Submission

to the

Ministry of Business, Innovation and Employment

on the

Discussion document: Changes to annual statements for KiwiSaver investors

11 July 2018

NEW ZEALAND BANKERS ASSOCIATION
Level 15, 80 The Terrace, PO Box 3043, Wellington 6140, New Zealand
TELEPHONE +64 4 802 3358 EMAIL nzba@nzba.org.nz WEB www.nzba.org.nz

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes that contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.

2. The following seventeen registered banks in New Zealand are members of NZBA:
   - ANZ Bank New Zealand Limited
   - ASB Bank Limited
   - Bank of China (NZ) Limited
   - Bank of New Zealand
   - MUFG Bank, Ltd
   - China Construction Bank
   - Citibank, N.A.
   - The Co-operative Bank Limited
   - Heartland Bank Limited
   - The Hongkong and Shanghai Banking Corporation Limited
   - Industrial and Commercial Bank of China (New Zealand) Limited
   - JPMorgan Chase Bank, N.A.
   - Kiwibank Limited
   - Rabobank New Zealand Limited
   - SBS Bank
   - TSB Bank Limited
   - Westpac New Zealand Limited

Background

3. NZBA welcomes the opportunity to provide feedback to the Ministry of Business, Innovation and Employment (**MBIE**) on its discussion document: *Changes to annual statements for KiwiSaver investors: Assumptions for retirement savings and income projections and behavioural prompts* (**Discussion Document**). NZBA commends the work that has gone into developing the Discussion Document.

4. If you would like to discuss any aspect of the submission further, please contact:

Antony Buick-Constable Deputy Chief Executive & General Counsel 04 802 3351 / 021 255 4043 antony.buick-constable@nzba.org.nz	Olivia Bouchier Associate Director – Policy and Legal Counsel 04 802 3353 / 021 876 916 olivia.bouchier@nzba.org.nz

Introduction

5. NZBA supports measures to ensure members have the information they need to make active decisions about their KiwiSaver investments. We also wish to acknowledge MBIE's work to improve engagement with KiwiSaver members and help them understand how their current contributions are likely to translate into retirement income.

Question one

6. NZBA cannot comment on which of the two approaches should be adopted (ie excluding all lump sums above $1500 from calculations or treating the $1500 figure as a cap for all lump sum contributions made).

7. However, NZBA does not support the alternative approach of excluding all lump sum contributions. Such an approach would impact a significant number of members, for instance:

   (a) Those who make a regular top up of around $1,043 each year to obtain their full Member Tax Credit (**MTC**).

   (b) Those who have worked part of a year, or low income earners, who make a lump sum contribution.

   (c) Those on a contributions holiday, but make a regular or lump sum contribution.

   (d) Those who are not employed, but make regular or lump sum contributions.

   (e) Those approaching retirement who are trying to make additional lump sums to speed up their retirement savings.

Question two

8. NZBA agrees that it is reasonable to exclude members for which KiwiSaver providers have six months data or less.

9. We consider that the projections should only include members who have been in the providers' scheme for the full year (ie 1 April to 31 March). That is because:

   (a) The provider may not have a full contribution and MTC history for the member.

   (b) Many members make only one payment in June each year for the MTC. Including only a partial year would skew projections for many members.

   (c) Employer Monthly Schedules (**EMS**) can experience delays, and may be split across multiple payrolls. When EMS delays happen across year-end periods, they will cause anomalies from year to year for all members employed by that employer.

   (d) Overtime, bonus payments, etc may skew the projections over a six-month period.

Question three

10. NZBA agrees with many of the assumptions outlined. However, we note the following comments:

(a) **MTC:** It is implied that the MTC amount received will form part of the contribution amount. However, the MTC amount (when at the maximum) stays stagnant and will not increase with salary inflation at 3.5% per annum.

Additionally, we believe that more clarity is required regarding the assumption that 'the [MTC] is assumed at the level actually received by the investor'. Is the assumption referring to the most recent year? Or does 'actually received' mean what the member would receive based on contribution assumptions and modelling. In that case, for members currently receiving a partial MTC, the amount of MTC achieved would change each year due to wage price inflation. As previously mentioned, it is also not clear that the MTC should be part of the contributions amount in the formula.

Consideration should also be given to situations where the MTC year is different to the account statement year.

(b) **Wage inflation:** The assumption of wage inflation of 3.5% per annum is, in our opinion, very high. According to Statistics New Zealand, Salary and Ordinary Time Wage rates have averaged around 1.7% per annum over the last 6 years.

(c) **Contributions made in the previous 12 months will equal the contributions in the future:** We believe that the 12 month period needs to be defined as the account statement year, ie 1 April to 31 March.

(d) **Contributions holidays:** The disclaimer 'Investor takes no contributions holidays' is not broad enough. It also needs to cover non-contributors more generally; very few non-contributors are on an official contributions holiday, and some members on a contributions holiday continue to contribute. A suggested amendment to the disclaimer is 'Investor takes no break in contributions.'

(e) **Revisions to model:** What would be the ongoing model for revising and updating the projected returns? Providers will need to be given sufficient notice of any changes to the model.

