BT Funds Management (NZ) Limited and Westpac New Zealand Limited

Submission to the Ministry of Business, Innovation and Employment on the Review of KiwiSaver Default Provider Arrangements Discussion Document

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1. INTRODUCTION

1.1. This submission on the Ministry of Business, Innovation and Employment's ("MBIE") paper: *Review of KiwiSaver Default Provider Arrangements Discussion Document* (the "Discussion Document") is made on behalf of BT Funds Management (NZ) Limited ("BTNZ") and Westpac New Zealand Limited ("WNZL"). BTNZ requests that these submissions are treated as confidential as they contain commercially sensitive information about the operations of BTNZ's fund management business.

1.2. Enquiries on this submission can be addressed to:

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2. GENERAL COMMENTS

2.1. BTNZ and WNZL support initiatives that improve the wellbeing of New Zealanders in retirement. The Discussion Document identifies that there are two possible objectives for the default fund: capital preservation or long-term retirement income maximisation.

2.2. The alternative objectives and options set out for the default arrangements in the discussion paper are equally valid, depending on how the default fund is intended to operate and how investors are expected to respond to the default scheme over time. For example, if the proper incentives can be created in the default schemes so that investors make active choices more immediately, then a capital preservation objective and status quo approach would be appropriate.

2.3. While the default fund was initially intended to operate as a "*parking space*" it has transpired that investors will remain in the default fund for longer than foreseen. If the key issue is one of underlying investor inertia, this can potentially be mitigated. It is essential that scheme providers have in place a systematic programme to communicate to their membership base about the alternatives (features/benefits/risks) from which they can choose. Investor education initiatives are increasingly important as member balances increase.

2.4. It should be noted that there will be significant practical issues if there is a change from the status quo (discussed further below). A careful analysis of the benefits of such a change must be undertaken and weighed against the costs and risks. For example, when considering moving to a life cycle approach it is important to consider the increased potential risk of these investments as well as the increased potential return. This is particularly an issue where there are automatic allocation changes based on certain trigger points (such as age). The long term approach of this type of fund does not necessarily translate into superior return outcomes for individual members over different timeframes, particularly in a small market such as New Zealand. The perception of investors of proposed changes to KiwiSaver and possible damage to the KiwiSaver brand should be carefully considered.

2.5. An alternative option that partially addresses the expected low levels of capital growth in the conservative funds is to widen the permitted exposures to growth assets in the default funds. This could potentially deliver enhanced return outcomes over time, with less volatility and avoiding the disruption and risks to members of a change from conservative to lifecycle funds.

3. RESPONSES TO CONSULTATION QUESTIONS

Question 1: Are there other arguments in favour of the current default arrangements? If so, please explain?

3.1. The use of a conservative fund for the KiwiSaver default arrangements has worked well over a difficult period. In addition, significant changes to the default arrangements are unlikely to be fully understood or positively perceived by members, particularly if applied to existing members. The timing of changes to KiwiSaver should be carefully considered so as to have minimal impact on investor confidence in the scheme. It is not certain whether the cost of changing the nature of the default product, which is likely to be significant, will be balanced by a corresponding benefit to members.

3.2. It is generally accepted in investment theory that a higher allocation to growth orientated investments will deliver a stronger return outcome over the longer term relative to income assets. As mentioned below at paragraph 3.26, the current asset allocation in the default fund could be altered towards a more balanced allocation.

3.3. However, growth assets also generate higher levels of volatility and should be carefully considered. The incidence of negative returns or capital losses, particularly shortly after the change to lifecycle funds, could negatively impact on sentiment and reduce advocacy of KiwiSaver as a product and a brand. This is a particular risk with existing members whose funds change from conservative to higher risk funds – especially those who are not close to retirement but require access to funds.

3.4. BTNZ's managed fund portfolios are generally skewed towards more conservative assets, and this is also true of the Westpac KiwiSaver Scheme (although this is partly due to having a conservative default fund).

