

19 November 2008

Hon Paula Bennett
Minister of Social Development and Employment
Parliament Buildings
WELLINGTON

Dear Minister

Retirement Commissioner: Briefing for Incoming Minister

I am looking forward to working with you on retirement income and personal financial education issues. When we meet I would like to brief you on the Retirement Commission's personal financial education programmes, our research and monitoring, and to discuss issues related to retirement income policies.

The Ministry of Social Development has provided you with some information on our functions, funding, role and activities. Below are some key points as background to our meeting.

I am also enclosing a copy of *Helping New Zealanders to be financially sorted* which summarises how we are working to achieve the Commission's vision: 'New Zealanders are financially sorted'.

Retirement Commission at a Glance

Key Legislation	NZ Superannuation and Retirement Income Act 2001 Retirement Villages Act 2003
Established	1993
Status	Autonomous Crown Entity
Retirement Commissioner	Diana Crossan
Crown Revenue 08/09	\$5,682,000
Staff	Seven
Key Functions	Financial Education Retirement Income Policy Reviews
Other Functions	Retirement Villages (monitoring)

What We Do And Why

People need to make important choices about their finances throughout their lives to ensure adequate provision for retirement. New Zealand's retirement policy framework relies upon a mix of private and state funding. Therefore there is a need for information so that people will have the knowledge to make their financial choice within this environment.

The key underlying assumption used in financial planning for retirement is that the current and future governments will continue to support state funding of retirement incomes at a basic level. Successive governments have confirmed this policy stance over many years.

Based on that key assumption, the rationale for the results we seek and the way we do our work, is as follows.

- To have reasonable expectations of receiving total retirement incomes in excess of the basic level of New Zealand Superannuation, individuals will need additional retirement income from private and non-government sources.
- The quality of life of retired New Zealanders will therefore depend significantly on many decisions they make about their personal finances throughout the course of their lives.
- Individuals have freedom of financial choice, but will make better financial choices when provided with information and education about financial options and the implications of various courses of action.

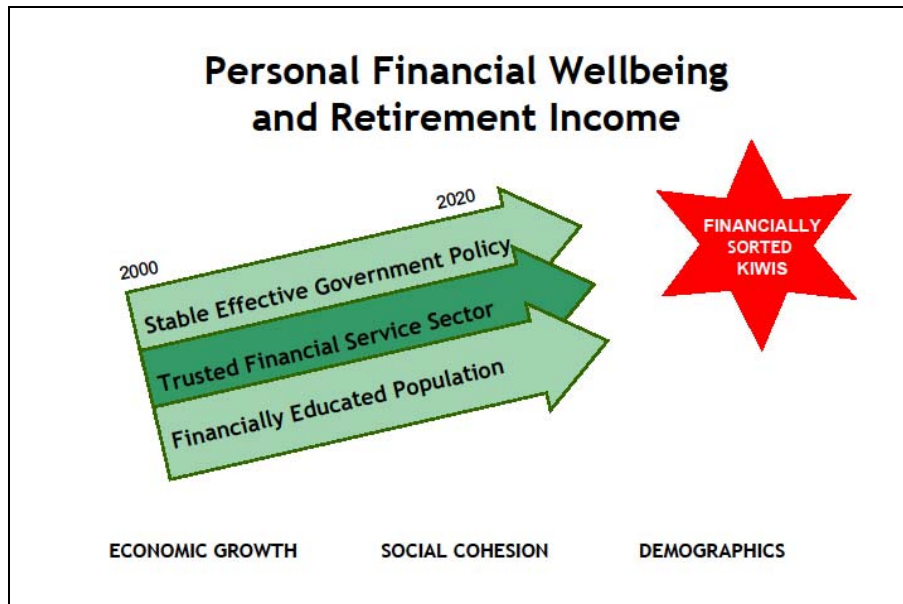
The Retirement Commission provides impartial personal financial education to New Zealanders throughout their lives. We work with a range of stakeholders in public, business, government and community agencies to achieve our goals.

