Response to the

Commission for Financial Literacy and Retirement Income

on the

2013 Review of Retirement Income Policy

June 2013

bnz

INTRODUCTION

1. This submission has been prepared by the Bank of New Zealand ('BNZ') in response to the policy review by the Commission for Financial Literacy and Retirement Income ('the Commission') for its 2013 Review of Retirement Income Policy.

2. BNZ welcomes this opportunity to provide a submission for the Commission's review and appreciates the ability to contribute to the public debate. In addition, we acknowledge the comprehensive set of research papers prepared in advance and available on the Commission's website.

EXECUTIVE SUMMARY

3. Developed countries across the globe are similarly faced with looming ageing populations and increasing dependency ratios as New Zealand. This trend poses tough fiscal choices for governments, but more importantly, it is a challenge for individuals and families to enjoy their retirement years as much as during their working lives. It is imperative the wider public participates in debates such as this in order to inform politicians and decision makers.

4. From the government's fiscal point-of-view, the provision of retirement income through universal New Zealand Superannuation is eminently affordable into the future. New Zealand's economic outlook is positive and our taxation regime is comprehensive; this gives us choices to decide how we provide for those in their retirement. There is nothing fundamentally unaffordable about the present broad policy settings; and therefore, no need for dramatic change to the current method of public retirement income funding, such as from a PAYGO system to SAYGO, nor the associated risk.

5. But there are many policy improvements possible in the provision of privately funded retirement income. New Zealand Superannuation is a floor – a welfare safety net for those unable to provide for themselves – it is not designed to, nor able to fund the kind of lifestyle many people currently enjoy in their working lives. For those saving for their retirement, there is a high degree of bias towards investment in the residential housing sector and this carries significant risk for our ageing population.

6. Such policy changes need to balance 'hard' and 'soft' incentives in order to drive behavioural change. Soft measures such as improving financial literacy and removing the tax biases in favour of housing are a welcome start. But further hard measures should be considered such as making KiwiSaver membership compulsory.

7. In combination, these policy changes will diversify New Zealanders' savings away from housing, embed long-term savings behaviour, and help deepen the country's capital markets. But more importantly, give people greater security that their retirement years will be a positive and enriching experience.

WHY ECONOMIC GROWTH GIVES NEW ZEALAND THE CHOICE TO DO ANYTHING: INTERGENERATIONAL IMPACTS OF NEW ZEALAND'S RETIREMENT INCOME POLICY

Effects of increased longevity on present retirement savings schemes

8. Any discussion of retirement policy and Superannuation in New Zealand begins with the rehearsal of some well known facts:

    - The population aged 65 and over will increase from 600,000 in 2012 to 1.2 million in 2036 and to 1.5 million in 2061.[1]

    - The proportion of the population aged 65 and over will increase from 14 percent in 2012 to 23 percent in 2036 and to 26 percent in 2061.[2]

    - Cost of Superannuation as a percentage of GDP increasing from 4.4% currently to 8% in 2050.[3]

9. But beyond the sheer numbers of New Zealand Superannuation ('Super') recipients, demographic trends are resulting in people receiving their Superannuation for longer. For example, a female retiring in 2013 can expect to receive Super for 23.3 years on average, compared to a female retiring in 1950 and expecting to receive Super for only 14.8 years.[4, 5] In fact in just the last five years life expectancy for women has increased by one year, two-thirds of the gain was due to increased life expectancy between the ages of 60 and 84.[6] The average time spent in retirement is now roughly equal to half of the years spend in employment. This means Super is now more generous than previously, and on current settings, will continue to get even more generous – resulting in significant fiscal costs to Government.

10. The necessity of this generosity can be questioned by the fact that more and more workers are choosing to continue working well past the "retirement age" of 65. For some, this will be out of financial necessity to continue their current lifestyle due to inadequate life savings, but for others it is preferable to keep working and enjoying the mental stimulation and social inclusion work brings, rather than settling down into retirement too quickly. However, how efficient is it to pay people a welfare transfer when they clearly don't need it to live on?