Question 3: Financial advisers/providers – what is your experience with risk/volatility and member behaviour in response to it?

3.5. BTNZ has not observed a particular member response to increased risk or volatility in KiwiSaver, which is possibly due to its long term and "*locked in*" nature. As noted above, across both the Westpac KiwiSaver Scheme and the BTNZ business generally the majority of investment portfolios are conservative in nature. However, there is some evidence that investors are generally taking a conservative approach to investment following the recent financial turmoil. It has also been observed that investors sell-down as markets fall, which results in crystallisation of loss. This reflects both a diminished appetite for losses and possibly a lack of understanding as to the need to hold some riskier assets for longer or through volatile periods in order to increase returns.

Question 4: Are there other reasons to change from the current settings that we have not considered? If so, please clarify?

3.6. No.

Question 5: As an organisation, what indicators do you use to assess a client's risk tolerance?

3.7. BTNZ considers indicators that include the member's investment horizon, tolerance for loss, expected return, and investment experience, and the value ranges the member is most comfortable with for a given investment. For KiwiSaver this assessment is usually done by way of a risk-profiler questionnaire.

Question 6: Financial advisers/providers – please explain the process you currently use to guide KiwiSaver active choice members into an investment fund that has the appropriate risk profile? What factors and weightings do you take account of, for example – age, gender, income, whether they intend to make a first home withdrawal and, if so, when?

3.8. The Westpac KiwiSaver Scheme investment statement contains a risk-profiler questionnaire, which members can use to self-assess their risk tolerance and desired returns. It also states that members considering first home withdrawal in the near future should consider investing in the cash fund.

3.9. WNZL and BTNZ are both members of the Westpac NZ Qualifying Financial Entity Group, which has a dedicated team of KiwiSaver advisers, whom members can contact if they want personalised advice. These advisers are qualified Authorised Financial Advisers who can take the customer through a detailed needs analysis, and make recommendations as to which fund they invest in.

3.10. BTNZ, as the manager of the Westpac KiwiSaver Scheme, uses ongoing communications to encourage members to use the risk-profiler or to call a KiwiSaver adviser.

Question 7: Are there other issues around risk and investment strategies that we should be taking into consideration?

3.11. Consideration of risk and investment strategies necessitates consideration of investor behaviour. KiwiSaver is perceived by many members as essentially a savings scheme. This perception is expected to change, as individual member funds accumulate. This shift in perception may also, over time, drive a shift in the information sought, risk appetite, and investment behaviour of members, but this shift will occur at different times for different investors.

3.12. The Discussion Document focuses to a large degree on the objective of retirement income maximisation. However, this implies a higher risk profile which may not be appropriate for all investors. The current default provider arrangements focus on capital preservation which is likely to give rise to a risk of diminished return (although this has not been observed in the previous five years). Given the potential disruption associated with a change to lifecycle funds and the relatively strong performance of conservative funds in the past five years it may be worthwhile to seek a solution that offers improved but lower expected long term returns and less member disruption.

Question 8: Is a traditional life-cycle investment approach appropriate for a default fund and if so, why?

3.13. Life-cycle schemes clearly have merit. However, given KiwiSaver is already five years old it will be very complex and confusing to members to undertake a transition to such an approach, if the intention is to apply the approach to existing members. This is further complicated by the strong conservative fund five year returns and consequent lack of appetite for change.

3.14. As previously noted, changes to KiwiSaver should be carefully considered. There is no evidence of investor appetite for this change and in fact, investor inertia would suggest the opposite. It is also not clear that the current approach has been problematic.

3.15. Improving financial literacy and ensuring that scheme members select appropriate asset mixes is a significant challenge to policy makers and scheme providers. Whilst recognising the current inertia of default members it is unclear how much effort has gone into contacting and educating current default members. It is possible that, with the right incentives, providers may be able to increase engagement. One way to ensure that active engagement takes place is to make such engagement a requirement for default providers. Further comments are provided in respect of engagement with investors at paragraphs 3.56 to 3.58.

