Financial Services Council
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Guidelines

KiwiSaver Projections on Annual Statements

Approved by the Investment and KiwiSaver Committee 3 March 2020

Effective 4 March 2020

The aim of these guidelines is to help bring consistency across New Zealand's KiwiSaver industry and drive good customer outcomes. These guidelines were created by members of the Financial Services Council of New Zealand (**FSC**) for use by FSC members and are for guidance only.

The FSC is a non-profit member organisation and the voice of the financial services sector in New Zealand. Our 64 members comprise 95% of the life insurance market in New Zealand and manage funds of more than $89bn. Members include the major insurers in life, disability and income insurance, fund managers, KiwiSaver and workplace savings schemes (including restricted schemes), professional service providers, and technology providers to the financial services sector.

The FSC's guiding vision is to be the voice of New Zealand's financial services industry and we strongly support initiatives that are designed to deliver:

- strong and sustainable customer outcomes
- sustainability of the financial services sector
- increasing professionalism and trust of the industry

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Category	Guideline
1. One-off v periodic or regular series of payments	Scope of regular payments: • All **employee / employer contributions** should be treated as regular. • All **direct debit (DD) contributions** should be treated as regular payments (at any frequency – annual or more frequent). Because of the wording of the regulation, DDs should be counted on the basis of what is actually received in the accounting period, not extrapolated to what would theoretically be received if the DD ran for a full accounting period (with no cancellations, bounces, changes in rate etc). Note that this will have the effect of changing the projection in the first year after the change was made. • Other (i.e. non-employment and non-DD) contributions should be recognised as regular if they were being made on a regular basis. Regular contributions are not capped. Focus is on what **has been** received. There are complexities and practical difficulties in identifying regularity. The regulation focuses on frequency and not amount. However for practical reasons, it is difficult to determine regularity without considering amount. (If the amount varies, how is it to be distinguished from a one-off payment or set of one-off payments, and does the answer change if the periodic pattern is predictable or not?) • Regularity should be assumed if the **exact amount was contributed on a predictable** weekly, fortnightly, four-weekly, monthly, or quarterly basis. Annual payments do not need to be included because system logic can't recognise a single annual payment as a regular payment without looking at previous accounting period transactions, which would be too data-heavy. Annual payments would be picked up as one-off payments. One-off payments are capped at $1500. While it is acknowledged there will be annual payments greater than $1500, this is likely to be for a small proportion of KiwiSaver members. • Total contributions are calculated as total contributions by the member and employer during the accounting period, including direct debits, but excluding any Voluntary Contributions that do not match exactly another Voluntary Contributions value for the member in the period. • The excluded Voluntary Contributions are added back up to a maximum value of $1,500. While a one-size fits-all approach doesn't work, it is important not to over-complicate the solution, noting that a small proportion of KiwiSaver members is likely to not be dealt with by the approach above.

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Recognised issues

- A number of members make repeated one-off payments: these cannot be easily recognised as a routine, regular, set amount.
- To reduce coding complexity the following examples would be counted as one-off voluntary payments, not a regular series:
  - 3 payments of same amount received in Apr, May, June;
  - 10 payments of same amount received in each of the last 10 weeks of the accounting period;
- Noting that the member's projection would 'come right' in their following year's account statement, under either example.
- Treatment of changes in contribution rate: what happens if someone has a $20 pw contribution running for 6 months then changes to a $50 p f/n for the next 6 months. Do you aggregate two regular payment series, or only one?
- A member may make two very large contributions for exactly the same amount, leading them to be identified as regular payments. This leads to distorting of the projections due to compounded returns. User testing have identified several hundred such-affected members for a single (large) provider. As such six-monthly payments are not included as regular payments.
- An important aspect of determining that certain contributions are a 'periodic or regular series of payments' is the <u>regularity</u> aspect. That is, at least one contribution (of the same amount) must have been received per week, fortnight, four-week, month or quarter for it to be deemed a 'regular series'.
- EMS and IR refunds may lead to distortions.

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<td>2. List each fund and its return rate</td>
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All funds and returns used for a member not invested in a self-select investment option (Schedule 7A, 4 (6)) should be listed (with reference to Schedule 7A, 1 (1) and 1 (4)) i.e.:

> These figures are estimates only. They are calculated based on your current balance, contribution rate, and fund choice, and an assumed rate of investment returns of [e.g.] *1.5% for Defensive Fund, 3.5% for Balanced Fund, and 5.5% for Aggressive Fund*.

If logic cannot be built specific to a Members investment funds, all funds and returns should be listed.

Recognised issues*:*

- Listing assumed rates of return may cause confusion for Members and be mistaken for the actual rate of return. Providers should consider this in their overall statement mailing design.

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	• Some Members may be invested in a very large number of funds. All should be listed if the member is not invested in a self-select investment option. • Providers may have more than one fund within a classified category. • Regulations do not prescribe a classification range for funds and instead provide guidance (and flexibility) on how to determine the most appropriate category where a type of fund is unclear. Ref. Sch 7A 4 (3)
3. Self-select option	Where Amount c is calculated using a self-select option (Sch 7A 6 (7)), individual investor weightings to funds, securities, and other assets are calculated as at 31 March. Fund target asset mixes (benchmark weights) as at 31 March rather than actual asset mixes are used for determining overall income/growth asset weighting,