---

[1] Geoff Bascand, "National Population Projections: 2011(base)-2061", Statistics New Zealand, July 2012, http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/NationalPopulationProjections_HOTP2011.aspx
[2] Ibid.
[3] ____, "The Sustainability of New Zealand's Retirement Income Framework", Commission for Financial Literacy and Retirement Income, January 2013, http://www.cflri.org.nz/sites/default/files/docs/RI-PP9-Sustainability-of-New-Zealand%27s-Retirement-Income-Framework-2012.pdf
[4] Alison O'Connell, "Longevity trends and their implications for the age of eligibility for New Zealand Superannuation", May 2013, http://www.cflri.org.nz/retirement-income/policy-reviews/2013-review/background-papers-2013-review-retirement-income-policy
[5] Peter Harris, "New Zealand's Retirement Income Framework: trends, continuity, change", December 2012, http://www.cflri.org.nz/sites/default/files/docs/RI-Review-2013-History-Harris.pdf
[6] Geoff Bascand, "Demographic Trends: 2010", Statistics New Zealand, January 2011, http://www.stats.govt.nz/browse_for_stats/population/estimates_and_projections/demographic-trends-2010/chapter4.aspx

11. Alison O'Connell analyses the arguments to solve this increasing generosity in her paper *Longevity Trends and their Implications for the Age of Eligibility for New Zealand Superannuation* and also concludes:

> "The arguments that have been made for ... raising eligibility age cover a range of factors but the core principle is that pushing out the age matches the stretching of lifespans."[7]

12. However, taking the step of increasing the retirement age is not necessary immediately because of the fiscal sustainability of public provision of retirement income which is discussed in the following subsection – although early indications of policy changes would allow younger workers to adapt their savings goals accordingly.

Sustainability of New Zealand Superannuation

13. In light of the demographic and fiscal challenges outlined above, is Super in its current form sustainable? In a word, yes. Even if the fiscal cost of NZ Super doubles as percentage of GDP, all decisions on Government expenditure are a matter of priorities and trade-offs. As stated in the paper *The Sustainability of New Zealand's Retirement Income Framework*:

> "In one sense, "affordability" is not the question. Rather, it's a matter of priorities. After all New Zealand could afford an aircraft carrier if it really wanted one, but we'd have to do without a lot of other things."[8]

14. The fiscal sustainability argument boils down to New Zealand making continual improvements in productivity and economic growth. Because economic growth gives us choices; like whether to purchase an aircraft carrier or maintain Super payments at their current levels.

15. Therefore, the business sector is at the heart of the solution because fundamentally only the business sector can create and sustain the activity that will benefit us all: through the generation of exports, jobs and incomes, and through the generation of the tax dollars that will allow us to fund the health, education and social security provision we have come to expect. And, of critical importance, drive New Zealand's GDP higher.

Alternative retirement savings approaches

16. Turning to the policy settings that fund Super, the Commission's background papers contain much discussion on PAYGO versus SAYGO as the optimum method of funding public retirement income.

17. Private provision of retirement income through KiwiSaver is discussed further in the section below on private savings, but it is worth briefly making the point here that encouraging private savings is of benefit to New Zealanders even in an environment of

---

[7] Alison O'Connell, "Longevity trends and their implications for the age of eligibility for New Zealand Superannuation", May 2013, http://www.cflri.org.nz/retirement-income/policy-reviews/2013-review/background-papers-2013-review-retirement-income-policy

[8] ____, "The Sustainability of New Zealand's Retirement Income Framework", Commission for Financial Literacy and Retirement Income, January 2013, http://www.cflri.org.nz/sites/default/files/docs/RI-PP9-Sustainability-of-New-Zealand%27s-Retirement-Income-Framework-2012.pdf

universal superannuation provision. KiwiSaver has successfully enrolled over two million members and is providing the catalyst for many to build a long-term savings habit. However, the ultimate position of KiwiSaver in the policy landscape is still to be determined as Maire Dwyer obverses in her paper:

> "Currently, there is no direct relationship between KiwiSaver and other retirement income policies. Clarity about how KiwiSaver fits alongside other retirement polices, and how this may change in the future, is essential if stakeholders are to work together to support KiwiSaver going forward, and for any trade-offs to be identified and planned for."[9]

18. Given that KiwiSaver is not currently a substitution for Super, it should be separated from the discussion of how to fund public retirement income provision and assessed on its own merits – of which there are many.