Question 9: Do you have any concerns with life-cycle funds? (Note: we address withdrawals for first-home purchase below).

3.16. In principle, life-cycle funds offer an effective mass market solution but they are a "*one size fits all*" approach. As previously mentioned, for many members KiwiSaver is still a savings product rather than an investment. As a result, a proportion of members may not be comfortable with significant volatility.

3.17. A particular consideration is the timing of automatic allocation changes based on certain trigger points (such as age). These can force changes in investment profiles during negative market conditions, which can have a potentially significant detrimental impact on long term member outcomes during periods of market volatility. The effect of this detrimental impact could be amplified if there is no mechanism to ensure consistency between life-cycle funds, as some investors will experience greater detriment than others.

3.18. For many members KiwiSaver is their first exposure to markets and a negative experience could undermine the KiwiSaver brand.

Question 10: Is a target date investment approach appropriate for a default fund and if so, why?

3.19. A target date investment approach may be a valid option depending on the operating context of the fund. However, there are some factors which may limit how appropriate they are in a New Zealand KiwiSaver context. Target date funds are not as transparent as other funds as the fund itself evolves from one type of fund to another, instead of the investor shifting from one clearly-designated type of fund to another as the investor's "*risk profile*" changes. In addition, there is greater risk associated with the manager, who typically has significant discretion to manage the changing asset allocation. This can lead to varied performance by these funds (even those with the same or similar target dates), and they would require greater Government monitoring.

3.20. Target funds rely on scale to allow efficient delivery of specific target dates. Administratively, they are more onerous and more expensive as a result. This could be offset by offering target range funds, but this diminishes the visibility of the exit date, a key attribute. Investors at either end of the range may have differing investment profiles but will be invested together. Due to New Zealand's relative lack of scale target funds are likely to be more costly to providers, which will ultimately result in increased costs for members.

3.21. As with life-cycle funds, timing of asset allocation changes in response to factors such as the member's age can have a profound impact on long term returns.

Question 11: Is there, in your view, a minimum scale requirement for implementing a target date investment approach? If so, what would the minimum size be?

3.22. It is difficult to identify what would be a suitable minimum without a confirmed price point provided by the Government. BTNZ's initial view is that five-year target range funds would be more cost-effective than one every year. This will assist in achieving scale and will make these funds more viable from an administration perspective, but as noted above, this diminishes the visibility of the exit dates and could have an impact on the goal of reducing fees.

Question 12: Financial advisers/providers – are there issues with, or barriers to, capturing age data? If so, please elaborate?

3.23. Capturing age data is not an issue for active choice members; however, default providers will require reliable data from IRD.

Question 13: In your view, if we were to move away from a conservative mandate, which would be the more suitable investment strategy for a default fund – balanced, aggressive or life-cycle based? Please explain your response, giving consideration to costs and risks?

3.24. If the intention is that the new mandate is to apply to existing default investors, it will be a significant undertaking to move to life-cycle funds at this stage of KiwiSaver. It would require substantial Government communication and cost and it is likely to have some negative consequences for the KiwiSaver brand.

Question 14: Do you have any other suggestions for an investment approach? For example, what about a balanced investment strategy with a switch to conservative/cash five - ten years out from NZ Super eligibility?

3.25. The investment approach suggested has merit. This approach is similar to life-cycle products in that it uses a "*one size fits all*" approach, and therefore will not be the right choice for many members. However, as longevity increases, members, particularly those with higher balances, should theoretically have greater exposure to growth assets.

3.26. Instead of moving from a conservative mandate, the strategic asset mix towards growth assets could be increased from the current 15% - 25% range to a 30 - 35% cap. It is a common view that a minimum 30% allocation to growth assets such as shares and listed property is required in order to maintain a long term hedge against inflation. Altering the current asset allocation towards a more balanced allocation in this way would not significantly increase costs to the member and the risk exposure will still be suitable for an overwhelming majority of members. Allied to increased member engagement requirements this would potentially allow the status quo to be maintained but improve return outcomes and reduce the impact on existing default investors.

