27th May 2013 SUBMISSION

To the Retirement Commissioner for the 2013 review of retirement income policy

Introduction
This submission is from Hamilton Budgeting Advisory Trust, 87 Clarence Street, Hamilton. We are affiliated to the New Zealand Federation of Family Budgeting Services (Inc).

We provide free one to one household budgeting advice and education to clients in our city. The following issues are collated observations from our experience of working with clients from 18-85 years of age from all sectors of the community. We see over 1,000 new clients a year from budget advice and education and have been operating since 1991 in the Hamilton city.

Specific comments
We wish to raise the following observations and recommendations under the terms of reference for the 2013 review:

Terms of reference 2
The intergenerational impacts of New Zealand's retirement income policy, with due consideration given to: (a) the effects of increased longevity on present retirement savings schemes; (b) alternative retirement savings approaches, and (c) the sustainability of New Zealand Superannuation.

2. b & c)

Observations

- We are seeing an increasing number of older people seeking our service who are in their 70 and 80's. Many of these people have no other means of income support other than national superannuation. When faced with unexpected costs such as car breakdowns, whiteware breakdown and medical costs, they have no savings to utilise and seek finance from Work & Income, banks, money lenders, family and friends.

- People who are renting are more financially restricted than those who own their own homes as a large part of their income goes to pay rent.

Recommendations

- We consider that as we have an ageing population and increasing unemployment for younger people, research into the viability of a means test at a certain level of income ($45,000 for example) for people in receipt of super and also in paid employment.

- That everyone has a super savings scheme (KiwiSaver) as soon as they are in receipt of pay either from work or benefit and that it is paid directly from their wages/benefit (like

PAYE). This is to also apply to the self employed to be paid through the tax system. Saving for retirement would eventually become accepted and people would be less inclined to see it as a savings account. If people do not receive the money in their pay, they do not miss it.

Term of Reference 3

An assessment of the role of private savings for retirement. This assessment should cover: (a) trends in KiwiSaver, particularly withdrawal patterns of those retiring and the issues that these may raise, and (b) the role of the financial services sector in helping to ensure the adequacy of retirement income for New Zealanders.

3. a)

Observations

- Each generation of New Zealanders has a different attitude towards saving. Over the last 20 years, the availability of credit has changed people's attitudes towards money and it is very common to have people in the 18-25 age group with significant debt related to credit facilities. Student loans and credit cards have contributed towards this trend.
- Very few of our clients have any money put aside for a 'rainy day', in fact most would be living from pay day to pay day. This is due to either not enough income to save or absence of a saving habit and choosing to spend money.
- Since the introduction of KiwiSaver, we have had a large number of clients applying for KiwiSaver withdrawals to repay debt. Some KiwiSavers consider their KiwiSaver as a 'savings account' and several of our clients have made more than one withdrawal to repay debt. One of our clients, aged 58 years, after being made redundant withdrew all his available KiwiSaver money totaling $7,000 ostensibly for debt repayment. He paid one debt of $1,500 and then proceeded to gamble (seen in his bank statement and client's admission) the remainder at about $1,000 a day and within a week he had spent it all. He is now a beneficiary on unemployment benefit.
- We have had clients whose bank has lent money to them on the proviso that they withdraw their Kiwi Saver money out to pay it back – this has only been where it is their own Kiwi saver scheme (see case summary at end of submission). This bank is actually reinforcing the attitude that KiwiSaver is a savings account.
- A lot of our clients on a benefit lurch from one debt situation to another and once they reach 65 and are in receipt of NZ Super, they are invariably better off and can afford things like medical care, prescriptions, glasses etc.
- For many beneficiaries who cannot manage on their income, the State that is called upon to provide financial support when in need either in the form of advances accommodation supplement, disability etc

Recommendations

- There is a need for increased level of savings across all ages, even more so for retirement. There needs to be a protection provided from their own inability to manage. Attitudes and behavior towards money is often emotional and people need support to not succumb to triggers related to spending.
- Contributions to Kiwi Saver be made mandatory
- Beneficiaries to contribute to Kiwi Saver via their benefit as they have little opportunity to save for themselves on a limited income.
- Increased advertising is required to emphasise that KiwiSaver is a retirement fund for the long term and to supplement the pension when people are older.
- Once a person is eligible for KiwiSaver withdrawal, it needs to be paid out as an annuity on a weekly or fortnightly basis and not as a lump sum. This protects people from themselves, their relatives and friends who can place inordinate pressure on them to give them money.
- KiwiSaver should only be used as a deposit on a home of for hardship provision to withdraw funds in the most extenuating circumstances such as ill health, loss of job etc. not just because someone has got into debt and spent money on things that they did not have the funds for in the first place.
- The KiwiSaver providers seem to operate under different requirements as to what constitutes real hardship. The terms need to be more aligned among providers.

Terms of Reference 4
The contributions made by other policies and programmes, such as in housing and health, to maintaining New Zealanders' retirement income.