19. *The SAYGO Mirage* paper by Michael Littlewood from Auckland University provides many interesting insights into the problem and it is hard to disagree with his conclusions with regards to public provision of retirement income.[10]

20. Given the considerable transition pain of switching from PAYGO to SAYGO, fundamentally changing the public funding method is probably not worth the effort – particularly when we can meet the fiscal challenges much more easily by considering alternative policy levers such as the entitlement level, eligibility, and immigration. It's a significant and long-term gamble to suggest New Zealanders really want the current settings to continue when we have not had that debate and carry the considerable risk of reading public opinion incorrectly or that the investments set aside for pre-funding underperform the alternatives.

21. Even the NZ Super Fund, designed only to assist with pre-funding, was a response to specific fiscal circumstances at the time of its establishment. When the fifth Labour Government was running large surpluses, the NZ Super Fund was a method of reducing the government's fiscal impulse during a period of high inflation and high interest rates – stashing cash away for a nominated rainy day. However, as the GFC hit and surpluses dried up, the government made adjustments to structural spending commitments and contributions to the fund were suspended indefinitely (currently forecast to resume in 2020[11]). So the smoothing argument does not work when contemporary demands for expenditure take priority – which is exactly how it should be.

22. Some might argue the SAYGO argument holds regardless of whether the subject is public or private provision of retirement income. This is where the analogy of the state as just another entity (or even as an individual or household) breaks down. The state is unique; possessing the sovereign power to raise taxes, and therefore should not model itself as a corporate entity. This also means any analogy between the state funding

---

[9] Maire Dwyer, "The Place of KiwiSaver in New Zealand's Retirement Income Framework", March 2013, http://www.cflri.org.nz/sites/default/files/docs/RI-Review-2013-KiwiSaver.pdf

[10] Michael Littlewood, "The SAYGO mirage: why the government should not pre-fund New Zealand Superannuation, not even partially", Auckland University, May 2013, http://www.cflri.org.nz/sites/default/files/docs/RI-Review-2013-Submissions-Michael%20Littlewood%20on%20to%20save%20or%20to%20save%20not.pdf

[11] Bill English, "Government books in good shape, English says", press release, May 2013, http://www.beehive.govt.nz/release/government-books-good-shape-english-says

retirement income and funding comprehensive accident insurance (as ACC does on a SAYGO basis) does not hold.

23. So why should individuals save for their retirement income needs through KiwiSaver and alike but not the state through the NZ Superannuation Fund? Individuals only have one working lifetime to build a suitable nest egg; the state is continuing. The state is constantly juggling competing demands and trade-offs for expenditure, provision of the welfare system is just one demand among many – the Christchurch earthquakes illustrate an unforeseen demand on public expenditure that can arise at any time. Finally, the state can be thought of as a pooler of risk; where the small contributions of many through their taxes can ensure a safety net for the few who are unable to provide for themselves.

SAVING IS ITS OWN VIRTUE: ASSESSING THE ROLE OF PRIVATE SAVINGS FOR RETIREMENT

Trends in KiwiSaver

24. Within any society there are three types of savers:

- Those wealthy enough to provide for their own retirement regardless of incentives or state support.
- Those who cannot afford to save and will rely on the welfare state to provide in their retirement.
- Those who have the inclination to save but lack the knowledge or financial capacity to be in the first group.

25. It is this last group who benefit the most from state sponsored savings support whether in the form of improving financial literacy, for example the Sorted website, or through direct financial incentives to save, for example KiwiSaver.

