.mca

Review of retirement income policies 2019

- Summary of recommendations

29 January 2020

On 29 January 2020, the Office of the Retirement Commissioner (the Commission for Financial Capability or CFFC) published its 2019 review of the retirement income framework in New Zealand. The report made 19 recommendations and made a number of observations that collectively fall into three areas; general framework, New Zealand Superannuation and KiwiSaver. Details are:

General framework

1. The governance of the Retirement Commission should shift from Ministry of Business Innovation and Employment (MBIE) to MBIE and the Ministry of Social Development. The argument is that much of the work that the CFFC does has impact on the Social Welfare areas in New Zealand.

2. Change the three-yearly review cycle, so that it occurs in the year after an election.

3. Establish a new Government employment connection service to, among other things, help employers meet their employee recruitment and management needs as the workforce ages.

4. Develop a general "purpose" statement for New Zealand's retirement income system.

New Zealand Superannuation

5. Value New Zealand Superannuation as it is and keep its ongoing provision at the current settings.

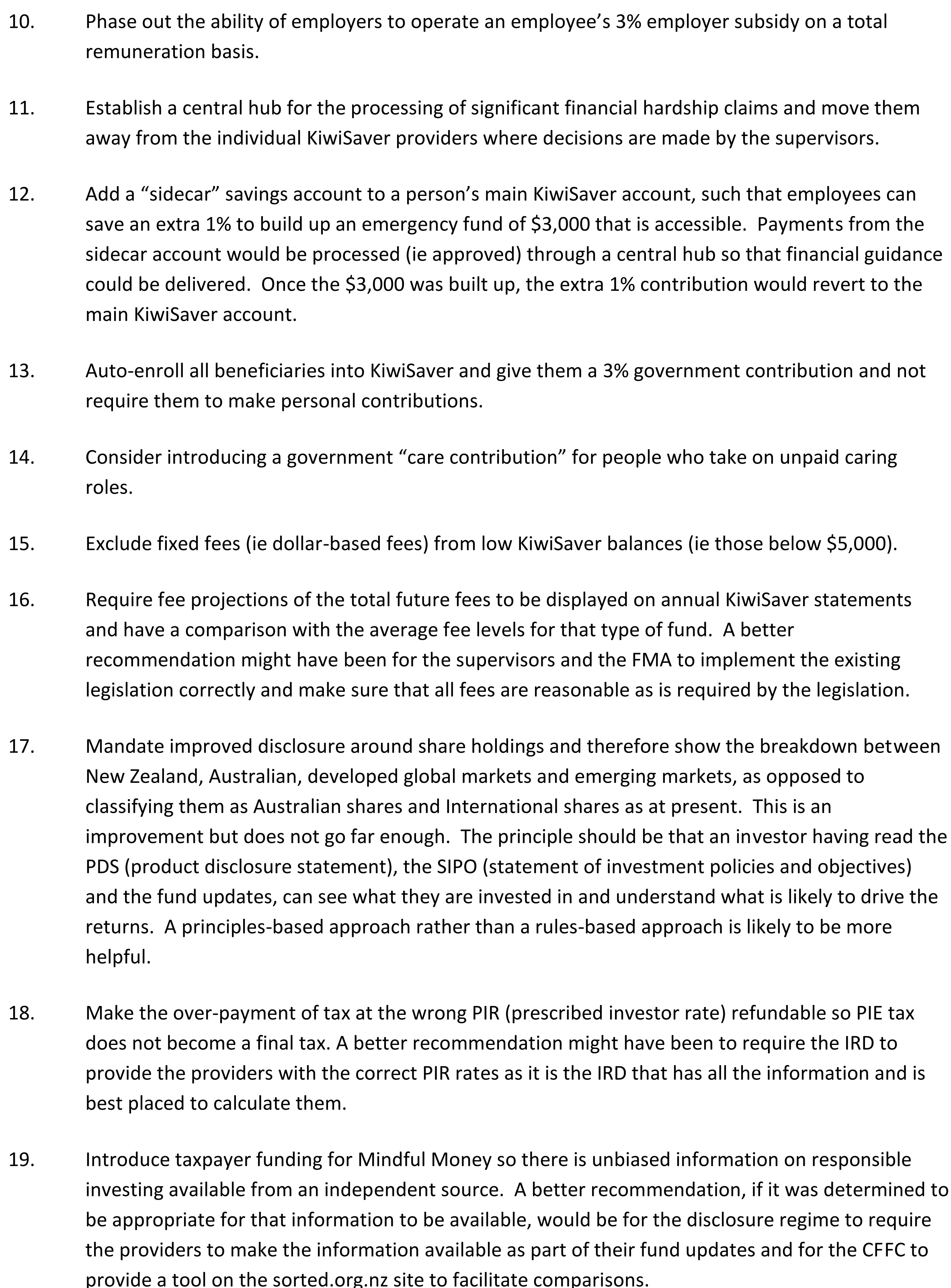
KiwiSaver

6. Introduce a "small-steps" employee contribution, as the default contribution option, that increases from 3.0% to 10.0%, once they have been contributing for at least 12 months, on 1 July each year in steps of 0.5%. Employees could choose to opt out.
,

7. Change the current annual MTC (member tax credit or government subsidy) of $521.46, that is credited at 50 cents for each dollar contributed, to be $2 for every $1 contributed on a voluntary basis, with a maximum MTC of $2,000. The MTC would cease to apply on the regular contributions of employees. To manage the costs of the higher MTC, it could be limited to the first 12 years.

8. Consider removing the requirement that a person who makes a first home withdrawal must live in the house for the first 6 months, recognising that many people currently do not live in the house for 6 months and there is no natural mechanism of enforcing the 6-month rule.

9. Phase in the requirement for employers to contribute for employees over age 65 and consider phasing it in for employees under age 18.



10. Phase out the ability of employers to operate an employee's 3% employer subsidy on a total remuneration basis.

11. Establish a central hub for the processing of significant financial hardship claims and move them away from the individual KiwiSaver providers where decisions are made by the supervisors.