Observation

- Clients who rent their homes face insecurity, financial costs and stress when they have to move. Owning one's own home does contribute to more secure well being in older age.
- Most of our older clients have health issues that require frequent doctor visits and medication, generally requiring more care as they age, especially if they have put off seeking medical help due to the cost and the condition has worsened.

Recommendation:

- Development of new and continuation of existing policies and programmes that encourage and assist people into home ownership.

- One way to assist with medical costs is research into the introduction of an incentive to take out medical insurance and have it tax deductable, in the same way donations are treated.

Terms of Reference 5
Women's future retirement income prospects.

5.

Observation

- Over 60% of our clients are women and many are single parents who have never had paid employment and have spent years child rearing and have not contributed to a retirement scheme. We also see women clients who have taken time out of paid employment for child rearing and have not had the income to save. When returning to the work force, they may have to retrain to upskill and often there are costs associated with work that must be paid such as travel, childcare etc and these will be paid before saving for retirement. Compounding this issue is the fact that women live longer and often struggle in old age when single or widowed as they do not have the financial or emotional support of a partner.

- For women who are working, especially lower paid or part time work, it is usually the day to day living expenses that come before saving and that includes retirement.

Recommendation

- Anyone in receipt of a benefit makes contributions to KiwiSaver.

- All employees and self employed pay in to KiwiSaver.

Terms of Reference 6
The role of financial education and financial literacy in retirement income policy.
6.

Observation

- The opportunity to teach children how to understand money is being missed by many schools. We have offered financial literacy in Hamilton for the last 15 years and the uptake has been sketchy to say the least. The problems we encounter are primarily related to time, the curriculum is so jammed, unless the content is in the course outline, it is very hard to get into the school to teach these courses.
- For children who come from household where attitudes towards saving and managed spending are not positive; this is a chance to provide them with an alternative view.
- KiwiSaver is seen by a lot of younger people (18-25years) as a positive scheme and this needs to be built on.
- Among the majority of our clients who want to make withdrawals from their KiwiSaver funds, there is an attitude of "It's my money and I want it" that prevails. It is viewed as a savings account.

Recommendation

- Financial Literacy should be a compulsory part of the curriculum starting from a young age and built on as they children progress. It should not be left up to the teacher whether the children get the information or not. There needs to be more education about the absolute essential aspect of saving for retirement and eventually it would become the norm.

Further Recommendations

- It would be good to see NZFFBS or another independent organization be given the role to take over the decision making on serious financial hardship cases for withdrawal in KiwiSaver. Budgeters know how to access information that provides a full picture of household finances.
- "Saving is a luxury" is often bandied about and is the prevalent attitude of many that come through our office. It is incredibly hard when funds are tight, so if it is taken along with PAYE, it is more acceptable.
- We support the areas for attention (p.30) on KiwiSaver to inform policy identified by Maier Dwyer's paper 'The place of KiwiSaver in New Zealand's Retirement Income Framework'.
- We need policy that all parties agree and adhere to especially when governments change.

Summary of Case to Withdraw KiwiSaver Funds

This is a summary of recent case with a client regarding a bank suggesting a client withdraw from his KiwiSaver funds to repay debt.

We have a client with mental health issues (previously gone bankrupt) who comes to see us when he gets into trouble with his creditors. He works at a local supermarket collecting trolleys and makes on average just under $500 a week wage. It is obvious from his bank statement that he spends a lot of his money at dairies on V drinks and regularly borrows money from Cash Converters.

He recently came in to see us and the first thing he asked about was how do I go bankrupt? Our budget adviser asked questions to find out why he wanted to do this again and he told her that he had got into debt and had changed his bank to the National bank. They set up an account and AP's for his rent etc and as he owed money to his previous bank and Instant Finance, they paid these creditors with an overdraft of $6,000 on the proviso he applied for his KiwiSaver funds to repay them! In the meantime they would be taking money out of his account each week to pay off the overdraft.

The adviser spoke to him about other options but he wanted to go ahead with what the bank wanted him to do so our adviser helped him apply to withdraw his KiwiSaver funds.

The budget adviser queried this case at the bank and asked the person who organised the overdraft why they advanced it to a person who has obvious mental difficulties and struggles to manage due to his spending (which can be seen from his bank statement). She also mentioned that he had been considering bankruptcy (this may have been declined considering he knew he was in trouble when he got the overdraft). The person who advanced the overdraft was leaving her employment at the bank and explained that he said he would apply to withdraw his KiwiSaver funds and just proceeded to advance the overdraft.

This client does not have what would be considered serious extenuating circumstances, other than not being able to manage his money well despite all the help that we provide him. Whilst helping him with his application to withdraw his funds, the adviser wondered if the provider would release the funds when it is obvious that he can afford his basic living costs. As she helped him with the withdrawal application she was able to stipulate that it would be best for the creditors to be paid directly. They have accepted his application and fortunately they will pay the money to the creditors. It would have been interesting to see what the bank would have done, if anything, had he been declined.

We felt that it was a situation that could have been avoided had the bank not mentioned to him that he could use the KiwiSaver funds to repay the debts. He could have continued to pay his unsecured debts under a Summary Instalment Order and retain his KiwiSaver funds.