Question 15: Is it reasonable to assume that some people in the default fund are there because they are intending to withdraw funds for a first-home purchase?

3.27. Yes, simply because it is unreasonable to assume the opposite.

Question 16: To what extent do you think the first-home withdrawal facility should influence the design of the default product? Please explain?

3.28. This facility should not be the overriding factor. However, the design needs to ensure that these members are not exposed to unnecessary risk. The Discussion Document states that the Government is a "*de facto investment adviser*" for default members, and thought should accordingly be given to whether it is appropriate for the Government to advocate a solution that may be significantly unsuitable for a sector of default members.

Question 17: What, in your view, is the best approach to deal with members intending to use their KiwiSaver for a first home purchase?

3.29. This will depend on the member's timeframe. A member who intends to buy a house within five years will have a different investment profile to a member who intends to buy a house in 15 to 20 years. BTNZ factors the investment horizon into the member's risk profile.

Question 18: Do you agree with our analysis of active versus passive investment management? If not, why not?

3.30. BTNZ has a fundamental belief in the value of active management over the longer term. Listed and unlisted markets cannot be fully efficient, as not all business or asset information is reflected in prices and all investors have different time horizons and objectives, as well as differing levels of information and skill.

3.31. Research shows that a carefully and well constructed investment portfolio utilising the skills of several investment specialists can reduce the overall volatility (risk) of a given portfolio without impacting on investment returns. This supports the case for active management and exploiting identified, managed and measured risks will result in opportunities for capturing active returns.

3.32. Even across larger, more efficient markets, an active approach to investing is warranted. However, where markets are more efficient there is a place for more passive investment management. Ideally, investors would be provided with a choice and the relevant information required to enable them to make that choice.

Question 19: What asset classes, if any, do you think would be best suited for a passive investment approach? What asset classes do you think should only be delivered via an active investment approach? Please explain your answer?

3.33. Determining whether and to what extent active management is taken within each asset class is driven by analysis of the evidence of historic value-add delivered by active managers within each sector.

3.34. As noted above, a passive or semi-active approach may be warranted when investing across markets deemed to be more efficient and where the opportunities for active management are scarcer.

3.35. The Westpac KiwiSaver scheme investment funds have since inception generally been managed on an active basis. Since inception this scheme has demonstrated an ability to outperform the market delivering added value to the customer base.

Question 20: In your view, do you consider the rationale listed above to be accurate? If not, why not?

3.36. BTNZ's definition of alternative investing excludes listed property securities, which are considered more mainstream. This is because the strategies used in that asset class are generally long-only investments in publicly listed securities, similar to investing in general stocks.

3.37. Since inception, the Westpac KiwiSaver scheme has had a small allocation to Alternative Investments (predominantly Hedge Fund investments and Commodities) as appropriate to the profile of the relevant fund. The main drawback of broadening this mix to include Private Equity funds is the illiquid nature of such investment funds as well as the relatively high and opaque fee structures, factors identified in the Discussion Document. Fees for Private Equity funds tend to be much higher than for other traditional asset classes and often come with a structure that is dependent on the final outcome of the investments, which may or may not align with the member's investment time frame. The illiquid nature of Private Equity also severely impacts the manager's ability to rebalance the portfolios.

Question 21: Do you have any suggestions or proposals as to how the asset classes might be made more attractive for KiwiSaver investment?

3.38. No. In BTNZ's experience, alternative assets are already attractive.

Question 22: Are there any other key considerations? If so, please explain?

3.39. BTNZ does not have any further comments.

Question 23: Do you agree with our analysis of the existing KiwiSaver market and the role of scale and fees? If not, why not?

3.40. In general, yes. It is also worth noting the context of current fees, particularly given the significant establishment costs and ongoing change in KiwiSaver since establishment. It is not possible to verify the projected growth in provider revenues.