12. Add a "sidecar" savings account to a person's main KiwiSaver account, such that employees can save an extra 1% to build up an emergency fund of $3,000 that is accessible. Payments from the sidecar account would be processed (ie approved) through a central hub so that financial guidance could be delivered. Once the $3,000 was built up, the extra 1% contribution would revert to the main KiwiSaver account.

13. Auto-enroll all beneficiaries into KiwiSaver and give them a 3% government contribution and not require them to make personal contributions.

14. Consider introducing a government "care contribution" for people who take on unpaid caring roles.

15. Exclude fixed fees (ie dollar-based fees) from low KiwiSaver balances (ie those below $5,000).

16. Require fee projections of the total future fees to be displayed on annual KiwiSaver statements and have a comparison with the average fee levels for that type of fund. A better recommendation might have been for the supervisors and the FMA to implement the existing legislation correctly and make sure that all fees are reasonable as is required by the legislation.

17. Mandate improved disclosure around share holdings and therefore show the breakdown between New Zealand, Australian, developed global markets and emerging markets, as opposed to classifying them as Australian shares and International shares as at present. This is an improvement but does not go far enough. The principle should be that an investor having read the PDS (product disclosure statement), the SIPO (statement of investment policies and objectives) and the fund updates, can see what they are invested in and understand what is likely to drive the returns. A principles-based approach rather than a rules-based approach is likely to be more helpful.

18. Make the over-payment of tax at the wrong PIR (prescribed investor rate) refundable so PIE tax does not become a final tax. A better recommendation might have been to require the IRD to provide the providers with the correct PIR rates as it is the IRD that has all the information and is best placed to calculate them.

19. Introduce taxpayer funding for Mindful Money so there is unbiased information on responsible investing available from an independent source. A better recommendation, if it was determined to be appropriate for that information to be available, would be for the disclosure regime to require the providers to make the information available as part of their fund updates and for the CFFC to provide a tool on the sorted.org.nz site to facilitate comparisons.

The 2019 review also noted that work needed to be done on decumulation and the Retirement Commissioner and CFFC would be making that a priority for their 2020 work stream. No recommendations were made at this stage.

.

©MCA NZ Limited | PO Box 8811, Symonds Street, Auckland 1150 | (09) 930 7770 | mca@mcanz.co.nz | www.mcanz.co.nz