Submission to the Retirement Commissioner on the 2025 Review of Retirement Income Policies

Date: 30 June 2025

Name: Murray David Spackman

Position: Chair –

Organisation: Christchurch Budget Service Trust

[redacted]

Thankyou for the opportunity to provide comment on a specific area of retirement income policy that we believe is being utilised to the detriment of retirement income through the KiwiSaver legislation. I am submitting as an individual but with the support of the staff and Trust board. Our area of concern is the over use of financial hardship as a method of obtaining funds originally deposited for retirement income.

1.1 Background to our organisation

The Christchurch Budget Service (CBS), founded as a voluntary agency in 1967, is a leading organisation in advocating for building financial capability services for working people and their families affected by chronic job and income insecurity and often with significant debts accrued in an attempt to sustain a reasonable living standard. The complexity of the financial situation faced by many of our clients has resulted in CBS being dependent on highly qualified and multi skilled paid employees to ensure accurate and appropriate advice is being given.

CBS also provides services for people from culturally and ethnically diverse communities (Refugees and Migrants) many of whom have only experienced cash economies where access to bank accounts is limited and formalised credit is unavailable. Those refugees and migrants are frequently part of the 'gig' economy which generates its own unique financial challenges.

CBS is the only independent non faith based Budget or Building Financial Capability Service in Christchurch, that specialises in providing a service to ordinary working folk and their families. We provide a service for those vulnerable low income working people including full and part time employees, agency workers, independent contractors, self employed, casual and seasonal workers and micro enterprise workers.

We also see superannuitants, particularly those who have no savings or do not own a house, tertiary students who struggle to manage their finances. In addition we see NZ Employment Service clients who are transitioning to and from paid work or who have debt from previous self employment or complex matrimonial debt, or are working in casual or part-time jobs or small business and are declaring income to claim abated entitlements.
We service the wider Christchurch area with a focus in Hornby using the Hornby Community Centre for client consultations and public libraries for client engagement in other locations.
We are a non funded service by MSD with 2 staff BFC mentors.

2.0 Background to the submission

2.1 My comments will look specifically at the market distortions arising from the current KiwiSaver legislation in how it handles hardship and the consequent reduction in retirement savings when funds are released to cover this situation. We are referring to Schedule 1 KiwiSaver scheme rules and S10-withdrawal in cases of significant hardship.
2.2 Back in 2022 Jane Wrightson alerted me to a Cross Sector working group who were looking at the operation of hardship withdrawals under the stewardship of [redacted] at MBIE. The scope of that work invited feedback from KiwiSaver providers and others and was to look at issues with the current process. This process was initiated by the concept of a hardship hub proposed in the Retirement Commissioner's 2019 Review of Retirement Income Policies.
2.3 The two key areas of focus were: KiwiSaver members lack of understanding around eligibility and the process for hardship withdrawals and secondly on ways to intergrate financial mentors into the withdrawal process for those members who needed it.
2.4 The working group were not mandated to consider any changes to current policy settings. Included in the report was an extensive consideration of the role of financial mentors and how that impacts KiwiSaver hardship withdrawals. [redacted] provided me with a working draft and I proceeded to provide my comments from both a personal view and that of a working BFC service.
2.5 Attached to the submission are my comments and recommendations that I provided in blue back in 2022 to the Cross sector working group. My understanding is that some improvements were made but funding was unavailable for further investigation.
2.6 The concept of the hardship hub was not allowed for in the recent BFC tendering process that ended on 30 June 2024 and FinCap have not promoted the concept.
2.7 The 2025 Review of Retirement Income policies provides us with another chance to try and change policy settings and minimise the leakage of retirement funds for some of our most vulnerable and use the financial mentor sector as a means of accomplishing that.

3.0 Recent Developments

3.1 Following receiving notice of an upcoming 2025 Review I have relooked at my earlier submission to MBIE and I am now in a position to provide a stronger rebuttal of the status quo as the position for financial hardship applications has worsened considerably and I believe the figures for 2025 will show a further jump.
3.2 The latest statistics for hardship withdrawals in the year end 31 March 2024 show an increase of nearly $120 million, this additional payout represents an 82% increase on the previous year by value and the total number of clients receiving a payout climbed to 29,242 or a 60% increase. Although it represents less than 1% of the 3.3 million KiwiSaver members in Year end 2024 this is a significant sum that will not be available for compounding income in retirement which is the prime aim of KiwiSaver.

3.3 I have since asked our Senior financial mentor to provide her comments on how she has viewed 2025 in relation to financial hardship applications and causes. Her comments are instructional and I have included them in 3.4.