3.41. Establishment costs are increasingly a red herring, as the KiwiSaver provider market becomes saturated and the number of newly-established schemes reduces. However, there needs to be a sufficient number of providers to offer choice and reduce the perception that the sector has an implied Government guarantee. It is sensible to provide a position of leadership on fees but not to the extent of being anti-competitive or damaging the market.

3.42. It should also be noted that costs are potentially scalable to differing degrees and that underlying provider costs, such as underlying manager fees, are also charged on a percentage basis. This reflects global industry practice and applies to entities such as the New Zealand Superannuation Fund. There is at least a degree of alignment between providers and members as an increase in performance will generally result in an increase in funds under management. The financial risks for providers and trustees increase in proportion to funds under management, and fees should therefore be charged in such a manner that they reflect the funds under management.

Question 24: Please outline what you consider to be the pros and cons of the options suggested above. Please detail your preference and why?

Option One: Fixed Fee

3.43. Fixed fees provide certainty and are easy to calculate. However, commercially they are likely to be set at a higher level initially to cover fixed costs. Some providers may change their investment proposition in order to save costs.

Option Two: Tiered Fee

3.44. Tiered fees address the commercial requirement for providers to set higher fees initially to cover fixed costs. Tiered fees are more complex, but members will benefit from lower management fees assuming all providers achieve the required economies of scale. Tiered fee structures may be confusing for members and add some complexity for providers.

Option Three: Consider separating the administration functions from the asset management functions

3.45. Under this option, fund managers of default providers will only need to concentrate on managing the investment, while investors benefit from lower administration fees due to the achievement of economies of scale.

3.46. However, centralised administration would be expensive to set up and would have a significant impact on provider systems and processes. In particular it would have a considerable impact on provider businesses as operations would still be required to support other non-KiwiSaver products. This option could result in an increased perception of a Government guarantee. There will need to be standardised administration procedures agreed to by all default providers. This might take a long time to set up across the industry. There may also be high volumes of errors in the early period after adopting new procedures. This option would be more appropriate in a start-up situation, if at all.

Question 25: Are there other possible approaches for reducing fees, for example a risk-sharing approach whereby fees are not charged on negative performance relative to market performance? Please detail any proposals you might have?

3.47. A performance based fee or a risk-sharing approach is not appropriate for KiwiSaver default schemes. Performance-based fees tend to generate high overall fee loads at the customer level as fund managers compensate for the variability of income.

3.48. A further disadvantage associated with performance based fees is that a manager's ability to fund its operations would be severely impacted during periods where markets are falling (approximately 33% of the time). As a result, managers would have less ability to allocate resource to spend on research and investment management, at the very time when managers would be otherwise looking to deliver the strongest performance outcomes for their clients.

3.49. Such a fee structure could also encourage managers to invest client assets in an overly conservative manner so as to not incur any losses when markets are falling.

This will be to the detriment of long term investment outcomes for KiwiSaver members.

Question 26: Which of the two broad options for default providers do you consider the most appropriate (i.e. a limited number of qualifying providers (status quo) or all providers supply a default product)? Please provide reasons and rationale for your answer?

3.50. A limited number of qualifying providers is most appropriate, because it:

- provides significant scale benefits and choice for members;
- allows a market benchmark standard to be achieved;
- allows regulators to create a set standard, which in turn is easier to monitor and enhances comparability; and
- encourages qualifying providers to be diligent, in order to keep their default provider status.

Question 27: What do you regard as being the benefits and/or risks of having fewer providers? To what extent are these risks present if there are many providers?

<u>Fewer Providers</u>

3.51. In addition to the benefits set out at paragraph 3.50 above, having fewer providers is likely to increase the financial strength of those providers while increasing visibility and potentially driving a higher standard of care. However, there will be some concentration risk (although this will be less severe than if there were just one default provider). A smaller group of providers potentially leads to a public perception that those providers are in some way more credible than the non-default providers.

