Retirement Income Policy Review

Submission from ANZ Wealth

31 May 2013

Introduction

Thank you for the opportunity to submit on the 2013 Review of Retirement Income Policy. In our submission we have provided responses to questions 3, 5 and 6.

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Contact for submission

We welcome the opportunity to discuss our submission directly with the Commission for Financial Literacy and Retirement Income (CFLRI). Please contact:

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Yours sincerely

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Question Three: An assessment of the role of private savings for retirement

This assessment should cover:

1. Trends in KiwiSaver, particularly withdrawal patterns of those retiring and the issues that these may raise

We consider the following factors to be some of the most important in terms of trends in KiwiSaver and private savings:

- Benefits of private savings
- KiwiSaver's role as a supplement to retirement income
- Certainty, consistency and clarity on the long-term delivery of a retirement income framework
- Role of default KiwiSaver providers and continuing focus on high standards of governance and compliance to ensure confidence in the KiwiSaver brand
- Trends in enrolments
- Contribution levels and contributions holidays
- Withdrawal patterns and the need to prevent dissipation of people's hard-earned savings.

KiwiSaver has been a major success in its first five-and-a-half years and has helped establish a savings habit for over two million New Zealanders. Research has shown that for the majority of members, if they were not in a KiwiSaver scheme, they would not be saving towards their retirement. Private savings for retirement will become increasingly important to the economy and to the ability of individuals to make choices and live more comfortably in retirement. Growth in savings is not only important for individual wellbeing, it will also support the re-balancing of the New Zealand economy towards productive investments.

New Zealand has a well-developed retirement income framework including universal superannuation. People make their retirement savings decisions based on their expectations that KiwiSaver will be a *supplementary* income stream, in addition to NZ Super payments. Therefore, it is critical that that any policy changes to the retirement income framework are given long-term visibility, so people and businesses can prepare well in advance.

We recommend that any changes in policy settings need to be forewarned and confirmed at least ten to twenty years in advance.

Role of default providers

The default providers have played a significant role in building public confidence in KiwiSaver and the KiwiSaver brand. In turn, KiwiSaver has played an important role in rebuilding consumer confidence in both the financial services sector and saving and investment in general, after the fallout from the Global Financial Crisis.

There has been an emerging trend of consolidation among KiwiSaver providers. Over the last twelve months, we have seen the sale of Tower to Fisher Funds, as well as the decision to merge the AXA and AMP KiwiSaver schemes. There is also an ongoing merger of the Kiwibank and Gareth Morgan KiwiSaver schemes. These changes can be very unsettling for customers.

The upcoming review of the default providers also has the potential to shake up the market if the number and identity of the default providers change.

ANZ believes it is important to maintain a high level of consistency in customer experience of the KiwiSaver 'brand'. Policymakers need to demonstrate certainty in scheme design for current members and those who are yet to join. For this reason, we submitted to the Government's default provider review that a small number of well-regulated providers will be easier and more efficient for regulators to manage and monitor.

The default providers have helped to establish a benchmark for governance and compliance, and these standards should now be raised for a small set of complying default schemes. This in turn should help to further lift confidence in the KiwiSaver brand and encourage greater saving towards retirement.

Trends in enrolments

While much of the focus in the first few years of KiwiSaver has been on joining and enrolment trends, the focus from here on needs to address the gaps that are emerging between those who are actually contributing towards their retirement savings and those who are not.

Growth in KiwiSaver membership has slowed, with 46 percent membership in 2012, the same as in 2011 (Nielsen, 2012).

Most people are now joining directly through self-selection of their provider. Joining through auto-enrolment in the workplace still plays an important role in extending membership in KiwiSaver, with approximately 5,000 per month joining default providers.

Members are reviewing their contribution levels and, on balance, are reducing these.

Main reasons for *decreasing* contribution levels	Main reasons for *increasing* contribution levels
• Affordability (31%)	• A salary increase (33%)
• Unemployment (29%)	• Receiving advice to do so (21%)

Source: Nielsen, 2012.