26. Within five years, KiwiSaver has successfully incentivised over two million New Zealanders to enter a long-term savings habit. This indicates public confidence in the initial policy design and establishment of KiwiSaver. When looking at possible changes to retirement income policy design, decision makers should prioritise the maintenance of public confidence in the scheme. It is only through continued confidence in the scheme that members will keep contributing – the single most important determinant of people's accumulated funds in retirement.

27. Maire Dwyer's paper touches on the design of default KiwiSaver funds after 2014 on pages 27-28, and in particular whether a life-cycle or age-appropriate investment stance should be adopted.[12] The life-cycle investment approach has many positive features; however, BNZ submits this approach is not suitable for default funds. It exposes members to investment risk solely around an assumption based on their age.

28. When thinking about designing default funds, the government should not see itself as a 'de facto investment advisor'. This requires the government to make assumptions on

[12] Maire Dwyer, "The Place of KiwiSaver in New Zealand's Retirement Income Framework", March 2013, http://www.cflri.org.nz/sites/default/files/docs/RI-Review-2013-KiwiSaver.pdf

behalf of a diverse group of default members, and it is impossible to design a scheme that is tailored for all people. It assumes the risk-profile of a 65 year old is conservative yet they still have a 20-year investment horizon and will therefore probably still want some growth even while they decumulate. So if assumptions about investment intentions have to be made, it should be to preserve participants' capital and therefore confidence.

29. Exposing default fund participants to greater financial risk and volatility has the potential to undermine people's commitment to saving; continual drip-funding of contributions is the most important factor in determining the final accumulated retirement balance, not the rate of return or choice of fund.

30. The way many people perceive KiwiSaver is in the name, as a savings account. It might be their only form of retirement saving and therefore, they need their capital preserved. They are probably not sophisticated investors and are in a default fund because they have not made an active choice.[13] They may be able to tolerate a slightly higher growth profile – but remaining at the conservative end of the spectrum – to ensure their investment is beating inflation.

31. Answering whether a life-cycle investment approach is appropriate goes to the fundamental question of the role of default funds. It is arguable default funds have performed well since the establishment of KiwiSaver, not only because they have provided members with superior returns, but mainly because they have maintained members' capital and boosted confidence in KiwiSaver. This is a key component of KiwiSaver's initial success, especially for people new to savings.

32. Finally, it is worth commenting on the reduction in the minimum employee/employer contribution amount from four percent to two percent – and recently back to three percent. For the sake of allowing long-term planning by savers, a return to a four percent minimum contribution is encouraged.

Role of financial services sector in helping to ensure the adequacy of retirement income for New Zealanders

33. A strong banking system is the bedrock of New Zealand's economic prosperity. New Zealand's banks withstood the worst of the Global Financial Crisis ('GFC') and learnt many lessons on the way through to make themselves even more resilient in the future. A quick glance at Europe demonstrates how individuals' wealth is destroyed when the banking system fails. A strong banking system gives people the confidence to save and invest knowing their money will be there when they need it in retirement.

34. The banking sector in New Zealand is highly competitive, innovative, and strong. Bank customers have never had more choice, or more clamour, for their custom. But BNZ's contribution to the economy is more than merely being a successful business, through our lending and other activity we play an enormous role in facilitating local businesses, large and small, from Kaitaia to Bluff, from Raglan to Kaikoura, so that they can employ New Zealanders, pay tax, and grow.

[13] It is possible some members of KiwiSaver default funds have made an active choice to be in a default fund, but we simply do not know for sure. This is an area that would benefit from further research.

35. Very few banking groups in the world enjoy 'AA' credit ratings, and four of them are operating in New Zealand. So globally we are in a very fortunate position indeed. But what if this was not the case? As a rough guide, if banks dropped to a single 'A' credit rating, two things would happen.

36. The cost of our longer term offshore debt would increase materially. Depending on the circumstances, this movement could add around 50 basis points onto the cost of term wholesale funding from offshore, which would be borne by consumers and businesses. Secondly, our access to offshore wholesale markets would be far more difficult, with fewer investors willing and able to buy our debt.

