



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
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Discussion Document

**Changes to Annual Statements for KiwiSaver, Superannuation, and
Workplace Savings Schemes**

5 October 2016

How to have your say

Submissions process

The Ministry of Business, Innovation and Employment (MBIE) seeks written submissions on the questions raised in this document by **5pm on Monday 7 November**.

Your submission may respond to any or all of these questions. Where possible, please include evidence to support your views, for example references to independent research, facts and figures, or relevant examples.

Please use the submission template provided as this will help us to collate submissions and ensure that your views are fully considered. Please also include your name, or the name of your organisation, and contact details. You can make your submission:

- By attaching your submission as a Microsoft Word attachment and sending to investment@mbie.govt.nz.
- By mailing your submission to:
Financial Markets Policy
Ministry of Business, Innovation & Employment
PO Box 3705
Wellington
New Zealand

Please direct any questions that you have in relation to the submissions process to:
investment@mbie.govt.nz.

Use of information

The information provided in submissions will be used to inform MBIE's policy development process. We may contact submitters directly if we require clarification of any matters in submissions.

Release of information

Submissions are subject to the Official Information Act 1982. Please set out clearly if you have any objection to the release of any information in your submission, and in particular, which part(s) you consider should be withheld and the grounds under the Official Information Act for doing so.

If your submission contains any confidential information, please indicate this on the front of the submission. Any confidential information should be clearly marked within the text.

Private information

The Privacy Act 1993 establishes certain principles with respect to the collection, use and disclosure of information about individuals by various agencies, including MBIE. Any personal information you supply to MBIE in the course of making a submission will only be used for the purpose of assisting in the development of policy advice in relation to this review.

Introduction

Purpose

1. The Ministry of Business, Innovation and Employment (MBIE), in conjunction with the Financial Markets Authority (FMA) and the Commission for Financial Capability (CFFC), is proposing changes to the annual statements provided to KiwiSaver, superannuation and workplace savings scheme investors.
2. The purpose of this document is to gain your feedback on the proposed changes. It includes the high level policy objectives behind the proposals as well as details of the particular elements of annual statements we are proposing to change. We have also included a mock-up of an annual statement. Please note, the mock-up is intended only to illustrate our proposals and should not be considered a proposed template.

Background

3. Building the financial capability of New Zealanders is a priority for the Government in order to improve the wellbeing of New Zealand's families and communities, reduce hardship, increase investment, and grow the economy. One of the pillars underpinning this goal is a commitment to help improve investor capability¹.
4. We know that making financial decisions can be difficult and a large number of New Zealanders fail to make good decisions about their retirement savings. Many New Zealanders stay in KiwiSaver default funds without considering whether another fund might better suit their circumstances, and they contribute minimum amounts to their retirement savings. These decisions, or often lack of decisions, mean New Zealanders risk missing out on having an optimal outcome from their private retirement savings.
5. New Zealanders do not typically have a clear view of the retirement income they will have, or how long it will last in retirement. While tools exist to help them calculate this, it takes effort for a person to find a tool and enter data. In contrast, annual statements could provide a snapshot of an investor's retirement savings and income that requires comparatively little effort from the investor, other than to open and read the statement.
6. The FMA has recently undertaken consumer research on how KiwiSaver annual statements are perceived, and how people use them. This research showed that recall and readership of annual statements is high – nine out of ten people could recall receiving their statement and four out of five had read it. People reported finding all aspects of the statements useful, particularly their current balance and contribution amounts. Consumers also had a strong preference to receive additional information about their retirement savings that shows them what they are on track to receive when they retire. The additional information people most wanted to receive was a projected retirement savings lump sum, what that lump sum would convert to as a weekly income, and how long that income would last.

¹ See Government Statement on Financial Capability at <http://www.cffc.org.nz/assets/Uploads/Financial-Capability-Government-Statement.pdf>.

7. Given the high levels of readership of annual statements, we believe there is an opportunity for them to be used as a decision-making tool to prompt investors to consider how their current investment choices are impacting their retirement savings goals.

Proposed changes

High level goals

8. We are proposing to require additional information be included in the annual statements of KiwiSaver, superannuation, and workplace savings schemes, in order to help people maximise their current investment options and make decisions that improve their retirement outcome.
9. We are seeking changes that will help people to engage with their retirement investment and to 'project forward' to see their investment as a retirement income stream.
10. We would like to see key information about the investor's retirement savings presented in a way that is clear, concise and easy to understand.