<u>Many providers</u>

3.52. There is no confirmed standard for default funds and, as identified in the Discussion Document, a wide range of investor outcomes should be expected. It is more difficult to monitor and compare a larger number of providers and there is therefore an increased brand/reputational risk for KiwiSaver due to an increased risk of mismanagement by a default provider. It is also more difficult to achieve the same economies of scale; accordingly, fees are likely to be higher.

Question 28: What are the key criteria you think the Government should employ in selecting default product providers?

3.53. The following criteria should be considered when selecting default product providers:

- robust operation and governance;
- investment capability;
- fees;
- capacity for providing investment advice;
- scale of business; and
- financial stability.

Question 29: What proportion of costs can be separated between asset/investment management and administration/back office functions?

3.54. While these costs can be separated, the feasibility of separating costs between asset and investment management costs and administration costs is likely to depend on the underlying investment model. Similarly, the proportion will differ depending on the operating model.

3.55. For example, if managers invest through investment vehicles managed by third party investment managers, which is commonplace in New Zealand, a complete allocation of costs at an underlying level many not be visible to the top line manager.

Question 30: What do you think are the pros and cons of requiring default providers to undertake financial education of their members? Are there other solutions that might work?

3.56. Financial education by default providers has the potential to increase engagement levels of default members, and should encourage active choice decisions. Increased financial education may also encourage a shift from discretionary spending to saving, as well as investment planning, which aligns with the goals of KiwiSaver.

3.57. Requiring an education initiative by default providers will incur additional costs which will fall to either providers and/or members. Any education initiative would need to be coordinated across the industry and standardised to ensure consistent terminology and explanations are provided. Clear guidance will need to be issued by the Financial Markets Authority as to how education initiatives will be regarded in light of the Financial Advisers Act 2008. It may also be difficult to measure effectiveness.

Question 31: Financial advisers/providers – can you provide suggestions and cost estimates for a programme of engagement with default members to help them transition to active choice products?

3.58. There is a spectrum of potential engagement, some of which is more suited to providers and some of which can only be implemented by the Government. This could range from providing a generic brochure with the member's welcome letter that provides an overview of investing generally, risk/return and fund types et cetera (although this is dependent on the contact information provided by IRD), to online materials, to proactive outbound calling programmes to default members. At the other end of the spectrum, the Government could consider more radical options like only paying member tax credits if the member has completed an online learning module, or withholding these credits until the member has made an active choice.

3.59. It is somewhat difficult to provide cost estimates at this stage, but BTNZ does not consider this cost is likely to be prohibitive.

Question 32: Please provide any comments or thoughts you might have regarding a possible transition process.

3.60. The transition process has the potential to be highly disruptive to members and providers. This will be dependent on what (if any) changes are made to the existing default arrangements.

3.61. Option one could be an appropriate option if additional measures are implemented to increase active choice and reduce investor inertia, and to address the allocation to growth assets.

3.62. Option two will be expensive and would need to be carefully timed. There are implications for providers and the market more generally as a result of the bulk transfer of members over a short period of time, including market risk and increased price volatility in underlying assets. This has the potential to negatively impact members and by extension the KiwiSaver brand.

3.63. Option three is likely to result in very low response rates and incur additional costs. BTNZ's recent experience with a new fund election was a response rate of approximate 6.5%.

3.64. The comments in respect of option two also apply to option four. In addition to these comments, an "*opt out*" approach is unlikely to be popular with the public.

3.65. In addition, options two to four above will require a series of complex communications to current default members to explain both the increased risk of the new default fund and the reasons for the change. These communications are likely to be significantly challenging in light of current lower levels of investor literacy.

3.66. Adopting a life cycle approach now would be a significant change given investors have experienced strong returns from conservative funds in the past five years.

Question 33: Financial advisers/providers – what is your experience to date with those members eligible to withdraw their savings? Are there specific patterns of behaviour that you have noted?