37. Combined, both of these impacts would almost certainly result in a higher cost to New Zealand customers as we were forced to pass on costs, and as we were forced to rely more upon domestic deposits for which we would have to pay more. Our ability to lend would also be constrained which potentially means lower credit growth and less economic activity overall.

38. But people need more than just banks to invest in. Savers need to diversify their savings across a range of classes and sectors. It is pleasing to see heightened activity and new listings on the NZX. The successful partial float of Mighty River Power, and the prospect of more listings to come, gives people choices as to where to invest and deepens New Zealand's capital markets.

39. BNZ notes the absence of an annuity income market in New Zealand in any form, creating an vacuum for people wanting to invest their retirement savings in a low-risk, fixed-income product. Reasons for the lack of such products include tax disincentives and a lack of depth and duration in the local bond market.

40. As a major player in New Zealand's financial services sector, BNZ considers it has a responsibility to help boost financial literacy. Our contribution is expanded on in the last section.

How to increase savings

41. The Savings Working Group ('SWG') report contains a dramatic but an accurate summation of the situation facing New Zealand.:

> "New Zealanders – the people and the government – are not saving enough. Unless we make some rapid changes, we are risking a major economic disruption likely to leave practically all New Zealanders worse off. It's as if we are standing on top of a cliff that may collapse dramatically or crumble slowly. Either way, it would be a bad fall. We need to move back from the brink – and fast."[14]

42. The SWG tackled the savings issue in both its quantitative and qualitative dimensions. Its broad recommendations are worth recapping here. First, as an overall goal, New Zealand needs to increase national saving by some 2% to 3% of GDP from its current gross level of 17% of GDP, by increasing government, household and business saving.

[14] Kerry McDonald, "Saving New Zealand: reducing vulnerabilities and barriers to growth and prosperity", Savings Working Group, February 2011, http://www.treasury.govt.nz/publications/reviews-consultation/savingsworkinggroup/pdfs/swg-report-jan11.pdf

43. New Zealanders need to improve the quality of savings and investing – through better asset choices and higher returns. This involves changes such as reducing serious tax distortions, much better disclosure on financial products, their fees and performance. To this end, we commend the Government's moves to materialise these changes in the marketplace.

44. New Zealand needs to boost productivity, particularly in government services. The Better Public Services initiative[15] indicates the government is attempting to reform the nature and delivery of public services by focusing on outcomes. And we should increase exports and production of goods and services that substitute for imports – so that New Zealanders buy less from overseas. This will help to tackle our perennial current account issues. Again, the Business Growth Agenda[16] and its admirable target of boosting exports to 40 percent of GDP shows the way forward, as long as the actual policy changes deliver on the intent. This includes reducing the regulatory burden on businesses so they can focus on achieving this increase.

45. There has been some progress since the group tabled its report over two years ago. Reserve Bank Governor Graham Wheeler has noted the rise in domestic savings after many years of negative savings. Of course boosting national savings is another issue requiring, among other things, central government to restrain its spending as a share of national income. BNZ strongly supports the government's focus on achieving a fiscal surplus in 2014/15.

46. The KiwiSaver scheme demonstrates an honest, sustainable attempt to grasp the nettle of savings. In fact KiwiSaver has been so successful, BNZ favours introducing universal or compulsory KiwiSaver for a number of reasons – or if compulsion is not achievable, auto-enrolment would be an intermediate step on the path to achieving this.

47. Universal uptake would boost household retirement savings by enticing more of those people not currently saving into the group of savers. It would help to entrench a culture, mentality and track record of regular savings among New Zealanders, especially if efforts boosting financial literacy across a broad front were also stepped up. The two initiatives would reinforce one another.

48. Over time, universal or compulsory KiwiSaver would give strong support to New Zealand's capital markets, through the accumulation of a significant pool of savings, just as we have seen in Australia over the past 20 years. Compulsory super was introduced across the Tasman in 1992 and two decades on there is now over AUD$1.3 trillion invested in Australian superannuation funds. A larger pool of domestic capital here could in turn support the growth prospects and capital-raising capacity of New Zealand businesses. From this would flow jobs and incomes, and therefore the capacity for New Zealanders to save more in the first place, not to mention a tax base that will allow health, education and social security to be sustainably funded at the levels we want.