(f) **Prescribed Investor Rate (PIR):** We notice that the projected returns are only provided at the highest PIR of 28%. It is unrealistic to assume this PIR for all members, and, in particular, unrealistic to use a PIR of 28% for the those aged over 65. We recommend that projected returns are supplied for all the PIRs.

Another assumption needs to be made regarding the PIR of members aged over 65 – should providers use the members' current PIR or will providers be given a realistic assumption regarding the PIRs for the over 65s?

(g) **No amounts are withdrawn:** NZBA agrees this should be an assumption. However, we query whether MBIE's intention is that no projections will be provided in the year of a withdrawal, or whether the projection calculation will be based on the new lower balance.

(h) **FMA categorisation of funds:** We recommend that the ranges are revised so that they do not overlap and to avoid confusion around categorisation in multiple model portfolios. We suggest the following: (range of growth assets in FMA classification)

(i) Defensive – 0 to 10%

(ii) Conservative – Above 10% to 35%

(iii) Balanced – Above 35% to 63%

(iv) Growth – Above 63% to 90%

(v) Aggressive or High Growth – Above 90% to100%

(i) **Terminology for asset classes:** The asset classes referred to for the purposes of the projections should be consistent with the asset classes described in the Financial Markets Conduct Regulations 2014.

(j) **Total savings are 'used up' during retirement:** The word 'income' should be carefully applied and explained, to avoid confusion. For many members the word 'income' would imply that the capital is still intact at the end of the 25 years. Members need to be aware that all capital will be used up at the end of 25 years. A more suitable term may be 'drawdown'.

Question four

11. NZBA agrees that the weighting of the fund allocation should be taken into account when generating returns where members invest in more than one fund and that the member's fund allocation as at 31 March should be used to generate the return projection.

Question five

12. NZBA has no comment.

Question six

13. NZBA has the following comments on the proposed wording and disclaimer:

(a) *'These figures are an estimate based on your current contribution rate and various other assumptions'* – this statement could be amended to read 'These figures are an estimate based on your contributions for the year ending 31 March 20XX and various other assumptions'.

(b) *'What you're on track to receive at retirement'* – 'retirement' is a subjective term, what is actually being projected is as at age 65. This could be amended to read '<First name>, it looks like you're on track to receive <$XXX> at age 65.'

Question seven

14. NZBA generally agrees with the exclusions proposed. However, we consider that the following further exclusions should be considered:

    (a) Providers should have discretion to exclude customers or groups of customers where it is determined that the projection is not reasonable or could be misleading (ie circumstances that skew member's projection to such an extent that it is no longer a positive communication). For example:

        (i) Members who have made a serious illness withdrawal. It would be insensitive to provide someone in this circumstance with a projection figure to age 65 and income to age 90.

        (ii) Members who have exited the scheme.

        (iii) Members who have died.

    (b) Per our response to question two, a projection should not be required where the provider has less than 12 months of data.

    (c) There should also be consideration of whether lump sum projections should cease earlier than age 65. As members head towards retirement, there is a greater risk that the lump sum amount will fluctuate due to market movements and a shorter investment timeframe.

Question eight

15. NZBA considers that members who are not making contributions should receive projections modelled from their current balance. This could work as an effective prompt to start contributing again. These members could also receive the messaging on 'considering resuming contributions'.

16. We also consider that those under the age of 19 should be excluded due to the complexity of being partially eligible for the year they turn 18. Rather, members should be excluded until they have been eligible for 12 months.

Question nine

17. NZBA supports the proposal to include behavioural prompts that sit alongside the data presented in annual statements. We consider that such prompts will be likely to encourage members to take more of an interest in their retirement savings. However, as discussed in more detail below, we think the providers should be given flexibility to determine how these prompts are communicated, and to which demographics.

18. NZBA generally supports both options set out at paragraph 28 and agrees that providers should be permitted to link to their own tools and resources, or direct members to the Sorted website (or both).

Question ten

19. NZBA's view is that behavioural prompts are only likely to be effective if they are relevant to the particular member. For example, a generic prompt to consider

retirement balances and retirement income is not likely to catch the attention of a younger member.

20. MBIE may therefore consider prescribing principles only for behavioural prompts, thereby allowing individual fund managers to tailor additional/alternative behavioural prompts to their member base as appropriate. MBIE may also consider providing guidance to the industry based on its customer testing. This could set out how different groups of members respond to different types of prompts (ie what is likely to work best for different groups of members).

Question eleven

21. Per our responses to questions nine and ten, NZBA is of the view that the wording of particular behavioural prompts should not be prescribed. Rather, the principles underpinning the prompt should be clear, and providers should be able to implement the prompt in a manner (and language) they see fit. This will allow providers to test and customise messaging to members based on various member characteristics and stages of life. Providers will also be able to adjust messaging based on member responses each year, meaning messages will be improved over time.

Question twelve

22. NZBA considers that an 18-month lead-time to implement the new reporting will be necessary (ie from the date the regulation is finalised). That timeframe reflects the importance that providers place on the accuracy of member statements.