Policy objectives

11. We are proposing changes to annual statements to:
 - allow investors to easily understand their investment in a retirement savings scheme.
 - help investors translate their retirement savings into a retirement lump sum and income.
 - help investors make decisions to positively influence their retirement savings.

Rationale for proposed changes

12. The majority of retirement savings schemes are now defined-contribution, rather than defined-benefit plans. This change puts the onus on investors to make decisions, often years in advance, about factors that will have a significant influence on the level of retirement income they will receive. In particular, rate of contribution, fund selection and amount of fees paid can have a major impact on a person's retirement income. This impact is often underestimated by investors.
13. Returns on investment, growth in wages and expected mortality also significantly impact on the adequacy of retirement incomes, and these factors cannot be accurately predicted by the individual. Given the complex nature of retirement income products, we think it is important that providers and relevant government bodies work together to ensure that people receive accurate and easily digestible information².
14. Our proposed changes to annual statements are in line with changes to financial product disclosure under the Financial Markets Conduct Act 2013, particularly the changes made to

² Research has been undertaken on the importance of adequate disclosure of information for retirement savings products: Fleishman-Mayer, L., Hung, A., Yoong, J., Clift, J. & Tassot, C., *Designing Better Pension Benefit Statements, Current Status, Best Practices and Insights from the Field of Judgment and Decisionmaking*, RAND Working Paper, April 2013; Financial Education and Saving for Retirement: Why Financial Education is needed for Retirement Saving, OECD, Pages: 103–114 in *Improving Financial Education and Awareness on Insurance and Private Pensions*; Rinaldi, A., & Giacomel, E., *Information to Members of Dc Pension Plans: Conceptual Framework and International Trends*, International Organisation of Pension Supervisors Working Paper No. 5, September 2008.

managed funds disclosure. Under this Act, disclosure of products aimed at retail investors is intended to “provide certain information that is likely to assist a prudent but non-expert person to decide whether or not to acquire the financial products”. Similarly, the changes we are proposing to the content requirements of annual statements are intended to assist a non-expert person to understand and make positive decisions about their retirement savings.

Summary of proposed changes

15. We are proposing to require the following information be included all annual statements:
 - current balance
 - total fees paid that year
 - projected retirement lump sum and income
 - the total amount that the investor’s account grew by over the year
 - summary transaction figures detailing the money that has gone in and out of the investor’s account during the year
 - the prompter question: “How do I increase my retirement income?”.

16. We are also considering whether some further information should be required, such as:
 - the investor’s retirement savings history
 - a summary of information on the main types of funds
 - the investor’s actual investment mix.

17. We are also considering whether the statements should have a page limit, and whether some elements of the layout should be prescribed (for example, whether to require key pieces of information be presented on the first page).

Proposed changes in further detail

Total fees paid

18. It is important members understand a complete picture of the fees they are paying for their retirement savings scheme. Fees can have a significant impact on total returns over the timeframe of an investment, yet many members are currently unaware of that impact as they only see investment returns net of fees.
19. Consumer testing of the fee impact illustrations in the new fund updates and product disclosure statements show consumers like and understand this information. We propose showing members the fee impact in real dollar terms on their statements; that is total fees paid including management and administration charges and performance fees and other charges. The FMA's consumer research into KiwiSaver annual statements also showed that there is consumer appetite for information about fees: 39% of those interviewed wanted information about how fees are calculated and 37% wanted to see fees displayed in a dollar amount.

Fees to be calculated in accordance with the FMA's fee disclosure for managed funds (with necessary modifications)

20. We are proposing that total fees paid be calculated in accordance with the disclosure of fees in the Financial Markets Conduct Act 2013 and Financial Markets Conduct Regulations 2014, and in particular, the FMA's guidance for managers on how to interpret those disclosure requirements³. This means the total fees paid calculations in annual statements would be in congruence with other disclosure documents, but annual statements would have a personalised calculation based on the investor's retirement savings balance.
21. In order to translate the disclosure requirements for managed funds we are proposing that fees and charges be disclosed in the following way:

Fee Type	Definition and Method of Disclosure
Management and administration charges of the KiwiSaver fund, super scheme or workplace savings fund ('the fund') <i>Shown in the mock-up as 'investment management fees'</i>	All fees and charges which affect the amount of income or capital distributions made to members of the fund. Fees and costs of any underlying funds that the fund is invested in, if the fees and costs of the underlying fund affect the market value of the underlying fund and the amount distributed to members of the fund. To include both the manager's basic fee and other management and administration charges, converted to a dollar figure representing what the individual member has paid.
Performance-based fee <i>Not shown in the mock-</i>	Includes fees charged by the manager based on the performance of the fund, as well as performance-based fees charged by the manager of a

³ See the Financial Markets Authority's Guidance Note of May 2016 for further guidance on how fees should be disclosed for managed funds: <https://fma.govt.nz/assets/Guidance/160526-Guidance-Note-Fee-Disclosure-For-Managed-Funds.pdf>

<i>up but required where charged by the fund</i>	related underlying fund. Performance-based fees must be shown as a dollar figure. Performance-based fees of non-related underlying funds (as described in the FMA fees guidance) must be incorporated in the management and administration fees.
Other charges <i>Shown in the mock-up as 'administration fees'</i>	The actual total other charges for the most recent scheme year, shown in dollar amounts.
Total fees <i>Shown in the mock-up as 'total fees'</i>	The dollar figure shown should be the total of all the individual fees shown on the statement (investment management fee, performance fee and administration fee). The percentage shown can exclude other charges.

Estimating fees

22. Where fee estimates for underlying funds are used, or where it is not possible to estimate fees, the statement should include a footnote explaining this and referring the reader to the product disclosure statement or fund update for full details of how estimates are arrived at, or which funds have information omitted.
23. We understand from early discussions with some providers that while it is possible to calculate fees each day in order to get as close as possible to the actual fees and costs, this would be a significantly larger task than current practice. We are open to providing some flexibility as to when the calculation could be done and allowing providers to estimate a certain portion of the fees. We would like feedback on the likely percentage you would need to estimate and whether this would have any significant impact on the amount disclosed.

Questions

1. Do you have any comments on providing investors with a figure that details the total fees they paid that year? What portion, if any, would you need to estimate and how would this impact the amount disclosed?
2. Do you have any comments on calculating total fees paid in the same manner as fees are disclosed under the Financial Markets Conduct Act and Regulations?

Projected retirement balance and retirement income

Shown in the mock-up under the heading 'What you're on track to receive at age 65'

24. We are proposing that annual statements present members with an estimate of their savings lump sum at retirement age, and what that converts to in terms of an income in retirement. We consider this will make it easier for New Zealanders to visualise what they are saving toward, and reinforce that replacement income is the goal for retirement. It could also enable providers to present follow-up information about how to increase retirement savings if the member decides that the estimates provided will not be enough.

25. A number of countries require a personalised projected pension balance to be provided to members, although the frequency that it is provided and the method for establishing the assumptions on which it is based varies between countries. Our preferred approach to how the assumptions would be set is that followed by the United Kingdom and Ireland. There, investors must be provided with a member-specific projected pension. The method of calculation is specified by the relevant regulatory bodies and supported by requirements in legislation so that all providers are working to the same rules in producing their projections⁴.

Assumptions for retirement balance projections

26. We are proposing that the Sorted KiwiSaver savings calculator would be used as the basis for how projected figures are calculated. Existing high level assumptions are:
- The investor takes no contributions holidays.
 - No amounts are withdrawn for home purchase or mortgage diversion.
 - Investments are in a portfolio investment entity (PIE) and PIE income is taxed at 28%, 17.5% or 10.5%, depending on the investor's total taxable income.
 - Inflation of 2%.
27. Some aspects of the Sorted KiwiSaver savings calculator assumptions would need to be modified for the purposes of the projections in annual statements. These are outlined in further detail below.

Returns on investment

28. The Sorted KiwiSaver calculator currently assumes that the investor is in a balanced fund with a net real return of 2.4%, 2.9% or 3.3% per year depending on their PIE tax rate or prescribed investor rate (PIR).
29. In order to present investors with more accurate projections we propose developing three sets of assumptions accounting for some of the more common risk profiles of funds; for example, a set of assumptions to project conservative, balanced and growth funds. Providers would use the assumption set that most closely resembles the individual's fund choice(s) during that year.

Tax credits

30. The Sorted KiwiSaver savings calculator assumes that the investor receives the maximum KiwiSaver member tax credit of \$521 each year. We understand that a number of providers often communicate to investors about the level of tax credit they have received that year. We would be interested in your thoughts on whether it would be feasible to use individualised information on the tax credit when projecting the retirement lump sum and income, or whether it would be necessary to assume that the investor will receive the full member tax credit in the projected retirement income balance.