---

[15] Better Public Services is the Government's initiative to improve outcomes from public services across ten specific results; for more information see http://www.ssc.govt.nz/better-public-services

[16] Business Growth Agenda is the Government's initiative to improve the business environment and promote economic growth across exports, skills, innovation, capital markets, resources, and infrastructure; for more information see http://www.mbie.govt.nz/what-we-do/business-growth-agenda

49. Compulsory KiwiSaver is not a panacea, and it is not advocated as a lazy response to the tough job of improving financial literacy and convincing people of the benefits of saving. Potential savers should be convinced of the direct benefits experienced by the savers themselves: self-sufficiency, risk mitigation, the wealth generating power of compound interest, and the accumulation of inter-generational wealth.

50. Savings give people choices should they or their family suffer some kind of setback or shock. The choice does not even necessarily relate to the provision of retirement income – there is no compulsion for KiwiSavers on reaching 65 to use their nest egg for retirement income purposes. By starting early and having a long-term horizon, people can manage their savings through any short-term market volatility and have time to correct any mistakes made early on. Finally, by saving early and regularly, savers can harness the power of compounding interest to boost their wealth.

51. It is worth responding to a few of the points made against compulsory savings in one of the Policy Position Papers commissioned as part of the Commission's policy review. *Encouraging Personal Responsibility, Individual Choice and Control* states:

> "... compulsion can also lead to greater inequality. In a compulsory system, low income people may have to forgo spending on essential items, while wealthier people are able to maintain the same standard of living by simply reducing other forms of savings. In retirement, these inequities are magnified. Compulsion does not guarantee that people will reach retirement in good financial shape."[17]

52. BNZ does not advocate compulsion as a means of redistributing income, instead that is properly the role of the welfare system and is conducted through the provision of New Zealand Superannuation. Inequalities in privately funded retirement income already exist, but what compulsion can achieve is providing those with the means to save the incentive and structure needed to support a lifelong habit.

53. The statement that compulsion carries expensive compliance costs sounds implausible in the New Zealand context where voluntary uptake is high and the system's administration is handled via the tax system and Inland Revenue.

54. BNZ strongly contests the assertion that compulsion leads to a reduction in fund management competition. As a recent entrant to the KiwiSaver market, BNZ can attest to the level of competition in the marketplace. The current high uptake of KiwiSaver has not prevented tough competition between providers for market share and it is hard to see how this would change under compulsion.

55. Finally, the paper raises the spectre of compulsory savings (and therefore the funds management industry) being given an unfair advantage competing with alternatives. The paper quotes the 1992 Todd task force:

> "...voluntary provision can be seen as the fairest of the three options for all industry participants since it maintains an environment that does not favour one form of saving over another. The improved voluntary regime will allow all parts of the saving industry to compete on an equal basis. This should produce better

---

[17] ____, "Encouraging Personal Responsibility, Individual Choice and Control", Commission for Financial Literacy and Retirement Income, January 2013, http://www.cflri.org.nz/sites/default/files/docs/RI-PP3-Encouraging%20personal%20responsibility%2C%20individual%20choice%20and%20control-2012.pdf

returns for savers if only through reduced management expenses. In turn this will attract more savers and greater earnings for the whole industry."[18]

56. Yet it is clear there is no equal playing field between savings alternatives under the current settings; housing carries important tax advantages and these are discussed further in the section below.

CONTRIBUTIONS MADE BY OTHER POLICIES AND PROGRAMMES SUCH AS HOUSING AND HEALTH TO MAINTAINING NEW ZEALANDERS' RETIREMENT INCOME

Residential housing sector and housing affordability

57. New Zealanders have a well documented obsession with housing. The source of this obsession is the clear benefit for family, security, and community. But there are equally clear tax incentives distorting New Zealanders' savings and investment choices.

