

Submission

to the

Ministry of Business,
Innovation and Employment

on the

Discussion Document:
Changes to Annual
Statements for KiwiSaver,
Superannuation, and
Workplace Savings
Schemes

7 November 2016

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes that contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.
2. The following fifteen registered banks in New Zealand are members of NZBA:
 - ANZ Bank New Zealand Limited
 - ASB Bank Limited
 - Bank of China (NZ) Limited
 - Bank of New Zealand
 - Bank of Tokyo-Mitsubishi, UFJ
 - Citibank, N.A.
 - The Co-operative Bank Limited
 - Heartland Bank Limited
 - The Hongkong and Shanghai Banking Corporation Limited
 - JPMorgan Chase Bank, N.A.
 - Kiwibank Limited
 - Rabobank New Zealand Limited
 - SBS Bank
 - TSB Bank Limited
 - Westpac New Zealand Limited.

Background

3. NZBA welcomes the opportunity to provide feedback to the Ministry of Business, Innovation and Employment (**MBIE**) on the Discussion Document: Changes to Annual Statements for KiwiSaver, Superannuation, and Workplace Savings Schemes (**Discussion Document**).
4. If you would like to discuss any aspect of the submission further, please contact:

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Executive summary

5. NZBA generally supports the policy aims of MBIE's proposed changes to enhance member information on KiwiSaver annual statements. NZBA agrees it is important that members are actively engaged with their KiwiSaver funds, particularly as balances increase. Clear and effective disclosure will assist members in understanding the amount of fees they are paying each year and to consider how their investment choices and contribution rate can impact their retirement savings goals.

6. Despite this general support:
 - a. Providers will encounter a number of highly complex issues implementing the projected retirement balance and income (**Retirement Income**) change in time for inclusion in 2017 annual statements. This is because a number of detailed and technical assumptions need to be worked through to achieve accuracy, consistency and comparability of this information for consumers. Without guidance on this issue, or sufficient time to test and implement the Retirement Income calculation, these projections are likely to be misleading and confusing. On this basis, NZBA proposes an alternative suggestion to include in 2017 annual statements to address this proposal in the interim period until 2018.
 - b. While some providers are in a position to include total fees paid (**Fees**) in their 2017 statements, and will do so, for those members who are not in such a position the provision of Fees information in 2017 statements raises a number of extremely complex issues.
 - c. NZBA proposes some amendments to the proposed change to show the total amount that the investor's account grew by over the year.
 - d. While NZBA strongly recommends consistent calculation methodologies, assumptions and terminology be applied where appropriate (to ensure consistency and comparability), NZBA does not support prescription as to the actual words providers use as headings or to describe information contained in annual statements.
 - e. The proposed changes should apply to KiwiSaver funds only, and not Superannuation and Workplace Savings Schemes.
7. We expand further on these submissions below.

Changes that can be delivered by 2017

8. NZBA considers that the following changes noted at page 6 of the Discussion Document could be delivered for 2017 annual statements (indeed most providers are already disclosing this information):
 - a. Current balance.
 - b. The total amount that the investor's account grew by over the year (subject to our comments in paragraphs 24-25 below).
 - c. Summary transaction figures detailing the money that has gone in and out of the investor's account during the year (subject to clarification on how withdrawals will be treated).
 - d. The prompter question: "How do I increase my retirement income?"
9. However, in making this submission, NZBA notes that the government should avoid prescribing requirements to present this information in a particular format or place.

Providers should be free to determine how to best meet these requirements in their own annual statements.

10. NZBA further considers that, should MBIE decide to include the further information it is considering, the investor's retirement savings history could also be included in 2017 annual statements.