Rate of contribution

31. The Sorted KiwiSaver savings calculator enables the user to select whether they are employed, self-employed or not working. For employed investors, the calculator assumes that contributions will increase by 3.5% each year, in line with assumed pay increases. For self-

⁴ The Pensions Regulator, *Regulatory guidance for Defined contribution schemes*, April 2015. See: <http://www.thepensionsregulator.gov.uk/docs/guidance-dc-schemes.pdf>

employed and unemployed investors, it assumes contributions increase by 2% each year due to inflation.

32. We understand you are unlikely to have accurate information about the employment status of your members on file and any assumptions you are able to make would be based on the amount the investor is currently contributing. We would be interested in your views on whether a 3.5% increase in future contributions should be assumed or a 2% increase.

Assumptions for retirement income projections

33. We are proposing that providers use the Sorted retirement planner assumptions to calculate the projected retirement income figures in annual statements. These assumptions are:
- The investor retires at age 65 and their expected lifetime is based on the latest mortality tables produced by Statistics New Zealand.
 - All investments are in a managed balanced fund which is a PIE. The net real return from the balanced fund is therefore assumed to be 2.4% per annum (based on an assumed tax rate of 28%).
 - The investor's total savings are used up during retirement so that nothing is left over at the end of their expected lifetime.
 - The retirement income payments increase with inflation each year.
 - Inflation of 2% is assumed.
34. The Sorted retirement planner enables the user to either include or exclude New Zealand Superannuation (NZ Super) payments. We are mindful that including NZ Super in the calculations of the projected figures would add a layer of information that could make the estimates less accurate and more heavily caveated. Our preference is to include a statement outlining that the figures do not include NZ Super, but that depending on their eligibility the member could also receive a fortnightly NZ Super payment to add to their retirement income.
35. The retirement planner enables the user to see payments in weekly, fortnightly, monthly or annual terms. Our mock-up suggests showing a single annual figure. We would be interested in your views on what the most meaningful income timeframe would be.

Disclaimer for projected figures

36. We are proposing that a standard disclaimer statement would accompany the projected figures so as to prevent people from assuming that the projections are a guaranteed amount.
37. The mock-up shows one option for providing this disclaimer, but we are also considering whether a simpler statement would be sufficient, and more easily digestible. A simpler statement could be:

This estimate uses a standard calculation laid out in regulations. See the Financial Markets Authority website, www.fma.govt.nz, for more information.

38. The more detailed statement currently in the mock-up reads:

**From the Financial Markets Authority (fma.govt.nz): The figures shown are not guaranteed, they are intended to help you consider whether you are on track to meet your retirement goals. The numbers are based on your current contributions*

and various other assumptions sourced from the Commission for Financial Capability including:

- *You keep contributing, without a break, until age 65*
- *You stay in the fund you are in now, with an estimated return for this type of fund of [x]% per year.*

(A full list of the assumptions can be found in the Glossary section)

Questions

3. Do you agree that annual statements should provide investors with their projected retirement lump sum and income?
4. Do you have any comments about using the Sorted KiwiSaver savings and retirement income calculators in order to establish an independent set of assumptions to project retirement balance and income that can be used by all providers? Please consider our questions on including member tax credits, the appropriate rate of contribution increases and the best income period (weekly, fortnightly, monthly or annual).
5. How practical would it be for you to apply projections (ie either conservative, balanced or growth based projections) depending on where an individual member has invested that year?
6. Do you have any comments on our proposal to exclude NZ Super payments from the projected figures?
7. Do you have any feedback on what needs to be included in the disclaimer regarding projected savings?

How retirement savings are growing

39. Framing information in a way that reminds investors of the purpose of their investment prompts investors to keep saving.
40. The mock-up proposes wording to clearly show how much the investment has grown over the year. Transactional data would be shown in consumer friendly language – money in and money out.
41. The mock-up suggests investment earnings would be shown as a gross figure. This may help members understand that fees are charged across the total value of their investment, not just on any earnings made. We are also mindful that including investment earnings net of fees and then presenting the fees as a separate amount may be misleading, as it may give the appearance that fees are being charged on the net investment figure. We would be interested to hear your thoughts on this.

