those not in employment.
- Auto-enrolment, automatic contributions and employer contributions are available only for those who are employed. Independent workers, business owners, stay-at-home parents, students and beneficiaries are excluded from these features, although they can choose to make voluntary contributions. Data suggests that many of them do not, either due to insufficient income, lack of information or lack of motivation.
- Those excluded from KiwiSaver's main focus can, and should, be targeted with specific initiatives that promote engagement and drive a long-term savings habit. The self-employed deserve particular attention: they make up close to 15% of the New Zealand workforce, yet nearly two thirds are not contributing and are at risk of not engaging adequately to prepare for retirement.
- Research suggests that financial incentives work best at motivating behaviour change if they are simple, tied to controllable outcomes, used when the outcome matters, and reinforce what individuals already want to do. They tend to work less well when their structure is complicated, or the link between the effort required and the outcome is not clear. They can also backfire when they are too low.
- Which brings us to the proposal of tilting the government incentive towards voluntary contributions (that is, away from employee contributions) and increasing it to a meaningful amount (as, for example, the original $1000 kickstart evidently was). The amount chosen should be tested for its effectiveness. But given that individuals perceive an outcome as a gain or a loss – and they are twice as sensitive to losses as they are to gains of an equal magnitude – we believe that the amount will need to be at least twice what the saver contributes. Thus, the proposed amount of $2 for every $1 contributed from members, to a maximum of $2000 per year from the Government. This would apply to all contributions from non-employees and all non-payroll contributions from employees, made directly to their provider.
- When people don't know how their actions affect outcomes, feedback is less effective. So we also propose engineering the incentive to give feedback to savers more often. Instead of a once-a-year payment, we recommend a monthly payment, with whatever voluntary contribution is made attracting the matching funds at the end of that month. Visibility should reinforce behaviour.
- The cost can be kept down by adjusting the amount of time the Government contribution is available to each member. Instead of offering the current $521.43 for up to 47 years, it could be made available for the first 12 years in which the member is eligible. After that, the member would have become used to contributing, and would likely continue even though the government incentive has ended. Front-loading in this fashion also takes advantage of compounding returns over time from a larger investment earlier on. Running the numbers, we can see that using the baseline scenario, a member receiving the current $521.43 for 47 years (age 18 to 65) would achieve a final balance of $78,000. Under the proposed front-loaded government match for 12 years, that same member would instead have an end balance of $96,000. This improved result would come from harnessing the power of time in the market.
- The revised incentive will also have a redistributive effect towards more vulnerable groups, such as students, parental leavers, the unemployed and other beneficiaries, and therefore be in line with the Government's wellbeing approach and the review's terms of reference.

NZ SUPER DELIVERS GOOD VALUE FOR MONEY, AND SHOULD BE SECURED FOR FUTURE GENERATIONS.

RECOMMENDATION 7
Phase in employer contributions for KiwiSaver members aged over 65, and consider implications of doing so for those aged under 18.

The 2016 Review of Retirement Income Policies recommended KiwiSaver be opened so that those over the age of 65 could join; this change has subsequently been successfully implemented. The next step is to require contributions from employers to continue for all employees, as without this the current practice is discriminatory.

- This recommendation stems from fairness. For someone to turn 65 and suddenly receive what is effectively a pay cut is financially cruel, and blatantly discriminatory. Employer contributions should be considered independently of the fact that NZS starts at 65, as NZS has no impact on employers and is not intended to offset wages or salary if employed.
- Some employers voluntarily continue to contribute to employees after they turn 65. This adds to the unfairness for workers whose employers stop contributing.
- We would like to make the same change for young employees also, as there is real value in engaging with the scheme early, and again no strong basis we can see for discriminating on age at either end. It is an opportunity for teens to raise their financial capability that much earlier. However, we realise that youth face some different challenges when starting their employment pathway, and we would not want to recommend action until there was clear understanding on how this could impact youth employment outcomes. Therefore we recommend that consideration is given to requiring employer contributions for under 18 year old employees, as a next step from introducing it in the near term for those aged 65 and older.
- When KiwiSaver was initially established, the employer contribution generally became accepted by employers because a corresponding tax credit meant employers were not out of pocket. We imagine that in order to install these additional incentives, a similar approach will be required to phase in this change.