Retirement Income

11. All NZBA members agree they will encounter a number of issues implementing the proposed Retirement Income change in time for inclusion in 2017 annual statements, and as such submit this change should be deferred for implementation until the publication of 2018 annual statements.
12. NZBA submits that, for 2017 statements, a link to the provider's retirement calculator should be provided where possible,¹ so that members are directed to where to calculate their projected retirement income themselves. Where, for some reason, members cannot use such a calculator, they could be provided with a link to the Sorted KiwiSaver savings calculator (subject to an appropriate warning that different calculators may produce varied projections because of differences in assumptions and calculation methodologies).
13. NZBA submits that 2018 statements could include Retirement Income information (following further consultation and subject to our comments below) once all outstanding issues around calculations/assumptions have been resolved over the next 12 months. Furthermore, the proposed changes will require significant systems changes that cannot be completed before the 2017 annual statements need to be produced, as time will need to be taken to create, test and interface calculations to statements.
14. NZBA further submits that it is not possible for the requisite regulations, including calculation methodology, to be developed, published and implemented after this consultation closes to allow enough time for implementation by providers in their 2017 annual statements.
15. The Retirement Income proposal requires a number of technical questions to be resolved to ensure that any disclosure made in accordance with this requirement is not inaccurate or misleading. Without clear guidance on how such a projection should be calculated there is a high likelihood that these will be incorrect and confusing. Further, members need to be given a clear understanding that the projections are not promises by providers. NZBA submits that the time it will take to resolve all of these questions and settle on a final approach to this disclosure will take longer than the timeframe between this consultation closing and the preparation and publication window for the 2017 annual statements.

¹ We include the wording "where possible" to reflect that most providers' calculators do not cater for their entire member base. For example, calculators may only be available to members aged 18-65, who have not transferred funds from Australian superannuation.

16. Examples of the kinds of questions that need to be resolved before this disclosure is designed and made are:
- a. How should providers best obtain information about their members' income, contribution rate and employer contribution rate? Providers do not currently collect or hold this data, which comprises the three key inputs required in any Retirement Income projection. NZBA submits that simply assuming a member's income based on their contribution history could lead to inaccurate results, for example where members:
 - i. Are not making contributions or are making irregular contributions (according to the FMA's 2016 KiwiSaver Annual Report, 42% of members do not make regular contributions).
 - ii. Have salary or wages that change or vary significantly (for example parental leave, self-employed members).
 - iii. Change their contribution rate.
 - iv. Have made a lump sum contribution during the year.
 - v. Have an employer that is not deducting contributions at the correct rate.
 - vi. Have recently switched funds or transferred from another provider.
 - b. How should lump sum contributions made by a member in a particular year be treated? These lump sum contributions are likely to cause skewed results in the projection for that member if they are included because they are usually one-off contributions.
 - c. Are the Retirement Income proposals appropriate for all members? For example, should under 18s, who are not likely to be contributing, be excluded? It may also be appropriate to exclude members who are on a contribution holiday, or have volatile earnings because they are self-employed, on parental leave, or joined close to retirement age. These members are likely to have different Retirement Income projections year on year, which might make the projections of limited utility.
 - d. How will providers resolve potential member confusion in having two different KiwiSaver estimated balances from the same provider – one in their annual statement (with prescribed assumptions and based on the Sorted calculator) and another balance using the provider's online calculator (which will have been created based on the provider's internal modelling and is also reflected in the provider's product disclosure statements and other collateral)?
 - e. How will providers treat members who have split their fund selection across different funds (a significant percentage of providers' members have a split fund investment)?

- f. How will providers resolve the assumptions that Sorted makes around asset composition per fund when these differ to their own? For example, Sorted may treat a fund as a growth fund where the provider does not.
17. NZBA submits that decisions need to be made as to what disclosures are appropriate and/or what disclaimers or assumptions related to any disclosures are appropriate.
18. NZBA would also recommend a period of testing a representative sample of members' data in order to view the projected retirement results generated for key segments – followed by a user-testing programme to help understand how members engage with the information, and what in particular needs to be amended or clarified. NZBA does not agree with creating final legislation or regulation for a change of this scale to an untested audience. NZBA members would be willing to take part in a pilot programme of this type.

Fees

19. Some NZBA members are in a position to include Fees in their 2017 statements, as proposed by the Discussion Document, and will do so. Currently 2 out of the 6 NZBA members who provide KiwiSaver schemes are in a position to disclose Fees in their 2017 statements, and provide this information currently.
20. For those members who are not in such a position, the provision of Fees information in 2017 statements raises a number of extremely complex issues.
21. Members who will have difficulties providing Fees information in their 2017 statements will provide more detail as to these difficulties in their own individual submissions. By way of example, such issues include:
 - a. The calculation of these Fees is complex, as percentage-based fund charges are calculated at fund rather than investor level, and it is therefore not a case of summing transactions per investor. Calculation logic also needs to be applied to each investor taking into account considerable complexities such as multiple funds held by each investor, potential switching between funds and total fees changing during the period.
 - b. Furthermore, actual dollar fee calculations require information to be calculated throughout the reporting period. As information for the full 2016 period has not been captured, NZBA members who are not currently capturing fee information at the investor level submit they could not provide the actual fee information in 2017.
 - c. As such, Regulations will need to be developed so that all of these complexities are taken into account and all providers are calculating total fees paid on the same basis, which importantly ensures customers are receiving consistent information that is comparable across industry. As an example, the number of valuation points during the year the provider should use to calculate these fees at a member level should be clearly set out.

