PAA | PROFESSIONAL ADVISERS ASSOCIATION

INCORPORATING NZMBA

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2013 Review of Retirement Income Policy

Introduction to PAA

The Professional Advisers Association (PAA) is a leading professional body representing 1200 financial advisers from around New Zealand.

A key purpose of the PAA is to provide a strong, unified voice to the Government to ensure that the needs of financial advisers and consumers are well represented in the development of legislation.

The PAA has a strong commitment towards the promotion of high professional standards, as reflected in our introduction of an Educational Pathway and a Continuing Professional Development Programme for members in 2013.

For more information on the PAA, please refer to our website: www.paa.co.nz

We welcome the opportunity to comment on the Commission for Financial Literacy and Retirement Income - Review of Retirement Income Policy.

INTRODUCTION:

As New Zealand's population is aging, it is arguably more important than ever, for all New Zealanders to actively participate in planning for their retirement, and in particular, to consider how they intend to **fund** their retirement. Getting sound advice on their options and strategies should be a cornerstone to these plans.

1. KIWISAVER:

There have been great steps already taken to help New Zealanders address their retirement income needs, with the introduction and great take-up of KiwiSaver.

We are concerned however, that getting advice on KiwiSaver is very difficult for 'ordinary' New Zealanders.

As KiwiSaver was classed as a Category 1 (Investment) Product under the Financial Advisers Act 2008, this has meant that only Authorised Financial Advisers (AFA's) may give clients personalised advice on this product. Unfortunately, there is currently only 2,000 AFA's available to offer advice to some 2 million KiwiSaver customers.

Many customers have relied on advice from unqualified or aligned employees of fund providers – largely through the retail banking sector, and this has resulted in an over representation of savers languishing in Default KiwiSaver funds. Many of these savers were automatically 'opted in' to these funds, rather than having made a conscious decision on their provider.

While this may be great news for the Default KiwiSaver Fund Providers, it is not great news for savers. Most economists would agree – if you are saving in this type of managed fund, the important choice for consumers is not necessarily the product provider – but rather the type of fund (ie. Active/Aggressive/Balanced/Conservative).

The Default funds were only ever designed as a 'parking spot' for savers while they made an active decision on their long term provider. Regulation has however, made getting advice on this long term decision very difficult to access. As an industry we need to consider how we can improve the communication of these important choices to consumers.

There is still a need for greater education to the average New Zealander in this area. Education can come from a Registered or Authorised Financial Adviser who can in simple terms explain what the various components are. This need not be 'advice' on an investment strategy from a Registered Financial Adviser under the current existing regulated regime, but more about demystifying terminology.

The Professional Advisers Association believes that many Registered Financial Advisers (RFA's), would be more than capable of offering basic advice to KiwiSaver customers. We have no wish to reduce the quality of advice being offered, but believe there is a happy compromise available, if RFA advisers could seek a separate and specific qualification to advise on KiwiSaver, and be able to demonstrate the appropriate care, diligence and skill required of any adviser offering services to the public, following the Financial Advisers Act 2008.

2. GENERAL RETIREMENT PORTFOLIO PLANNING – LOOKING BEYOND KIWISAVER

As a professional body for Financial Advisers, our members have one clear goal – ***to help New Zealanders make better financial decisions,*** and it would be fair to say that as a result of the Global Financial Crisis that many New Zealanders need this help, as their retirement savings and strategies have taken a battering.

In a low interest rate environment, many Retirees that once relied on generous bank or fin co. interest or bond yields, are struggling to find alternative options for income from their investments.

There is a real concern that these investors will seek alternative options without seeking appropriate financial advice, from an appropriate financial adviser.

Already today, if you turn on the radio, you will hear organisations touting 'the latest thing' for investment income, whether it be Forex trading, Gold, or Investment property schemes. Many of these investments will be taken up without <u>any</u> professional advice whatsoever.

We believe that people have a right to quality advice, and access to products or strategies that are appropriate for their own personal circumstances, delivered to them from a qualified adviser.

The Commission for Financial Literacy has done a good job of starting to promote the concept of financial literacy to 'ordinary New Zealanders', but we believe more could be done to promote the role of a 'professional adviser' for anyone considering investing for their retirement.

Aside from retirement planning (the focus of this submission), we believe that more work could be done on educating the general public in promoting general financial literacy. Many New Zealanders would benefit from further education around managing debt, the difference between 'good' and 'bad' debt, and how to implement simple strategies for budgeting and wealth creation.

As a professional body with members who deal with everyday New Zealanders, we would be keen to assist the Commission with the development and implementation of any financial literacy programme or promotion.

3. 'GET OUT OF THE HOUSE' – PROMOTING ALTERNATIVE WEALTH CREATION STRATEGIES

It is generally agreed, that in order for 'New Zealand Inc' to succeed, we need stronger capital markets.

An energetic and credible equities market is a key cornerstone to any successful economy, and we believe we could all being doing more to encourage New Zealanders to look further than their beloved property investments, and to promote the investment in bonds and shares as a sensible part of a diversified investment strategy.

If we put aside the politics of part privatisation of some State Assets, one clear benefit of this policy has been to see that following the float of Might River Power, some 80,000 new investors entered the stock market, many for the very first time.

As more of these floats come to market, there is a clear opportunity for all stakeholders to promote the benefits of getting professional advice on these options.

Having a large portion of the nation's wealth concentrated in one sector (residential housing) is not sustainable long term. We need to encourage 'average' New Zealanders to take part in wider investment opportunities.

Education is the key to encouraging New Zealanders to have a more open and receptive attitude towards retirement. We acknowledge the huge amount of work that has gone into profiling KiwiSaver to the wider public, but still much work is to be done. Many New Zealanders still have an opinion that the Government will assist them somehow in retirement – although this is to a lesser extent with Generation 'Y' and Generation 'Z'.

4. GENERAL COMMENTS ON AFFORDABILITY:

In this submission, we do wish to comment on the on-going affordability of superannuation costs for government. There are important themes to be discussed, such as the age of entitlements, pension taxation, and the overall affordability of retirement support for New Zealanders.

These topics do require wide public consultation, but it does seem reasonably clear that many clients of Financial Advisers do believe that the age of entitlement appears to be unsustainable in the long term. Increasing the age of entitlement incrementally, would seem an obvious and sensible option.

Taxation of retirement income is an issue that our members have identified. Particularly those retirees with overseas pension income. These retirees deserve some certainty around the taxation rules, as it seems unfair to encourage them to bring overseas pensions to New Zealand, without clear understanding of the tax implications.

Generally speaking, the current level of retirement funding is appropriate for most retirees. New Zealanders are not wealthy in retirement, but on the whole, those that have made some provision for themselves, are more comfortable in retirement.

CONCLUSION:

While KiwiSaver and the age of entitlement for state support tend to be ‘top of mind’ for retirement planning, it is important for New Zealanders to take a broader look at their overall financial positions, and to encourage them to actively plan for their retirement – with the help and support of a professional adviser.

As an industry we must ensure that access to quality professional advice is easy and affordable for all New Zealanders. If we can achieve this, then in itself, it will impact positively the on-going affordability of superannuation costs for Government and lift the ‘financial literacy’ profile of the average New Zealander.

For further information, please feel free to contact us.

Best regards

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