RECOMMENDATION 8
Phase out the inclusion of KiwiSaver in total remuneration packages.

We wish to see the option for employers to apply a ‘total remuneration’ approach to KiwiSaver employer contributions removed, as the employer incentive should be separate from agreed wages or salaries.

- The employer contribution is probably the strongest incentive for many employees to participate in KiwiSaver. But under total remuneration, employees effectively pay their own employer contribution. The absence of a genuine employer contribution incentive weakens the effectiveness of the scheme, increasing the risk that the demands of the day will drown out the demands of the future. There is also unfairness when employees compare their situations with their peers in other workplaces, with one receiving a match from their employer while the other does not.
- Total remuneration can be appropriate in senior management roles, where the employee has far more bargaining power. But the practice is by no means limited to the higher levels of management. We recommend amending legislation to prevent total remuneration applying to KiwiSaver, or to restrict it to employees in senior management roles with higher salaries.
- Employers who use total remuneration often say it means equal treatment for their employees in and out of KiwiSaver. But the scheme designers intended employees in the scheme to be better off, to encourage membership.
- Again, this change will probably require initial funding from the Government and subsequent phasing in.

RECOMMENDATION 9
Model the potential range of impacts if the owner-occupied requirement for first-home withdrawals from KiwiSaver was to be withdrawn.

We considered recommending removing the existing six-month residence requirement when using KiwiSaver to purchase your first home, in part because a number of people have asked why there is this six month hold-up to them renting out their first house and in part because we hear anecdotally some are ignoring it anyway.

- This question generated quite a deal of publicity and heat. On the one hand, it received significant support from particularly young, urban New Zealanders, who fear they will never be able to buy a house to support their retirement in their city, and also from participants in some of our focus groups who noted a desire to be able to purchase a house 'back home' using KiwiSaver, with the intention of retiring there in due course.
- On the other hand, we received quite a lot of opposition in fear of the impact this could have on a sensitive housing market across the country, and the impact on smaller communities and rural areas where affordability issues are already impacting on those populations' ability to house themselves appropriately.
- We have been convinced that this suggestion should be approached through a housing policy lens, rather than from a savings perspective. Moreover, we think that the impacts likely to be caused by such a change should be extensively modelled before being confirmed. We will work with the Ministry of Housing and Urban Development to explore this option further.
- Meanwhile, we believe there is merit in the suggestion from the EEO Commissioner at the Human Rights Commission to explore options for collective borrowing to enable whānau/ family and other collectives to create more purchasing power. They suggested that CFFC engage banks to reconsider lending practices to allow collective borrowing for mortgages so that family groups or friends could collectively invest in a home. This would assist cultural communities such as Pacific, where collective ownership of property and collective caring for elders is the norm. Additionally, while individuals within a family or household may have lower incomes, collectively they have a bigger capacity to afford a deposit and manage mortgage payments to help ensure they have a secure retirement.
- We would be interested in exploring other avenues to this end also. We agree that the challenge and opportunity is to lift the ability of Pacific, Māori and women to work towards home ownership in concert with their closest networks.

RECOMMENDATION 10
Establish a centralised financial capability hub for KiwiSaver hardship applications.

We recommend transferring the management of hardship applications to a centralised hub within the financial capability ecosystem, to ensure a consistent approach, improve fairness and trigger budgeting, counselling and other wrap-around assistance from relevant agencies.

- KiwiSaver withdrawals for financial hardship totalled $107.9 million in 2019, up 7% from the year before. One of the key pieces of feedback we received from a KiwiSaver review forum held with KiwiSaver providers and government agencies was that hardship applications bring a wide range of wellbeing and other considerations with them. Providers tell us they are ill-equipped to deal with some situations, such as when a hardship applicant shows signs of severe stress, or for example, threatens to take their own life. A survey of budget advisers who currently work with hardship withdrawal applicants reports a 20% rate of avoided withdrawals due to identifying alternatives. For more experienced advisers in this KiwiSaver hardship area, that rate can rise as high as 50%.
- There is growing support for creating a centralised hub for hardship applications. FinCap represents 200 budgeting services nationwide delivering financial capability services from 330 locations. It agrees with the merits of this proposal, and has indicated that, if the Government supports this recommendation, it is

prepared to form the centralised hub. We believe that FinCap is the best-placed organisation to coordinate hardship cases, and can offer practical wrap-around support for applicants, as they are able to draw on a number of financial capability services that could work with hardship applicants to avoid the need for withdrawal of some or all of their KiwiSaver funds.