Financially Sorted New Zealanders

A financially literate population is a necessity in our modern society and economy. Improvements in financial literacy contribute to both social and economic outcomes, helping to bring about economic growth, a better standard of living for everyone and greater efficiencies in the financial sector.

The Retirement Commission helps New Zealanders prepare financially for retirement through education, information and promotion. Our work contributes to three key elements that are vital to New Zealand's retirement income framework and to creating personal financial wellbeing for New Zealanders:

- creating a financially educated population
- developing a trusted financial services sector
- maintaining stable effective government policy.



These three elements need to be in place so that all New Zealanders have the confidence and ability to make informed and lasting decisions about their finances throughout their lives.

Financially Educated Population

Our goal is that New Zealanders are well educated in financial matters and can make informed financial decisions throughout their lives. We want all New Zealanders to be financially sorted - from the age of 5 to 105.

National Strategy for Financial Literacy

This year New Zealand became one of the first countries to develop a national strategy for financial literacy. The Retirement Commission led its development with the input of many individuals and organisations across the public, private and not-for-profit sectors.

The National Strategy for Financial Literacy sets a direction for improving financial literacy in New Zealand and achieving the outcome of a financially literate population. It focuses on linking providers of financial education and information, identifying any gaps in coverage and avoiding duplication.

The strategy highlights a range of tactics for lifting the nation's financial literacy. These include the recent addition of financial education to the school curriculum, developing new standards for transparent and user friendly forms of financial disclosure and product description, and continuing to provide information and tools to help people make informed decisions about their money.

A Strategy advisory committee has been established which will report annually to Parliament through the Retirement Commission. Members of the inaugural committee are Alan Bollard (Governor, Reserve Bank), Sean Carroll (Chair,

Investment Savings and Insurance Association), Jane Diplock (Chair, Securities Commission), Karen Sewell (Secretary for Education) and myself.

Financial Education

The Commission takes a lifetime approach to educating and informing New Zealanders about managing personal finances. Financial attitudes and behaviours start early in life, as do opportunities to build the basic skills of literacy and numeracy needed to make sound financial decisions. The Commission works in schools, the tertiary education sector, in the workplace and with adults and older New Zealanders in the community.

The Commission is best known to New Zealanders through the Sorted website and booklets. The website offers free impartial information, including 32 interactive calculators, to help Kiwis of all ages understand money matters and manage their personal finances throughout life.



The Sorted programme has been very successful in terms of uptake and action taken. Since the Sorted website was launched in 2001 it has attracted nearly five million unique visitors. Each of those visits represents someone accessing information for more than five minutes. Visitor numbers average more than 100,000 each month.

Surveys of Sorted users show a high proportion take some sort of action with their personal finances as a result of visiting the site, be it taking steps to reduce debt, developing a budget or setting new financial goals. Since 2001 people have made nearly 16 million calculations using Sorted's 32 different calculators.

When we meet I'd like to show you through Sorted and some of the promotional material we use to encourage people to visit the site.

Our other key financial education initiatives include our work with the Ministry of Education and other agencies to develop a framework for personal financial education which will help teach students money skills for life. A trial programme,

funded by the country's banks, started in June in ten schools across the country. The programme will be independently evaluated and is expected to be handed over to the Ministry of Education mid-next year.

Another earlier programme, developed with Ngāi Tahu and Te Puni Kōkiri, focused on delivering financial education to Māori students and their whānau in seven South Island schools. We have given the teaching resources from this programme to the Ministry of Education so it can make them available to other schools wanting to extend financial education to the Māori community.

A group of organisations, including the Commission, is also helping the New Zealand Qualifications Authority develop NCEA qualifications for use in senior secondary schools and tertiary institutions.

In the community we are working with groups such as Waipareira Trust, City of Manukau Education Trust (COMET), Ngāi Tahu and the adult community education network to assess how Sorted's resources can be adapted to meet the needs of these groups. We also provide funding to two other groups, Enterprise New Zealand Trust and the NZ Federation of Family Budgeting Service, to support specific areas of their work.

