

10 March 2014

Diane Maxwell
Retirement Commissioner
Commission for Financial Literacy and
Retirement Income
PO Box 12-148
Wellington

Email: office@cflri.org.nz

Dear Diane

Financial Services Council Submission on the Discussion Document National Strategy for Financial Literacy 2014: Everyone Getting Ahead Financially

The Financial Services Council (“the FSC”) appreciates the opportunity to comment on the National Strategy for Financial Literacy Discussion document.

FSC members provide some 90% of the personal insurance (life and income protection) policies and KiwiSaver and other superannuation products provided in New Zealand. Our members alone or through the FSC have a willingness to help provide practical financial literacy advice to improve the net worth of New Zealanders.

The FSC’s research and polling has shown the very high level of financial vulnerability for many New Zealand families.

Our research would indicate that some 54% of New Zealanders would be unable to pay their basic living cost within one month of losing their job or being unable to earn for some reason.

Everyone getting ahead financially is a good statement of the overall goal with its emphasis in conclusion on a tilt towards those who are least comfortable with managing money.

While most people think that those who need help are the poor and poorly educated the reality is that the issue is much wider than that. In recent years we have seen very asset rich farmers saying they did not understand credit swaps, high net worth individuals placing most of their wealth in Ponzi schemes and others putting six figure sums into several different finance companies to “diversify” their risk.

People who would never say they are bad drivers, or bad parents, are quite comfortable saying “I am useless with money or maths”. For this reason it is important that we raise the practical financial literacy of almost all New Zealanders.

While better school based education on financial literacy will help in the long term for those beyond school we need practical financial literacy advice on an as needed basis.

The teenage boy who cannot be persuaded to read Jane Austen is often willing to read a car manual because it is highly relevant to his life. Similarly, how to save for your first smart phone and how to pick the best plan is much more likely to be relevant for a fifteen year old than retirement planning.

To bring the proposed strategy to life it will need to match appropriate knowledge to teachable moments from the best, not conflicted source available.

The FSC has found mapping key financial milestones such as budgeting to manage in your first flat, or to undertake study, getting a job, picking your tertiary education or training pathway, buying a house, planning for retirement, having a first child, buying a car, selecting a retirement home, insuring your car, income or life are all teachable moments where practical “how to” advice is likely to be taken up as relevant.

The financial services sector and the FSC would like to participate where appropriate in providing relevant practical advice for making good financial decisions.

In response to the specific proposals in the strategy the FSC would suggest:

- Areas of greatest vulnerability should be targeted:
 - Being off work 6 months or more due to sickness is 2.6 times more likely than being off work for that time following an accident for which ACC pays 80% of your previous earning. Most households don't know that the social welfare system pre age 65 is tightly income tested so if long term illness strikes it is likely they will not be eligible for a sickness benefit. Income Protection insurance is the one form of insurance most working households need but don't have.
- Good advice needs to come with an appreciation of how the retirement income system works:
 - As the paper outlines, most people in employment are saving an inadequate amount in KiwiSaver to achieve a comfortable retirement income of about 2 times NZ Super (\$357 per week maximum). Practical financial literacy would mean people understand how the social welfare system helps them when they are financially vulnerable but also where the gaps are.
- Tax matters for some of our key financial decisions:
 - Tax can have a big impact on what is the best financial action for an individual. The non-taxed imputed income from owning your own home and, in areas where population growth is occurring, the untaxed capital gains from home ownership need to be understood to make the best rent or buy decision.

At the moment the paper is a little light, particularly on how the social welfare system works, why tax matters and also the power of compound returns for retirement savings. In a sense the benefit of compounding returns is the positive version of the ‘pay off your credit card at the end of the month’ story where compounding cost can quickly double what you owe when you are paying 19% interest on your credit card debt outstanding.

With low levels of financial literacy we tend to take advice from people who we like and trust whether or not they justify that trust or have the competence to help us.

It is likely that as long as we don't think we know enough we will continue to rely on those we like and trust. We therefore need to ensure those we like and trust have the relevant knowledge to give good advice.

Recent regulatory changes have made it less likely that regulated financial advisers will be able to advise those who do not already have considerable net worth.

This suggests that we should make it a priority that those we are likely to trust are better informed about financial literacy, particularly employers, unions, ministers of religion, school counsellors and social workers.

We have prepared responses for each of the questions for submitters and these are attached in the appendix. The FSC and its members would like to participate in the further development of the financial literacy strategy.

Regards

A handwritten signature in dark ink, appearing to read "Peter Neilson". The signature is written in a cursive style with a large initial 'P'.

Peter Neilson
Chief Executive

Appendix

Questions

1. Does the vision *Everyone getting ahead financially* resonate with you and your organisation? Is this something you would like to see in New Zealand?

The proposals do resonate with our organisation and we would like to see them developed in New Zealand. We have made suggestions about how to make the approach more successful.

2. In each activity stream which objectives and outcomes do you connect with most?

The most valuable focus is in raising the general level of practical financial literacy not just the level of knowledge but also changing our future behaviour and actions.

3. Can you see the role that you and your organisation could play – where and how you would take action?

The FSC and its members are best placed to communicate with and inform our existing customers. Members and the FSC have funded research to identify information and behaviour gaps as well as developing a financial literacy strategy for the school curriculums. Once tasks are allocated to the most appropriate non conflicted deliverer, the FSC members are willing to support practical financial literacy initiatives within their own businesses or in association with others.

4. Are there any adjustments you would make to the strategy that would make it more relevant to you and your organisation? That would make it more likely to achieve the vision?

We have suggested that a successful financial literacy strategy needs:

- Some more coverage of the use of insurance, particularly income protection insurance in helping the most financially vulnerable.
- To include information on the role of the social welfare, ACC and tax systems in making the best financial decisions.
- Financial literacy education for the people most likely to be trusted by the financial vulnerable such as employers, unions, ministers of religion, school counsellors and social workers.
- Tying delivery and media use to teachable moments for financial literacy such as buying a first car, picking a study or training course, buying a first home or going flatting.

The FSC has polling on these issues that the CFLRI and others may find useful in targeting the approaches we make to the right people at the most relevant times.

5. What would you like to see happen next with this strategy?

After a quick update to incorporate feedback the next step should be to link target audiences with teachable moments and identify strategies and partners for each. We may find there are some gaps but if we don't have a clear idea of

- what behaviours, do we want to change:
- when is the best time to provide to provide the better financial knowledge?
- who is the best placed to deliver the help? And
- when will we know we are getting there?

we won't have a complete strategy.