26 May 2003

Saving New Zealand launched

Saving New Zealand, a project designed to encourage a more positive environment for savings, is being launched today by the Investment Savings and Insurance Association (ISI).

"New Zealand doesn't have a good record of saving, yet we're all better off if we have some savings," says ISI chairman Simon Swanson.

"This is not a mass marketing or advertising campaign telling people to save more. It's a process to develop a savings framework for New Zealand, and then to look at some of the policy options in more detail. Such a framework is likely to include government, workplace and individual saving.

"A savings framework for New Zealand will set out savings policies, the regulatory environment that protects savers, and the role of all the key players so that people know what to expect and what they need to do themselves," said Mr Swanson.

ISI deputy chairman Ross Kent says a key strength of the approach is that it is involving a wide range of people and interest groups.

"Getting people to save more isn't something that the Government can do with a new policy here and there. And having financial institutions hammering people with the 'save more' message certainly doesn't work.

"We've all got to work in partnership if we're going to make some progress. We think employers have an important role to play because saving through the workplace is one of the easiest ways to save. Unions have a role in encouraging their members, even those on lower incomes, to see the benefits of saving a little. And the community in general needs to acknowledge that it's an issue for everyone," says Mr Kent.

Mr Swanson said a lot of the debate about saving to date had focussed on superannuation. But people may need to access savings throughout their lives whether it's for education, buying a house, health needs, retraining, or retirement income.

"We also believe we need to look more closely at the impact saving, or not saving, has on the economy. If New Zealanders had more money to invest – whether it's invested here or overseas - we would reap the benefits of the return from that investment. At the moment our heavy reliance on foreign capital means the profit from that investment is all sent back overseas."

"The project is divided into three stages. We're at the end of the first stage now, but we don't have a date for when the third stage will be finished. In some respects, the more successful it is, the longer it will take," said Mr Swanson.

- **Stage one** – Discussions with a wide range of people, including employers, unions, politicians, economists, etc, to explain and seek support for Saving New Zealand.

- **Stage two** – Development of a paper with input from interested parties on all the issues related to savings. Savings forum held in late July with the objective of agreeing the outline of a savings framework and a process for proceeding with further work on the detail.
- **Stage three** – Developing policy detail.

Vance Arkinstall
Chief Executive
ISI

Saving in New Zealand – some background facts

New Zealanders' assets - *The Net Worth of New Zealanders – A report on their assets and debts, Statistics New Zealand and the Retirement Commission, August 2002*

- On average, individuals have $97,900 in net assets, and couples $322,300. However, the *median* value of assets (the middle of the range) is $10,300 for individuals and $172,900 for couples. By comparison, the average wage is a little under $39,000 per annum.
- The home accounts for 36 percent of the total value of the assets of New Zealanders. If other properties are added, the total rises to 45 percent.
- Assets in superannuation schemes account for six percent of total assets. Life insurance policies add another two percent to that total. This compares with 15 percent in Canada and 11 percent in the USA.
- Six percent of assets are held in bank deposits.
- New Zealand has one of the lowest private savings rates of any OECD country. New Zealand's savings declined as a percentage of GDP from 3.8% in 1996 to 1.1% in 2000. *(OECD.)*

New Zealander's debt – *The Net Worth of New Zealanders (as above)*

- 80 percent of debts are by way of mortgage. Next is bank overdrafts and the like at 10 percent, student loans at five percent and credit card debt at three.
- Credit card debt is the most common form of personal debt, with about half of those surveyed having such debt.
- This may understate the importance of credit card debt. The Reserve Bank estimates outstanding credit card balances at $3.6 billion at February 2003, compared with the HSS estimate of $1.9 billion. Some of the difference will be the outstanding balances on business credit cards and some will reflect the growth of debt since the HSS survey.

Superannuation schemes - *Report of the Government Actuary for the year ended 30 June 2002*

- In 1990, there were 333 employment based registered superannuation schemes covering 22.6 percent of the employed workforce. By 2001, the number of schemes had fallen to 263. (Note: a number of stand-alone schemes have folded into master trusts). However, coverage of the employed workforce has declined from 22.6 percent to 14.6 percent.

- The decline in employer sponsored schemes has been offset by an increase in the numbers in retail superannuation schemes. Membership of private sector employer and NPF schemes fell from 273,065 active members in 1990 to 218,284 in 2001. However, this fall was more than offset by a strong rise in the membership of retail superannuation schemes: up from 234,590 active members to 434,583. Balances in the retail schemes rose from a little under $1.5 billion in 1990 to nearly $8 billion in 2001.
- The accumulated assets of all registered superannuation schemes are a little over $18 billion. The government pays out a little under $6 billion in NZ Superannuation benefits each year.

Views on savings – *Sovereign Saver Pulse survey February 2003, AMP Attitudes to Saving research July 2002, ISI Colmar Brunton research March 2003.*

- No more New Zealanders are saving for their retirement now than five years ago, with 58% saving for their retirement in 1997 and 57% saving for their retirement now. *(Saver Pulse)*
- 40% of people, not yet retired, with household incomes over $50,000 are not saving for their retirement. *(Saver Pulse)*
- Attitude is the main driver of everything of savings behaviour, with income neither the motivator nor the key barrier to savings. *(Attitudes to Saving)*
- Successful savers put money away before they see it. Less successful savers try and find the money after they've paid for everything else. *(Attitudes to Saving)*
- The reasons people don't save include poor knowledge and planning skills, wanting things now, conflicting priorities, paying for children's education, supporting their parents, and living beyond their means. *(Attitudes to Saving)*
- People have no idea how much they need to save for their retirement. If they do get some advice they're overwhelmed by the magnitude of it. *(Attitudes to Saving)*
- We believe we're a nation of poor savers and this tends to become a self-fulfilling prophecy. *(Attitudes to Saving)*
- People are aware of the need to save but find it hard to do so. They are looking for a way of being able to save and still achieve their personal lifestyle goals (*Colmar Brunton*)
- Still a belief that someone will look after us if we don't save (*Colmar Brunton)*

Other information

- New Zealand has an ageing population. It is estimated that the proportion of people over 65 will increase from 34 percent of the population in 2001 to 41percent in 2051. *(Statistics NZ)*
- The cost of NZ Superannuation, health care and education will rise as a percentage of GDP. NZ Superannuation is expected to increase from 4.7 percent in 2005 to 10.5 percent in 2045, and health is expected to increase from 6.3 percent in 2005 to 10.6 percent in 2045. Education will grow more slowly, from 6.7 to 6.9 percent of GDP. Combined this is an increase from 17.7 percent to 28 percent of GDP. *(OECD)*