In 2006 we launched a three-year workplace financial education programme. The objective was to help New Zealanders make decisions about participating in KiwiSaver, or other savings options, in the context of their wider personal financial situation. Additional funding from the 2008 Budget has allowed us to continue this programme.

We have developed a range of resources to help people make decisions about KiwiSaver. These include three online calculators, a booklet and a downloadable workplace seminar. New Zealanders have made more than 800,000 uses¹ of these resources since May 2007. All our KiwiSaver resources will be adjusted in line with any changes made to the KiwiSaver scheme, although there will be associated costs.

In 2005 the Commission, in association with ANZ, carried out the first national survey of financial knowledge levels of adult New Zealanders. Next year we will repeat the survey to find out how those levels have changed in the past four years.

Through the Commission's initiatives and others, New Zealand has been an early adopter of financial education. Our experience and expertise is often sought and emulated by other countries around the world as they begin to develop their own financial education programmes.

¹ This is a conservative estimate as we do not know how many people have benefited from the workplace seminars. 'Use' is defined as an order for a booklet, use of a calculator or download of a seminar module.

During the coming year the Commission's financial education and information activities will be brought together under a new banner - Centre for Financial Literacy. A new website financialliteracy.org.nz will be a major communication tool for the centre and will house the National Strategy for Financial Literacy.

With the Commission's focus on financial literacy throughout life, the word 'retirement' in my designation 'Retirement Commissioner' is problematic. It gives New Zealanders the impression my interest is mainly retired people whereas our key audience is younger New Zealanders and encouraging them to manage their finances well through life. I would like to discuss this with you.

Financial Literacy Policy

The Retirement Commission has led the development and delivery of most financial education initiatives in New Zealand since the mid-1990s. A number of other government agencies, not-for-profit and private sector organisations have delivered some programmes in their areas of interest. However, there is no organisation within central government that develops high level financial literacy policy.

To fill this gap the Commission produced the National Strategy for Financial Literacy in consultation with the private, public and not-for-profit sectors (see above).

Recently the Financial Markets, Savings and Investment Group (FMSIG), comprising Treasury, the Ministry of Economic Development, Inland Revenue and the Reserve Bank, has taken an interest in financial literacy as a 'factor important to a well-functioning financial market'. This is certainly an important role, among others, for financial education.

Following a working group being set up by FMSIG, MED is planning to provide Cabinet with a paper in February 2009 on *Developing New Zealand's Financial Literacy Support Infrastructure*. In my view, more government support for financial education would be beneficial. I would like any new approach to the policy or delivery of financial education to use the National Strategy for Financial Literacy as a foundation.

A Trusted Financial Sector

There are many and varied parts of the financial sector: banks, finance companies, insurance companies, investment companies, the managed fund industry, third tier lenders, credit unions, brokers, advisers, the stock exchange, trust companies, building societies, mortgage brokers, reverse mortgage providers, as well as the consultants who support the sector, such as actuaries. All are involved in either designing or distributing financial products and services.

The industry is a critical part of New Zealand's social and economic fabric. It is fundamental to ensuring Kiwis can manage their finances well throughout life and

prepare financially for retirement. New Zealanders must have a financial sector they can fully trust.

In my view, many parts of the industry achieve high standards, but it is not universal. I regularly receive calls or hear comments from people about their interactions with the financial sector. Issues of concern include commission structures, lack of fee transparency, pushy sales, complex products and documentation, sales of inappropriate products, products that fail to perform as expected, over-zealous promotion, exorbitant interest rates, unapproachable institutions and archaic products. Such problems undermine trust in the sector as a whole.

The financial sector reforms led by the Ministry of Economic Development, following the Product and Providers Review, have resulted in new legislation that should help improve transparency, accountability and trust in the sector. The Financial Advisers Act 2008 and the Financial Services Providers (Registration and Dispute Resolution) Act 2008 set a new standard for that section of the financial sector. Potential changes to legislation regarding the insurance sector may also raise the bar.