3.67. Most members who have withdrawn from KiwiSaver have opted to withdraw completely. However, this is viewed as being primarily a result of an initial bubble of members seeking to capitalise on the KiwiSaver incentives, and is expected to shift over time. Approximately 50-60% of members who are eligible to withdraw have done so, and of these 86% have made a full withdrawal.

Question 34: Can you identify any barriers that exist to prevent a market developing in New Zealand for decumulation products?

3.68. The significant barriers to decumulation products are the current tax regime and the relative lack of long dated assets available for providers. New Zealand Superannuation also performs a similar function to an annuity.

3.69. Similar to overseas markets, if a thriving annuities market is to exist in New Zealand, it is likely to require Government assistance.

3.70. There is also the issue of investor education and perception. It will be necessary to engage the public on how they will manage the decumulation of their KiwiSaver funds before the issue crystallises.

3.71. As identified by the Discussion Document the current average balances do not lend themselves to annuity products as the annual income would be minimal over approximately 20 years. It is expected that the market will evolve as consumer demand for annuity products increases, but not without help from the Government. A scenario based on BTNZ customer data illustrates the current position:

- the average total of savings plus KiwiSaver is $26,000 for 50-60 year old customers;
- for customers who pay off their mortgages, around 40% become "*savers*" and on average save $7-8k per person per annum; and
- if a customer has $26,000 in savings at age 50 and contributes $8k per annum into further savings and investments returning 3.5% after tax, then the accumulated balance would be $197k at 65 years old. This would produce an interest stream of approximately $130 per week (assuming 3.5% return after tax) or $220 per week if they ran the capital down to zero at age 90.

Therefore, even people who are currently 50 - 60 years old who paid off their own homes will be heavily dependent on New Zealand Superannuation.

3.72. Despite substantially larger superannuation balances, Australia also has a relatively small annuities market. The market for reverse equities is also small but grew 10% in 2011 to 42,000 loans and $3.3bn of lending.[1] In February 2012 Australia's professional body for actuaries, the Actuaries Institute, released a discussion paper titled *Exploring barriers to Australia's annuities market*. Barriers cited include:

- awareness of annuities;
- cost of annuities; and
- legislative, political and tax barriers.

3.73. The paper noted that in countries with developed annuities markets there is often some form of soft or hard compulsion to purchase annuities with superannuation funds.

4. OTHER COMMENTS

4.1. BTNZ has identified other areas where KiwiSaver initiatives could have a beneficial effect for members. These are noted here for consideration, as they do not fall directly within the scope of the review of the KiwiSaver default provider arrangements.

[1] SEQUAL Deloitte Research Report to December 2011

4.2. The BTNZ customer base illustrates that KiwiSaver balances for women are lower than for men from the age of 16 years. The greatest discrepancy of 25-30% appears between mid thirties to mid forties. This may reflect:

- women choosing lower contribution rates than men;
- lower average wages for women; and/or
- career breaks that women may take when focusing on child care.

4.3. Particularly with respect to the final point, the Discussion Document raises the issue of the high impact that contribution breaks have on overall asset accumulation over time. These will adversely affect a woman's overall nest egg at retirement age. Initiatives that address the discrepancy between genders could have a broader economic benefit.

4.4. It is also noted that in Australia it is possible to get life, total permanent disablement and income protection insurance through your superannuation scheme. This has the advantage of an effective 15% tax deduction and comes straight out of the super balance. A similar scheme in New Zealand could increase insurance coverage. Sixty-three percent of the population are estimated to have no life insurance or are severely underinsured[2].

4.5. New Zealanders aged 55+ have 70% of their gross wealth in their own home[3], and accessing this equity could enable people to enjoy a higher quality of life by:

- allowing retirees to spend longer living at home; and
- improved health from insurance and basics such as home heating.

4.6. Fourteen New Zealand local councils have a Rates Postponement Scheme in place and BTNZ would encourage further consideration by the Government as to the potential benefits of equity access.

[2] Exploring Underinsurance within New Zealand, Massey & the Financial Services Council, 2011
[3] Roy Morgan State of the Nation, 2012