3.4 [redacted] has commented as follows "I would say that 1 in 3 of our clients who make contact are considering or actively pursuing a Kiwisaver hardship withdrawal.

With perhaps 3 or 4 exceptions , most of the client situations are because they have very little or no financial literacy and their situations have evolved, because they have continued to borrow their way through life -or tried to borrow their way out of debt.

They have NO established plan or habit of putting money aside and live from pay to pay. This is true of clients-whatever their income…

With our stats showing that 90% of our clients have NO savings-obviously the Kiwisaver is the only pot of cash available, when their spending path comes to an end.

Many feel very strongly it is **their** money.

I believe many also perhaps justify spending or needs-based on the belief they can access this fund…. If it all falls over. This is borne out in the huge and ever-growing number of hardship applications…. It is now seen as a bone fide backstop….I think that the ability to grab their savings has emboldened a certain group to take financial risks and make certain choices-in the knowledge the Kiwisaver will fix it.

I am deeply concerned that unless as a country we increase the level of financial literacy-and establish a pattern of saving, we will all face the consequences of a tsunami of retirees struggling to meet their basic essential costs.

Kiwisaver providers vary in how they assess hardship-but none of them have a financial literacy approach. The independent providers certainly apply more scrutiny and ask more questions than the banks, but so often any funds released are just a temporary fix-that doesn't really alter the crisis-and simply reduces the balance and future savings.

I believe there ought to be much more stringent vetting by providers. Even the ability to purchase a vehicle up to $6k with funds is a slippery slope… It seems the more compassionate providers have become, the more individuals believe they have the right to get their money.

Perhaps more conditions ought to be legislated? A ratio of balance to withdrawal minimum or an absolute limit to how many withdrawals can be made. There are mentors who speak openly about repeat withdrawals and justify this…

We ought to look to Australia for how we manage and contribute… individuals and government & employers. Cap the % for a home purchase and apply real hardship rules."

3.5 With the average hardship payment in year end 31/3/24 being approx. $9000 and that it will likely increase in the year end 2025 there is a need to show that total broken down into the various categories listed under the Act. Without knowing these amounts we are unable to interpret the amount paid out to meet minimum living expenses. It would be helpful to have these amounts shown in the FMA annual KiwiSaver report.

3.6 There has been a pleasing shift with some providers passing the administrative role in preparing hardship applications for the supervisor over to outside organisations, such as Debtfix who provide a degree of independence and the option of looking at alternatives that do not involve a reduction in KiwiSaver funds.

3.7 There may still be a downside to Debtfix as an example in that it is primarily a desktop analysis with phone contact but this does not necessarily enable a mentor to see the bigger picture in relation to the client's affairs. There is a real benefit in having the client in front of you to enable the mentor to question how the situation has arisen, will the hardship application only forestall a looming issue, what commitments will the client provide to enable

a solution to be arrived at. What strategies can be employed to enable a change in direction etc.
3.8 The original premise of the 2022 review was to look at opportunities for the BFC sector to assist in minimizing hardship applications. It was also to look at the concept of a hardship hub that I originally agreed. Unfortunately no recommendations were developed to include financial mentors in the process and in hindsight I believe a large number would have struggled to meet the expected criteria from supervisors without training.
3.9 The recent proposal by FinCap to now provide a specialist competency framework 'Tikanga Whakakaha' will now provide a long overdue professional development competency framework to ensure that financial mentors can add to their initial training. There is some question on the selection of specialist areas and we would recommend the development of a specialist module called KiwiSaver Hardship (KSHS) that will encompass all the requirements to enable a Financial mentor to prepare applications that would be suitable to be sent to a supervisor and provider.
3.10 The benefit of having financial mentors who have passed the KSHS module will enable FinCap to participate in reducing the duplication of processing that we now see given that some applications already come from BFC services and are then sent onto providers.. This can be used to provide a range of downstream benefits.
3.11 Currently we have BFC services accepting hardship applications and assisting in their completion under MSD funding but not to a level that satisfies the supervisor. Although this may assist the provider the big question is why, if the mentor has completed the KSHS module, can they not send the completed application to the supervisor.
3.12 Another concerning issue is that social media has more of an influence and there are ways mentioned that are designed to circumvent the process and enable KS members to obtain funds. I am yet to hear of cases being brought against KS members who have signed a statutory declaration when the evidence shows that the information provided is not correct.
3.13 Given the above the recent decision by the Minister of Education to include financial literacy in the school curriculum was music to our ears.

4.0 What has changed in the original recommendations

4.1 The original objectives of the 2022 working group were to :
* See that retirement savings were strongly protected
* Ensure a clear message to KS members on withdrawals, the process, role of Financial mentors, next steps if application declined or only partially granted.
* specialist independent assistance available before they act on KSHS withdrawals.