58. Overall the tax settings are about right when it comes to the balance between income and consumption taxes. Income tax levels here are lower than in many developed countries, and GST has long been a feature of the landscape – one of the legacies of the 1980s reforms. But New Zealand remains one of the few developed countries in the world without a capital gains tax applying to investment in residential housing (the tax system also supports negative gearing and there is no stamp duty on property purchases).

59. This country has witnessed a massive long-term bias in favour of investment in residential property – a non-productive asset in investment terms, albeit a critical life requirement for people and families. Newspapers report on movements in mortgage interest rates and house prices almost as ubiquitously as the weather. New Zealanders have a lot at stake and at times we cling to a belief the value of houses can only ever go up. Homeowners in other nations have seen this belief shattered.

60. As commentator Brian Gaynor pointed out in a recent *New Zealand Herald* column, if house prices in New Zealand were to fall by even ten percent this would wipe out far more of our wealth than the great stock market crash of 1987.[19] Gaynor's estimate is that such a fall would wipe out some $60 billion of wealth, compared with $20 billion in the aftermath of the biggest stock market crash since the Great Depression.

61. The situation is perverse; under current settings dividends and savings are taxed at a much higher rate than the effective taxation rate on housing. The SWG highlighted this anomaly and stated:

> "The SWG has recommended changes to the tax system to remove serious distortions that encourage investment in rental property over more diversified investment..."[20]

[18] Jeff Todd et al, "Private Provision for Retirement: the way forward", Task Force on Private Provision for Retirement, 1992, http://www.cflri.org.nz/sites/default/files/docs/RI-PPTF-Way-Forward-1991-1992.pdf
[19] Brian Gaynor, "Property fallout would top '87 share crash", NZ Herald, 20 October 2012, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10841675
[20] Kerry McDonald, "Saving New Zealand: reducing vulnerabilities and barriers to growth and prosperity", Savings Working Group, February 2011, http://www.treasury.govt.nz/publications/reviews-consultation/savingsworkinggroup/pdfs/swg-report-jan11.pdf

62. But demand for residential housing as an asset class leads to greater policy concerns than just poor portfolio diversification. It results in lowering the affordability of housing for following generations. Although outside the remit of this policy review, it is important to distinguish and examine the interrelated forces affecting over-investment in housing, and the inadequate supply of new housing stock – particularly in Auckland.

63. The very breadth of current concern is instructive. It encompasses economic and political commentators both left and right of centre; the Minister of Finance and other Cabinet Ministers; social agencies in housing and other areas; the Productivity Commission, which delivered a weighty report on the subject last year; and the ordinary New Zealanders who worry about how they can ever afford to clamber onto the first rung of the residential property ladder.

64. The Productivity Commission, and the Government in its response to the Commission's report, have singled out land supply as an important issue but addressing this will take time.

65. Where the two issues of New Zealanders' predisposition towards property investment and exacerbated levels of house prices do intersect is the speed of resolution. Because if house prices are unnecessarily elevated for too long it could impact on households' ability to accumulate retirement savings as Bruce White explains:

> "If the recent bout of house price inflation results in the cohort of existing home-owners taking more debt than usual into retirement; and if successor cohorts face higher housing costs over their working lives, or are unable to achieve home ownership, it may result in a crimping rather than a boost to retirement incomes."[21]

HELPING NEW ZEALANDERS BE GOOD WITH MONEY: ROLE OF FINANCIAL EDUCATION AND FINANCIAL LITERACY IN RETIREMENT INCOME POLICY

66. Even a brief overview of the current performance regarding money management in New Zealand displays some shortcomings in our national performance in financial literacy. Poor financial literacy among both individuals and businesses explains some of the problems discussed in this submission. Individuals lack confidence with money, even if most recognise the importance of long-term financial goals.