- Moreover, we believe that once the centralised hub model is proven, it could be extended to a broader range of New Zealanders in recognition that low and middle income KiwiSavers can also be at risk of slipping into vulnerability if hit by a set-back such as redundancy or a relationship break up. It was clear from many of the submissions received, as well as through the focus groups, that there is a general need and demand for financial support and advice from trusted sources but many people don't know where to turn for this, or don't think they can afford it. The provision of financial information, guidance and individualised planning for those at risk of becoming vulnerable to having only NZS to rely on in retirement is a logical step to us, and one that we think is also good for the fiscal sustainability of the retirement income system more broadly.

RECOMMENDATION 11
Add a 'sidecar' savings facility to KiwiSaver for short-term emergencies.

We propose that the default creation of a side account to the main KiwiSaver account is explored by Government. This could be achieved through setting aside an extra 1% employee contribution, so that every saver who chooses not to opt out has an 'emergency fund' of up to $3000 available, thus protecting their main savings while enabling access for shorter term needs. Once the $3000 is reached, contributions above that would then tip into the main KiwiSaver account.

- A sidecar fund could operate as a safety valve in emergencies such as car repair, dental work, whiteware replacement or other crises. Having a savings fund that was more accessible than the main KiwiSaver fund could protect the long-term KiwiSaver balance, which is already being used by some in hardship as an emergency fund, eroding the core purpose of their KiwiSaver.
- Withdrawing funds from the sidecar would also lead to the member being offered financial guidance through the centralised hub. This could provide alternatives that would set the individual down a more secure path in the future.
- Such an approach has been shown to be successful overseas. In a trial in the Philippines, customers who were offered a commitment account had bank balances that were 82% higher 12 months later compared to customers who were not offered a commitment account.
- Why not let members set up their own separate emergency fund through a regular bank account? Our sidecar proposal has an opt-out setting – so members could set up their own emergency fund if they wished. But the default account would be there in case they do not.

RECOMMENDATION 12
Auto-enrol beneficiaries in KiwiSaver through a government contribution.

This proposal is to enrol all beneficiaries in KiwiSaver through a 3% government contribution each week, on top of their current benefit, paid directly to the beneficiary's KiwiSaver fund (and without an expected beneficiary contribution, considering that beneficiaries are unlikely able to make regular contributions to KiwiSaver, or without being means-tested if they could do so).

- We think that this 3% contribution would be fairly modest in cost terms to the Government, as at jobseeker rates of $245 per week, or $12,740 per year, 3% would be in the order of $382 per year per member, at a total annual cost to the taxpayer of around $114 million.
- We know that KiwiSaver exacerbates the wealth gap over time, as some New Zealanders can't afford to save and so miss out on the

compounding benefit of saving even a small amount of money over time. Our terms of reference stress the importance of providing options to lift retirement outcomes for the most vulnerable. We believe that targeted incentives would improve the chances of some of the most vulnerable New Zealanders being able to have a pool of savings to supplement their income in retirement.

RECOMMENDATION 13
Consider the introduction of care credits to KiwiSaver accounts to reduce the risk of being penalised for time out of employment caring.

This recommendation recognises those who no longer receive employer contributions because they undertake unpaid caring roles, which are often so valuable for families and the community. They should receive a specific contribution from government to make up in part for the loss of employer contributions.

- We think this could make a significant difference for many New Zealanders, many of whom are women and also Māori and Pacific New Zealanders with significant family caring responsibilities, and who prioritise care for others over their own future wellbeing by foregoing income and employer contributions. Because they have had to, or chosen to undertake caring roles for others, they can risk a long-term unintended consequence of reduced KiwiSaver totals, and poorer outcomes in retirement.
- The submissions we received from the public in response to this suggestion generally supported the idea of care credits – but for both men and women.
- While acknowledging that comprehensive policy work would be required by the appropriate government leads to advance the design of care credits, including further consultation with the public, we think there is value to this suggestion, and particularly considering the first and third terms of reference.

TERM OF REFERENCE 6
An assessment of the impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current New Zealand Superannuation settings.