4.2 There were a number of potential solutions suggested to try and ensure the objectives were met. They are as follows:

- Willing KiwiSaver providers working with FinCap and their KiwiSaver supervisor and others to co-design a process for introducing financial mentoring services at an early stage into the hardship withdrawal application process
- Cross-sector collaboration to develop an agreed set of key messages and signposts for members considering a withdrawal or applying for one.
- KiwiSaver providers and Supervisors working with FinCap to develop training for mentors about hardship withdrawals once the guidelines have been updated [Jake what would be the focus of this training]?
- KiwiSaver providers developing a process for communicating with mentors about the outcome of a withdrawal application.

- Have a KiwiSaver sidecar solution for members to draw from in times of financial hardship. This could be held in cash by IR, not invested. Members would still have to apply to access it.

4.3 Looking at these potential solutions I have to say that I consider none of them have been resolved or provide an appropriate solution that satisfies all parties. The issue is that the original paper stated that there would be no change to policy settings which has hamstrung the process and resulted, frankly, in little change.

4.4 When looking at appendix 3 in our original submission I am still convinced that the financial mentor or similar financial supporter should be independent of the provider.

4.5 I made comment on the benefits of a hardship hub however given that the new round of tendering has been completed without hardship hubs I believe that ship has sailed as that concept was not entertained in the tender documents.

4.6 I still see no benefit in providing a statutory declaration unless a KS member does not appear before a BFC approved mentor or similar financial advisor. As mentioned previously how many individuals have been prosecuted under the !957 Oaths and Declarations Act. There is no need to retraumatise the individual by having them appear in front of a JP or solicitor and provide a statutory declaration.

4.7 My view is that a statement signed by the KS member in front of a financial mentor verifying that the information provided is correct and then the financial mentor verifying that they are satisfied with the answers provided by the KS member and recommend an application with a $ amount should be sufficient.

4.8 I can see no justification for MSD paying funds for KS members to complete KSHS applications at no cost to the member. My belief now is that members should be aware there is a cost to receive a payout from KS under hardship only. I believe FinCap could negotiate a cost with all providers to obtain an average cost that is payable to MSD for funded services and payable direct to unfunded services. This cost will be added to any payout to an individual member and deducted from their KiwiSaver.

4.9 Members need to understand that if they want to raid KiwiSaver then they should understand there is a cost to that and the taxpayer should not subsidise it, like happens now.

5.0 Changes to p 20 and 21 Recommendations given in earlier report

5.1 Delete reference to recommendations 6, 9,10 and 11.

5.2 Change recommendation 7 to read as follows. For services where mentors are funded by MSD then to simplify administration any payment from the provider will be paid to MSD.but where the service is not funded then the provider payment will go to the service.

6.0 New Recommendations

6.1 These recommendations will come into force following the implementation of FinCap's Specialist Competency framework and the development of a KiwiSaver Hardship module.

6.2 It will require input from supervisors and providers to develop a module in conjunction with FinCap.

6.3 This will enable those mentors who have successfully passed the module to send completed applications direct to both supervisor and provider.

6.4 The mentor will have responsibility to complete the application to the satisfaction of the supervisor

6.5 To minimise the loss of eventual retirement income recommend a change to The KiwiSaver Act by placing a cap on the amount you can apply for at $1500 or 15% of the available balance which ever is the lessor. These applications can go forward in the current manner.ie KS clients can complete the KSHS application, obtain a statutory declaration and send it to a provider. For these applications there may be a simplified KSHS form developed but that will be over to the supervisor.

6.6 For all other KSHS applications where the member requires a larger amount than the $1500 or 15% of the available funds then it will require the member to engage with a mentor who has been certified as having passed the KSHS module. They will then complete the application and send onto both provider and supervisor.

6.7 Once a supervisor has authorised full or partial payment a payment note will be provided by the provider to the service who prepared the application with details of individual payments that the service will then monitor to ensure no leakage for other non approved payments. This will close the loop and provide an opportunity for follow up.

6.8 This will increase the work of the mentors and will require additional staff to be appointed. There will be a corresponding decline in employment of provider staff. There will be a benefit in separating the administration of the KSHS from the providers who are marketing the product. It will minimise the problem sometimes experienced where a bank may have outstanding debt and a suggestion is made that they could consider a KSHS option. This is known to occur.

6.9 There will be room for organisations like Debtfix ,Accountants or tax advisors to submit applications but I believe they would still need to complete the KSHS module.

6.10 It will be important for the supervisors to submit information for the FMA Annual Report that includes a breakdown on the HS categories listed in the KiwiSaver Act and the $ amount allocated to each.