Contributions holidays

The continuing trend in members taking a contributions holiday is concerning. Currently, about 95,000 members (or 4.5 percent of total membership) are on a contributions holiday. Inland Revenue statistics show that most people applying for a holiday have chosen the full five-year term. In other words, opting to take a holiday from paying into your retirement fund to help get through a temporary financial set-back is turning into a five-year-long break from saving.

Our research shows that this five-year gap can lead to a 10 percent shortfall in the final savings outcome for someone when they reach retirement. To resolve the gap that will emerge if people continue to take five-year holidays from saving, we recommend revising the current arrangements and permitting only a twelve-month contributions break, to be renewed actively by the member if circumstances remain difficult.

We have discovered through our own research that engagement levels with KiwiSaver are generally low after people have joined. In terms of fund selection and choices, we have identified only minimal adjustment in fund type or selection since inception in 2007.

Further research shows that 21 percent of people surveyed do not know their fund type (Nielsen, 2012). Across our own schemes, we have noticed that the majority of members have not made an active choice about their investment fund after they joined. This holds true whether the member is in a default or a non-default scheme.

Withdrawal patterns

Since July 2012, we have experienced the first wave of KiwiSaver members who are eligible to withdraw their savings. We have found exit rates to be currently lower than anticipated, with slightly fewer than half of those eligible having exited. Furthermore, investors with a variety of balances are exiting rather than those with predominantly higher or lower balances; funds under management (FUM) balance at eligibility date does not seem to be affecting the choice of whether or not to exit.

Another observation is that only one percent of those accessing unlocked funds have made a partial withdrawal instead of a full withdrawal.

We believe that as balances increase, capital drawdown and new income product alternatives will become of interest. However, there is currently limited policy directly governing decumulation of KiwiSaver and other savings vehicles, and the market for annuity-type products is almost non-existent.

Without solutions that provide a regular retirement income stream from savings, there is a risk that maturing members may withdraw large sums of capital and transfer this into consumption too quickly, leaving them vulnerable later on. This is contrary to the primary objective of KiwiSaver, which is to help people maintain a comfortable lifestyle throughout retirement. It is vital that providers and policymakers work together to create a viable decumulation market in New Zealand.

However, there are currently significant barriers to delivering adequate or attractive solutions to members. Barriers to *demand* for annuities stem from issues related to market factors, consumer preferences and behaviours, and current tax legislation. Barriers to the *supply* of annuities stem from systemic and provider-specific issues.

It is our view that the New Zealand market may be too immature for decumulation products due to lack of size and knowledge, in addition to the issues raised above. In particular, the policy area and tax treatment of annuities is in need of review.

A joint government and industry response should be considered to ensure that tax, legal and commercial considerations work effectively together over the coming years to deliver solutions that will support New Zealanders in their retirement. While these issues are addressed and viable long-term solutions are discovered, it will be necessary to look at short-term fixes to encourage the protection of retirement savings built up through the lifetime of members.

2. The role of the financial services sector in helping to ensure the adequacy of retirement income for New Zealanders

The financial services sector has several roles, together with other public and private sector participants in the industry.

Centres of excellence

First, financial service providers need to be trusted centres of excellence, providing products and advisory services that engage and meet the needs of New Zealanders. ANZ strongly supports the role of the FMA in monitoring service providers and restoring public confidence. We also supported the introduction of the Financial Advisers Act to raise the standards and quality of professional advice.

New Zealanders require a framework that delivers affordable retirement income advice, tools and strategy. The framework should cover an array of alternatives to meet the various needs of consumers, including:

- financial education in schools (essentially having this imbedded into the school curriculum)
- online investment advice
- tools and resources
- affordable personal financial planning
- support to ensure workplaces can better provide access to financial planning tools and resources to assist employees with retirement income planning

In the absence of easily accessible advice and given the large number of people leaving their long-term retirement savings in default KiwiSaver funds, we advocate strongly for the availability of 'lifestages' investment funds.