I will do what I can to help government and industry initiatives to build trust in the sector. The Retirement Commission provides information on the Sorted website to help consumers interact with the sector. I regularly meet with the sector's peak bodies and chief executives of major institutions, and our reviews of retirement income policy provide the opportunity to monitor progress.

Stable Effective Government Policy

2007 Review of Retirement Income Policies

The Retirement Commissioner has a statutory responsibility to 'review the retirement income policies that are being implemented in New Zealand'. These reviews, which replaced the six-yearly Periodic Reports, are required every three years. The next review is due by 31 December 2010. As the Responsible Minister you are required to set the terms of reference for the review, after consultation with me, by 31 December 2009. The terms of reference and my final report to you must be tabled in the House.

I completed my first review in December 2007. The topics covered included New Zealand Superannuation, private savings, KiwiSaver, the financial markets, information and education, employment of older workers, managing assets and income in retirement, and taxation issues. The review also focused on the fiscal affordability of current retirement income policy and highlighted the importance of gathering accurate information on future costs. I made 27 recommendations.

The government responded to my review on 18 June 2008. A cross-agency working group has been set up to respond to some of the recommendations. The group will 'assess the future sustainability and adequacy of current retirement income and

related policies, taking into account the social and economic dimensions of population ageing'. The findings of this work are to be reported by May 2009. I will be reporting in mid-2009 on progress made on all the recommendations in my 2007 Review.

These reviews are an important part of the policy setting and review process for retirement income. They provide an independent, long-term, fact-based perspective to an issue that can too easily be driven off course by political, emotive or short-term expediency. Further, retirement income policies have different aspects which fall within the responsibilities of different departments. Looking at the issue holistically once every three years provides a useful focus.

It is important to have stable and effective policies for retirement income so New Zealanders can plan financially for their retirement with some certainty that the policy is not going to be significantly and unfavourably changed without due notice. For those who are close to retirement or retired, there is little opportunity to respond to such changes.

The reviews, which include consultation with the private sector and a submission process, provide the opportunity to monitor the effectiveness and sustainability of policy, thus helping to avoid sudden, major changes. I believe the reviews result in more stable and effective policy and the public can have greater confidence in it as a result.

Retirement Villages

A key purpose of the Retirement Villages Act 2003 is to protect the interests of residents and intending residents of retirement villages.

Under the Act the Retirement Commissioner is responsible for:

- monitoring the effects of the legislation
- approving members of disputes panels
- providing information as required by the Act
- making recommendations to the Minister on any draft codes of practice.

The responsible Minister for the Retirement Villages Act 2003 is the Minister for Building and Construction. As part of our quarterly and annual reports I provide you with reports on our activities related to retirement villages, and copy these to the Minister for Building and Construction.

The Retirement Villages Act 2003 was brought fully into force this year with the approval of the Code of Practice 2008. The Code sets out the rights and obligations of operators and residents and provides a set of minimum standards that all retirement village operators must meet. The Code has been notified in the Gazette and will come into effect on 2 October 2009.

I will work with the Department of Building and Housing during the coming year to monitor the application and effects of the Code to ensure it is providing the necessary consumer protection for residents. However, I believe the real need is for the Act to be reviewed as soon as possible, particularly to improve the complaints and disputes process.

As part of our monitoring role under the Retirement Villages Act 2003, the Commission has developed a five-year programme. Our first project is monitoring the role and function of Statutory Supervisors under the Act. This is progressing well and I expect to receive the report in late November.

When the Retirement Villages Act 2003 was passed the Department of Building and Housing did not exist. The Department assumed responsibility for the Act on 1 July 2005 and in August 2007 I formally delegated my advice role and education and information responsibility. I believe the Department should now assume most, if not all of the Commission's responsibilities in relation to retirement villages. Our current responsibilities do not fit well with our financial education and retirement income functions.

I will forward a copy of this briefing to the Minister for Building and Construction and the Minister of Education highlighting the information relating to their portfolios.

I look forward to our first meeting.

Yours sincerely

Diana Crossan
Retirement Commissioner