67. Regarding the way that New Zealanders currently manage their money, behaviours related to personal discipline (e.g. not using credit) are more commonly engaged in than behaviours requiring technical or numerical skill (e.g. budgeting and planning). While 86 percent of New Zealanders say managing their money and being good with money is extremely important to them, only nine percent strongly agree they are in fact good with money.[22]

68. This provoked BNZ to base our new brand campaign around the concept of being 'good with money.' We are currently rolling out tools, resources, product services, and

[21] Bruce White, "The Financial System Post the GFC: roles, regulations and responsibilities", Bruce D White Consulting, March 2013, http://www.cflri.org.nz/sites/default/files/docs/RI-Review-2013-Role-of-financial-system.pdf
[22] "Enabling a higher achieving New Zealand", BNZ, September 2012, http://www.bnz.co.nz/static/www/docs/media-releases/dd2012-10-02.pdf

community initiatives to help New Zealanders manage their money more effectively. As our tagline proclaims, “Money is neither good nor bad; it's what we do with it.”

69. New Zealanders have a longstanding enthusiasm for investing in residential housing rather than the productive sector due to habit, culture and the signals broadcast by our taxation system in its current state. Our sharemarket is thinly capitalised and the shadow cast by the great crash of 1987 seems to have been far longer and darker in this country than in others.

70. Literacy was certainly highlighted as a major issue by the Savings Working Group when it reported in 2011. BNZ considers financial literacy should be treated as a life-skill, along with reading, writing, and maths. People need to understand compound interest, the difference between a consumption item and an investment item, and risk. BNZ supports the SWG’s recommendation that financial literacy be made a compulsory part of the school curriculum.

71. But really we need to treat financial literacy as an issue that extends from the classroom, to the boardroom, to political discourse, to the news media and elsewhere.

72. As a bank we see opportunities for business clients everyday if they were to improve their financial literacy – not in the absolute basics of finance, but in the bigger and really critical areas like capital and cash flow plans, and in the preparation and presentation of business cases. To achieve their goals of growth and become the high performing businesses they want to be, business owners need to match their ideas and enthusiasm by capacity in this area.

73. If New Zealand is to be a high-performing economy with a growing GDP, we need high-performing companies whose leaders demonstrate a very high degree of financial literacy and indeed have ambition to grow their businesses in a disciplined way. These leaders then need to get out and educate and excite the next generation of entrepreneurs and public policy makers.

74. The Commission of Financial Literacy and Retirement should be congratulated for having done an outstanding job in highlighting and confronting New Zealanders’ poor financial literacy. But the responsibility cannot be the Commission’s alone.

75. At BNZ we are contributing across a broad front. We are building improving financial literacy and “being good with money” into our everyday interactions with customers across New Zealand. We are tackling the issue of business literacy through our involvement in ICEHOUSE. ICEHOUSE is a charitable trust that works with a range of SMEs and providing entrepreneurs and business owners with the knowledge, tools, and contacts to grow. As an audacious goal, ICEHOUSE has signed up to fostering 1,000 of the 3,000 firms needed to get New Zealand back into the top half of the OECD by 2020.

76. At the other end of the scale, BNZ has financial literacy projects running across many organisations including Age Concern, Pacifika churches, Plunket groups for new parents, Maori Women’s Welfare League, youth groups and iwi groups. BNZ brings insight and researched best-practice to these organisations as well as utilising the products and services developed by the Commission.

CONCLUSION

77. BNZ hopes this submission adds to the volume of opinion calling for greater action to improve financial literacy in New Zealand. The benefits of early and regular savings contributions are diverse and compelling, and give people the ability to retire with financial freedom.

78. The policy changes required to achieve this goal contain both ‘hard’ and ‘soft’ incentives. BNZ submits the structural biases in favour of investment in the residential housing sector are removed. The early success of KiwiSaver should be seized upon by adding in those remaining workers who are not yet members.

79. The benefits from these changes will directly accrue to the savers themselves and additionally to the New Zealand economy as a whole.

80. BNZ is pleased to provide this submission and is available to discuss any issues raised. Should the Commission have any questions, please contact:

Kenny Clark
Government Relations Manager

DDI: (04) 924 0437
Email: kenny_clark@bnz.co.nz