Because of their reach, profile and many touch-points, banks are uniquely positioned to play a significant role in helping raise the level of financial literacy. They are also often the first financial services organisation a young person will encounter. No one solution or provider is best – we all have a role to play. That's because people have different needs, and different approaches to seeking advice.

The main concern for resolving the retirement income adequacy issue in New Zealand will be addressing the delivery of and access to advice for all socio-economic groups. The challenge is how the industry can best provide adequate advice that is commercially sustainable for the majority of people who are as yet unwilling or unable to pay for it. Consumers need advice to make their savings work for them and to make the right decisions both in planning and achieving their retirement goals, and then to maintain their living standards post-retirement.

We feel that the demographic that are most in need of support and resources are those in the middle of their careers but who have only just started saving for their retirement via KiwiSaver.

The role of the Commission for Financial Literacy and Retirement Income (CFLRI) and its mandate will become increasingly important due to its independence and the increasing demands for transparency. It can also continue to act as a coordinator of the efforts of others and to source independent, quality research. The Commission can also help solve how advice fits into the Sorted proposition.

Public education

Secondly, the financial services sector as a whole, including providers and trustees, needs to play a role in public education in order to improve financial literacy and preparedness for financial demands in retirement. This encompasses the need for forward-thinking and independent research to better understand the financial demands in retirement and how these needs will evolve.

Policy debate

Thirdly, the sector needs to contribute to the policy debate that will empower government and non-government organisations and financial providers to deliver the best solutions for New Zealanders. We hope the Government continues to focus on initiatives that will steadily grow savings and investment in New Zealand.

These initiatives include the development of a clear savings and investment policy framework that provides consistency over time, allowing people to plan their savings, their investments and their retirement income. As part of the above framework, a national retirement income strategy is needed, focussing on certainty, transparency, fairness, security and choice.

In particular, New Zealanders need advance warning of any changes to the policy settings around retirement income and to be able to choose from a variety of retirement savings and investment options that best suit their individual expectations, circumstances and requirements.

We need sensible and cost-effective regulation, giving people the confidence to save and invest. Measures need to be developed to deliver public and private partnerships to improve New Zealand's standards of financial literacy, giving people the knowledge to have more confidence in their own investment decisions.

Finally, certain features of KiwiSaver should be maintained together with some minor enhancements to encourage greater uptake. These include:

- the current $1,000 joining incentive under any continued voluntary-based scheme
- raising KiwiSaver contribution levels in small but consistent steps (e.g. half a percent per annum) towards a level more comparable to schemes operating in other parts of the world
- automatic enrolment of non-members in the workforce while maintaining an 'opt-out' provision
- maintaining member tax credits
- changing the default investment settings for default scheme providers to the lifestages option, so people are contributing to funds that are more appropriate to their age and length of time to retirement.

Question Five: Women's future retirement income prospects

At the age of retirement, women generally have less income from savings, investment, and retirement schemes than men. Compounding this, women tend to have a higher life expectancy than men, so their income needs to be stretched over a longer period. A study of household wealth in New Zealand revealed that the overall average net worth of women is only about 86 percent of that of men (Heathrose Research, 2012).

The ANZ retirement savings barometer adds to this finding by indicating a clear divergence in the confidence levels of males and females. On average over the last 10 months, our survey has found only 40 percent of women are confident that they will reach their retirement savings goals compared with 55 percent of men.

We recognise these findings and support the CFLRI's stated intent to work with the Treasury and Ministry of Women's Affairs to better understand those factors that are most likely to negatively affect women's financial wellbeing in retirement.

We believe the policy review should consider what support New Zealand employers need in order to establish encouraging saving practices for women, and to help women maintain their long term savings as they leave and re-join the workforce during their career.