- d. Some of our members are dependent on outsourced service providers changing their systems and they may require the extended transition period to ensure their systems are fully developed and tested.
- 22. Subject to our members' individual submissions on when Fees disclosures should be implemented, once these are implemented, we think that this information should only be shown once in an annual statement. NZBA submits the current proposal to show administration fees and investment management fees, as well as a total fee figure, is unnecessary.
- 23. Furthermore, NZBA does not support highlighting fees in the way shown in the Mock-up annual statement (**Mock-up**) (i.e. the 'TOTAL FEES' circle). In NZBA's view this places a disproportionate emphasis on fees over performance. Whilst fees are an important factor in retirement outcomes, ultimately net performance (after fees) is more important. Fees are one element of the overall retirement investment and in many instances reflect active/passive fund management. In an actively managed portfolio, higher fees are appropriate, as they reflect the work undertaken by the provider. All fees should be considered in light of the total return, so that the member can form their own view about the fee in light of the service they have received and returns their fund has made. As such, NZBA does not consider that fees can, or should, be read in isolation or given such weight that they would ultimately drive a culture where members chase a perceived 'low fee' at the expense of optimal growth in their retirement savings.

The total amount that the investor's account grew by over the year

- 24. The Discussion Document and the Mock-up proposes a change to show the total amount that the investor's account grew by over the year.
- 25. NZBA submits that as KiwiSaver balances can go both up and down, it may be more appropriate to just show the opening and closing balances in the statement, and/or a percentage figure along with the total dollar figure of how the account changed over the year.

Less prescribed wording

- 26. NZBA submits that, where appropriate, less prescribed wording would be preferable. KiwiSaver providers have the ability to test, learn and adapt their communications with members, and are highly motivated to ensure members understand annual statements. For this reason the requirements for annual statements should not be so rigid that providers are prohibited from adapting statements based on customer feedback, and iteratively improving their own communications.
- 27. NZBA strongly recommends consistent calculation methodologies, assumptions and terminology be applied where appropriate, to ensure consistency and comparability. However, NZBA does not support prescription as to the actual words providers use as headings or to describe information contained in the annual statements. The exact layout and content of annual statements should then be left to providers, allowing them to tailor messages to their own client base accordingly.

Application to KiwiSaver funds only

28. NZBA does not agree with the proposed scope of changes to apply to Superannuation and Workplace Savings Schemes, as well as KiwiSaver.
29. Workplace Savings Schemes in particular have quite different features to KiwiSaver as they are comprised of a number of different employer plans each with different employer specific rules. Those rules often relate to contribution amounts, access to funds and differing retirement ages. Given that a member of a Workplace Savings Scheme may access their funds when they leave employment, many of the assumptions in the proposals not be appropriate. Furthermore, it would not be realistic to assume that all members would stay with their employer until retirement so any projected retirement balance and income could accordingly be misleading.
30. Additionally, NZBA submits that in implementing the proposed changes for KiwiSaver schemes, the changes would capture the vast majority of the retirement savings market.
31. On that basis, NZBA believes the scope of changes should only apply to KiwiSaver. NZBA submits that if Superannuation and Workplace Savings Schemes are not carved out of the proposed 2017 launch date, the bespoke nature of the build would present serious issues around delivery.

Summary of information on the main types of funds and the investor's actual investment mix

32. The further information MBIE is considering requiring in annual statements is:
 - a. A summary of information on the main types of funds; and
 - b. The investor's actual investment mix.
33. NZBA submits there should be no requirement to include a summary of information on the main types of funds as noted at paragraph 16 of the Discussion Document in annual statements. In NZBA's view this is not appropriate information for inclusion in annual statements as it is already disclosed at length in other documents (such as the Product Disclosure Statement) and will consequently add unnecessary length to annual statements.
34. NZBA members will submit on the proposed inclusion of the investor's actual investment mix in their own individual submissions.