Financial Services Council.
Growing and protecting the wealth of New Zealanders

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31 October 2019

Retirement Commissioner
Commission for Financial Capability
108 Quay St
Auckland 1010

By email: review@cffc.org.nz

Submission: Retirement Commissioner's three-yearly Review of Retirement Income Policies

This submission is from the Financial Services Council of New Zealand Incorporated (**FSC**).

The FSC is a non-profit member organisation and the voice of the financial services sector in New Zealand. Our 50 members comprise 95% of the life insurance market in New Zealand, and manage funds of more than $47.5bn. Members include the major insurers in life, disability and income insurance, fund managers, KiwiSaver, professional services and technology providers to the financial services sector.

Our submission has been developed through consultation with FSC members, and represents the views of our members and our industry. We acknowledge the time and input of our members in contributing to this submission.

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 consumer outcomes
- sustainability of the financial services sector
- increasing professionalism and trust of the industry.

Our submission (**attached**) encourages you to focus on the main goals. There are many important subsidiary considerations, but certainty – signalled well in advance – on the main pillars is a pre-requisite for success. In our members' view those pillars are:

- include in the policy goals all phases before and through retirement (*save-transition-spend*)
- adapt retirement policies to fit differing demographics (because not everyone is the same)
- sustain the system's understandability, including its clear and straight-forward fundamentals.

I can be contacted on 021 0233 5414 or richard.klipin@fsc.org.nz to discuss any element of our submission.

Yours sincerely

Richard Klipin
Chief Executive Officer

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FSC's SUBMISSION ON THE RETIREMENT COMMISSIONER'S THREE-YEARLY REVIEW OF RETIREMENT INCOME POLICIES

We welcome the opportunity to submit on the 2019 retirement income policies review.

FSC member organisations play a pivotal role in providing fair and innovative financial products and services that underpin the effective functioning and resilience of the retirement system. The capability and flexibility of that system – and the public's confidence in it – is fundamental to the financial wellbeing of New Zealanders.

Focus on the main goals

Well-signalled certainty

To achieve a comfortable retirement for all New Zealanders, and for them to have trust and confidence in the retirement system, it is essential that there is certainty and stability in the main elements of that system.

To that end, in this submission we focus on three key matters that warrant particular attention to ensure the retirement system's reach and performance is leading-edge and fit-for-purpose for the decades ahead.

We acknowledge that there are many other components of the system that are also important. However, some of those – for example ethical investment – risk becoming distractions from the key pillars that are crucial to the future success of the system. It may well be necessary to consider some of them as part of the review, but not at the expense of the main goals, such as those below. Getting certainty on them – and having any resulting policy initiatives or changes signalled well in advance – is essential for a well-functioning retirement system.

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1. Think beyond retirement

Save-transition-spend

Increasing numbers of New Zealanders will spend more time in retirement – and transitioning into it – than out of it.

That's a function of work-life choices, technological enablers, a shift away from physical occupations, and health / life expectancy. It also is influenced by exactly what "retirement" is taken to mean. Aspects of these issues have been more thoroughly explored in the FSC's recent KiwiSaver 2050 report "Pathways to the Future", which is available here.

For many, retirement is becoming a phased transition, rather than a step change at a particular age. What happens through retirement is as important as what happens in the period leading to it. Yet the system's current settings – particularly KiwiSaver – are geared primarily for asset accumulation to age 65, principally for employees, with the aim of building savings so as to have a nest-egg prepared by a point in time. People are largely left to their own devices beyond and outside that paradigm.

We recommend that the outcomes sought from the retirement system be expanded to be broader (whole life-cycle) and more flexible (allowing choice of pathways), and should aim at attaining sustainability across each key phase or component of retirement provisioning: save-transition-spend. Predominantly, that will require consideration and analysis of how to better support people as they transition – often gradually – from building their savings to spending them. There are unlikely to be silver-bullet solutions, but discerning the main principles and identifying primary options would be a great start.

In support of that approach, there is untapped potential to develop financial products and services to help with these changing needs. The CFFC media release on KiwiSpend (21 Oct 2019) suggests one way of doing so. We would, however, encourage looking at a wide range of approaches, not only ones involving annuities or other income stream solutions. Considerations might include investment products and services, risk management / asset protection, educative tools, communication strategies, and taxation and other incentives (especially for consumers). They should all reinforce policy objectives and extend beyond traditional concepts of "you're on your own financially" after a set retirement age. Ultimately, it is about empowering New Zealanders to understand that they are dealing with their own money and to give them the autonomy to take meaningful actions that help provide for their future. So we would encourage mechanisms such as surveys, research and human centred design principles to gauge consumer perception. That will help develop evidence-supported solutions that are likely to work for the New Zealand society and culture.

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2. Be discerning about demographics

One size fits no-one

The current retirement system treats all New Zealanders the same. For example, the various regular evaluations of KiwiSaver tend to report on KiwiSaver as a whole. The system is configured to treat every consumer as an identical unit and is preconfigured primarily for people working as employees. In practice, there is a full range of personal circumstances where KiwiSaver could (and should) help. By thinking of policy in homogenous terms, the key challenges – like the level of contributions, contribution compulsion, coverage – become intractable because objectives may well conflict in respect of different demographics.

We recommend that any analysis of wealth patterns and retirement needs should aim for sustainability in a manner that allows for different solutions for different cohorts or demographics.

For example, a segmented approach might identify:

- Under 18s, where for example a key policy objective may be literacy
- Lower socio-economic, where affordability is key
- Self-employed, where ease and flexibility of contribution is a focus
- Mass market renters, where housing strategy and retirement intersect
- Mass market homeowners, where income stream strategies are important
- Older people, who need decumulation and protection strategies.

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3. Clear and easy to understand

Straight-forward system, literate consumers

A stand-out advantage of New Zealand's retirement system is its straight-forward design and consumer-friendly operation. Every feature added to it risks undermining that advantage. Our members strongly support the preservation of the system's clarity. The understandability / ease-of-use of the system should be a touchstone against which all changes are judged.

One aspect of understandability is how information is shared with customers. This is as much about how material is disclosed by providers, advisers and other industry participants, as it is about ensuring consumers have appropriate levels of financial literacy. That means a two-pronged approach, in which industry has a major role to play. The first is being inventive about how to simplify the content and form of information provided to consumers. The second is to promote and support financial literacy, from school age inclusive and upwards.