Savings history

Shown as the graph – ‘Your 5 year retirement savings history’ on the mock-up

42. Providing a picture of an investor’s savings history could be an effective way of illustrating the cumulative benefit of savings and investment over time. Savings history could provide investors with a clear picture about the growth and value of their retirement savings, setting out what they have already achieved alongside projections of what that savings rate will translate to in retirement.

Prompts to consider fund choice and contribution rates

Shown on the mock-up front page as ‘How do I increase my retirement income?’ with draft answers on the back page

43. Given the impact that fund choice and contribution rate have on retirement savings outcomes, we would like annual statements to prompt investors to consider these aspects of their investment. We think annual statements could also provide information linking investors to tools that will assist them to explore their options further.
44. We do not currently have a preferred approach for how to prompt investors to consider their fund choice and contribution rates. We consider that this is likely to be an area where providers may wish to tailor the messages to their client base or have a preferred approach they would like to follow.

Questions

8. We would like to hear your thoughts on how to present the key earnings and fees figures so that investors can easily get a good understanding of how much they have earned and the fees they have paid.
9. Do you have any comment on how investors might be prompted to consider fund choice and contribution rate?

Certain prescribed text

45. Understanding retirement savings can be complex, so the text in annual statements needs to be presented in 'plain English' and without jargon. It should help investors focus on the key messages and figures in the document. We are considering whether the wording of certain key messages in annual statements should be prescribed.

Layout and order of proposed annual statement

46. While our mock-up is indicative only, and should not be considered as a proposed template that we would expect all providers to follow, the ordering of the information on sides one and two of the mock-up is deliberate. The information we consider to be highest priority to investors is placed on page one, and secondary information on page two.
47. We are also proposing that certain information be mandatory but that other information could be optional or the wording or format could be determined by individual providers, to allow them to tailor their messaging or information to their client base.
48. We have considered the difference between meaningful and important information. Meaningful information enables even disengaged investors to make better decisions. We consider meaningful information to be most important for investors to receive, and we propose it should be mandatory to include this information on the first page of the annual statement. The information we consider most meaningful to members is:
 - current balance
 - total fees paid that year
 - projected retirement lump sum and income
 - the total amount that the investor's account grew by over the year
 - summary transaction figures detailing the money that has gone in and out of the investor's account during the year (although we would be interested in your feedback on whether this should be on page one or page two)
 - the prompter question: "How do I increase my retirement income?". We are proposing that this question should be prescribed text in the statement but that the information providers choose to include in response to the question will not be prescribed, enabling providers to tailor the messages themselves.
49. We are more flexible on whether other information should be included on page one or two, or at all, such as:
 - the investor's retirement savings history
 - the summary of information on the main types of funds
 - the investor's actual investment mix.
50. We know from research that more information increases complexity and hinders decision making. Given the policy objective to help investors make decisions to positively influence their retirement savings, we are aiming towards content requirements that could be included on a two page annual statement. If you believe this page limit is not practical we would appreciate your views on this.

Questions

10. Do you have any comments on the priority we have given certain information (such as which information is required on the first page of the statement)?
11. Do you have any comments on the information we have proposed to be mandatory? Is there any other information you believe should be required to be included on annual statements?
12. Do you have any comments on what information should be optional, or allow scope for providers to tailor their messaging to their client base?
13. Do you have a view on how many pages an annual statement should be, or whether there should be a page limit?

Timing of the proposed changes

51. The proposed changes to annual statements are high-priority, and we would like them to be implemented as soon as possible.
52. We would like to see the total fees figure included in the 2017 annual statements. There is a particular appetite from consumers for this information. We welcome your feedback on what it would take to achieve this.
53. We do understand that some of the new information to be provided may require your business to make back-office changes. We would like your feedback on whether a staged approach that implements some changes in 2017 and others in 2018 would be most feasible.

Questions

14. Which of the proposed changes could you deliver in the 2017 annual statements?
15. Which (if any) changes do you think will take longer to implement, and what is it about these changes that makes implementation more time-consuming?
16. Would you prefer a staged approach that implements some changes in 2017 and others in 2018?
17. How much are the proposed changes likely to cost your business?

Thank you

54. We would like to thank you for taking the time to provide your feedback. We welcome any other comments you have on our proposed changes.
55. We recognise that providers are already doing some great work to help consumers understand and maximise their retirement savings. We value your contributions and insights as we seek to help investors understand more about their retirement savings, and make decisions that will give them a better retirement outcome.

Question

18. Do you have any other comments on the changes we are proposing to make to annual statements?