Flexible work arrangements such as compressed work weeks (where employees work the usual number of hours in fewer days), job sharing, telecommuting, lifestyle leave and breaks from work are ways that can help women balance life priorities with work.

In addition, the provision of coaching, mentoring and networking can help women succeed by creating a supportive networking environment for pre-management and early-management women, as well as fostering mentoring relationships.

By providing a supportive environment that fosters career development and empowers women to thrive in the workplace, we can collectively work to address some of the factors that inhibit the promotion of women, so that we can then assist them in preparation for their retirement.

As an organisation, ANZ will continue to support women's retirement prospects through research support, industry group involvement, and the provision of financial education in a manner that takes into account the specific requirements of women.

Question Six: The role of financial education and financial literacy in retirement income policy

The recent Global Financial Crisis, finance company collapses, an over-concentration of investment in residential property and low saving rates, have all combined to draw focus on the importance of improving financial literacy programmes for all New Zealanders.

The 2009 ANZ New Zealand/Retirement Commission Financial Knowledge Survey showed that banks are the main source of financial knowledge for 51 percent of New Zealanders. We believe it is the responsibility of *all* financial services providers to provide financial education materials and tools that will help their customers make more-informed decisions to achieve their financial goals.

A Canadian report, *Delivery Models for Financial Literacy Interventions,* noted that “financial literacy is an important asset for all customers in a rapidly changing marketplace and that every individual, regardless of the demographic into which they fall, should be given the opportunity to build their financial literacy~~.~~”.

While existing New Zealand financial literacy initiatives – and especially those undertaken by the CFLRI – have a usage, scope and cost-effectiveness that exceeds those of most of their equivalents overseas, there is more that could be done.

Improving *investor* literacy is a fundamental part of financial literacy. It’s true that New Zealanders are taking more interest in investing through KiwiSaver, and that the mixed-ownership model for some state-owned enterprises is introducing people to the listed sharemarket. But we need to work harder to strengthen the linkage between financial and investment literacy.

For example, one report notes that “investing tends to be a relatively small part of financial literacy initiatives in all countries”, including in New Zealand, and that “New Zealand has been behind other countries in getting personal finance into the national schools’ curriculum” (O’Connell, A., 2009, Financial Literacy in New Zealand, pgs 19 and 21).

One approach could be the delivery of an agreed programme of financial education, funded by the financial services industry and government bodies, and made widely available to the public. The programme could be directed and approved by an agreed group of industry bodies and representatives, and could even be used to fund the current Investor Education work underway through the FMA and CFLRI. This would ensure that the education is aligned, relevant, accessible, produced efficiently and effective in helping people make better decisions and improving retirement income outcomes.

Establishing one prescribed programme of education materials and modules with agreed standards and objectives would allow individual providers to develop their own value-added programmes in addition to standard education initiatives.

ANZ engages with a wide range of organisations, including CFLRI, community groups, iwi and customers, to measure and to improve New Zealanders' levels of financial literacy. The bank is a signatory to the National Strategy for Financial Literacy and dedicates significant resources to manage and fund its own financial literacy programme, MoneyMinded.

MoneyMinded is ANZ Group's financial education programme designed to help people build financial skills, knowledge and confidence. It helps people to learn to live within their means, increase their savings and assets, manage credit and debt, and plan for the future. More than 200,000 people have taken part in MoneyMinded in Australia, New Zealand and Asia Pacific.

ANZ is currently partnering with a South Auckland-based Maori tertiary education organisation to roll out our MoneyMinded programme to unemployed people, predominantly of Maori and Pacific Island descent. The programme has been adapted for learners with low literacy levels.

ANZ looks forward to the imminent release of the third triennial New Zealand Financial Knowledge Survey, commissioned by CFLRI. ANZ has supported all three surveys.

In summary, ANZ believes it is timely to initiate a review of government-funded financial literacy education in New Zealand; its objective – to task one agency with the job of developing comprehensive, well-designed, well-directed and well-delivered financial and investment literacy programmes for all New Zealanders.

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