See Recommendation 3

TERM OF REFERENCE 7
Information about the public's perception of the purpose and principles of New Zealand Superannuation.

RECOMMENDATION 14
A purpose statement for New Zealand's retirement income system to be advanced by the Retirement Commissioner.

The public was anxious to tell us their views on the purpose of NZS. Most centred around one or a combination of the following:

- To give the elderly dignity in retirement
- To prevent poverty among the elderly
- To provide a basic standard of living
- To support those who have retired from work
- To care for ageing New Zealanders
- To give a living wage for a more comfortable retirement
- A citizen dividend - reward for working hard and paying taxes.

There is a clear consensus that NZS is valued by New Zealanders and we think it important to capitalise on this. To this end, we recommend that a purpose statement for New Zealand's retirement income system is advanced by the Retirement Commissioner, in consultation with the public, government agencies and expert stakeholders. We will action this as soon as feasible, commencing early in 2020 and as part of the development of the Commission's new Statement of Intent that covers the period through to 2024.

THE PUBLIC GENERALLY SUPPORTED THE IDEA OF CARE CREDITS FOR BOTH MEN AND WOMEN.

TERM OF REFERENCE 4
Information about, and relevant to, the public's perception and understanding of KiwiSaver fees, including:
a) The level and types of fees charged by KiwiSaver providers; and
b) The impact that fees may have on KiwiSaver balances.

RECOMMENDATION 15
Exclude fixed fees from low-balance KiwiSaver accounts. For all balances under $5000, require providers to remove fixed fees.

It is clear from the submissions we received that a significant section of KiwiSavers feel they are being charged excessive fees. While others understand that fees are an inevitable part of investing, many are not sure how to calculate what is a fair fee for a fair return. In addition, many submitters don't understand the level of fees set or how much they will pay over the course of their KiwiSaving, and don't feel they have full disclosure to understand the range of choices available to them. Most KiwiSaver funds charge a flat membership fee, often around $25 to $45 a year, as well as a percentage of the member's balance.

- Watching fixed fees erode low balances is particularly difficult for members to accept. For instance, a parent watching their child's fees eat into the original $1000 kickstart – even if eventual returns more than make up for this – will typically express disappointment at a fee structure that is not meant for low-balance accounts, with few, if any deposits.
- As a result, some providers have waived fees for low balances, particularly for children's accounts. This proposal would make this trend the norm across all low balance funds. It would also avoid the disincentivising experience that results from the effect of fees on these accounts.
- This means that, in effect, providers would cross-subsidise low-balance accounts with fees collected from other higher-balance ones. We believe this is appropriate.

RECOMMENDATION 16
Display fee projections on KiwiSaver members' annual statements, and include a comparison to the average fee projection for that type of fund.

It is challenging for members to comprehend fund fees and how significantly they affect their end savings' result. Sorted's fees calculator can help as it projects, based on present fee levels, what a member can expect to pay over the life of their KiwiSaver experience in the various funds on offer. Our recent exit survey from the Sorted tool shows how surprising the aggregate figures can be, with 65% of users reporting that they are 'more than they expected'.

- The issue for members, however, is not just understanding how much fees add up, but how a fee structure works. Even the method for charging fees is unique. Fees are hidden behind the scenes, building in the background, and there are no bills, invoices or monthly statements to pore over. In addition, there's the impact of fixed fees versus percentage-based fees on various tiers of balances.
- When a spotlight is focused on fees, the public tends to jump to a fee cap solution. 55% of respondents to our regular CFFC surveys support a fee cap for all KiwiSaver funds, and a further 12% support a fee cap for default funds only. While this response is not a surprise, we do not advocate such an approach. Instead, more transparency on the effect of fees over time, and a clear comparison of a given fund with its peers, would allow members to understand the story more clearly: that is, 'This is what you can expect in terms of a result; this is what you can expect to pay for it; and this is what you would pay in a similar fund with average fees'. This approach provides for clear cost-benefit evaluations and can inform any consequent decisions.

RECOMMENDATION 17
Mandate improved disclosure around share investing in KiwiSaver, further distinguishing between emerging vs established markets, as well as New Zealand versus Australian shares.

There are times when disclosure, with its laudable goal to de-jargon financial information to make it accessible to the widest possible audience, reduces the data too much to retain its meaning.

- Share disclosure is an example that can be remedied. Currently, providers are required to disclose all shares as being either 'Australasian' or 'International', glossing over major distinctions within these broad categories but that could significantly aid decision-making and investor capability. Meanwhile, we know that many investors want to know how much they are investing in their own country. We therefore make this recommendation for the following reasons:

  a) Firstly, to distinguish, in a fund with Australasian shares, which portion reflects companies primarily located in New Zealand, and which portion is in Australian companies.

  b) Second, where category holdings are currently simplified as 'international shares', the provider should indicate whether they are in established or emerging markets, as this is information that is fundamental to making informed investment choices.

- As an interim measure, we encourage all providers to voluntarily change their disclosure to include these distinctions.

RECOMMENDATION 18
Make Prescribed Investor Rates (PIR) tax refundable. This would change PIR status to 'not a final tax', and accommodate people who use incorrect tax rates.

Upgrades to Inland Revenue systems in 2019 uncovered close to 950,000 KiwiSaver members who had overpaid their tax for years. But they were unable to claim a refund due to it being a 'final' tax. Another 450,000 had underpaid and received notice that a payment was due.

- While technology enhancements should mean this unfortunate situation will be largely avoided in the future, there remains the distinct possibility of having overpaid tax in KiwiSaver. A change in category for PIR would mean any such tax could be refunded into the member's account.

TERM OF REFERENCE 5
Provide information about the public's perception and understanding of ethical investments in KiwiSaver, including: a) The kinds of investments that New Zealanders may want to see excluded by KiwiSaver providers; and b) The range of KiwiSaver funds with an ethical investment mandate.

RECOMMENDATION 19
Introduce taxpayer funding of Mindful Money to guarantee the charity continues to publish unbiased, responsible investment information, and erase any potential conflict of interest.

It is clear from the submissions we received that a significant number of KiwiSavers and others want more choice and more transparency as to where and what their money is invested in. This engagement provides an opportunity for many to lift their financial capability, alongside their ethical interests.

- While there are a variety of solutions to empowering ethical investment, our preference is to facilitate the link between people's preferences and the financial products that cater to those preferences.

- The Mindful Money platform has quickly proven itself able to provide objective information to the public about their KiwiSaver funds, effectively 'lifting the bonnet' on the underlying investments and their exposures to undesired industries and practices. The Mindful Money platform can also match member preferences in responsible investing with available funds in the market.

- Mindful Money is currently running as a charity, receiving modest commissions from referrals to a small number of schemes. While the charity says this does not affect its recommendations, this proposal would replace its business model, with the aim of removing any possibility of perception of conflicts of interest that could arise from remuneration from member referrals, which would need to cease. It would also be the most efficient and practical step to support New Zealanders' interest in ethical investment, and support further engagement with their saving profile.

- As members consider their KiwiSaver funds for ethical investment outcomes, we would aim for them to evaluate by financial capability criteria as well, so that they do not end up with the 'perfect' ethical fund which could be out of sync with risk preferences, reasonable fees, services offered by the provider, and knowledge of whether past returns have underperformed peers consistently. The optimal outcome would be that all these criteria be considered in choosing a KiwiSaver fund.
- While conscious that the regular process would be to go to tender first, we think in terms of efficiency and cost, and considering that the public want information now so that they can make informed choices that align with their personal values, funding Mindful Money is the most efficient and simple step for the Government to take.

TERM OF REFERENCE 8
An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.

In contrast with the wide agreement among New Zealanders of the value of NZS, we cannot yet see any consensus on how Government can best support New Zealanders to manage their own assets and savings through the decumulation phase of life.

While some say they would welcome advice and support from the Government to help them manage decumulation, others say that they want no role for the Government in helping them manage their own money or constraining how or when it could be spent. More work is needed to find out how many New Zealanders need assistance to manage savings and income once they reach the decumulation phase of life, hence no recommendation is made regarding this term of reference. The Retirement Commissioner intends to advance a decumulation work programme as a priority in 2020.

A CLEAR COURSE OF ACTION IS NEEDED TO MEET THE DECUMULATION NEEDS OF A GROWING NUMBER OF KIWISAVERS.

A STATEMENT ON THE PURPOSE OF NZ SUPER WILL ALIGN WITH NEW ZEALANDERS' VALUES.