

NZFUNDS

Building Wealth at Work

211
workshops
held

2,952
employees
have attended
a workshop

115
companies
participated

IMAGE: 'AUCKLAND CITY FROM SKY TOWER'
PHOTOGRAPHER: CHRIS GIN

After several years of advising KiwiSaver clients, it became apparent that KiwiSaver on its own is unlikely to be sufficient to meet New Zealanders' retirement needs. In September 2012, NZ Funds decided to tackle the issue at its source (the workplace), by building a financial guidance programme called Wealth at Work. Since then, with the help of 115 companies throughout New Zealand, we have helped 2,952 employees with their retirement planning. This article provides an overview of the interesting array of issues faced by employers and employees.

The employers' challenge

Many New Zealand companies are committed to rewarding their employees with a competitive salary and benefits programme. They work hard to ensure their rewards and employee wellbeing programmes are best in class and comply with the law. Over time, attracting, motivating and rewarding a quality workforce can make the difference between success and failure.

A rising proportion of employees' compensation is being funnelled into KiwiSaver. Five years ago employers contributed \$350 million towards KiwiSaver; this year contributions will exceed \$1.2 billion¹. Despite this, KiwiSaver is likely to meet only half employees' retirement needs, and significantly less if poor investment decisions are made along the way.

Most employees welcome the offer of financial guidance. 77% of employees do not know how much they need to retire on, 69% are not confident their current arrangements would meet their retirement needs, and less than 50% feel confident their household would survive a loss of income for three months.

BEFORE WEALTH AT WORK



SOURCE: WEALTH AT WORK SURVEY, 30 JULY 2013.

The danger with leaving these issues unresolved is that they can manifest themselves in increasing turnover rates among mobile employees, who seek different reward structures, and lower retirement rates amongst elderly employees, who fear they cannot afford to retire. The feedback from two of New Zealand's largest employers was that both situations commonly occur.

Rather than continuously increasing compensation, the solution may be in ensuring employees' reward structures are better aligned to their actual financial needs. Wealth at Work seeks to do this by providing employees with access to myWealth, a simple, intuitive and personalised software programme that enables them to calculate how much they need for retirement and plot their progress. This is complemented by providing access to regulated financial advice and employer facilitated workshops.

THE WEALTH AT WORK PROGRAMME



Employer facilitated workshops



myWealth personalised software



Regulated financial advice

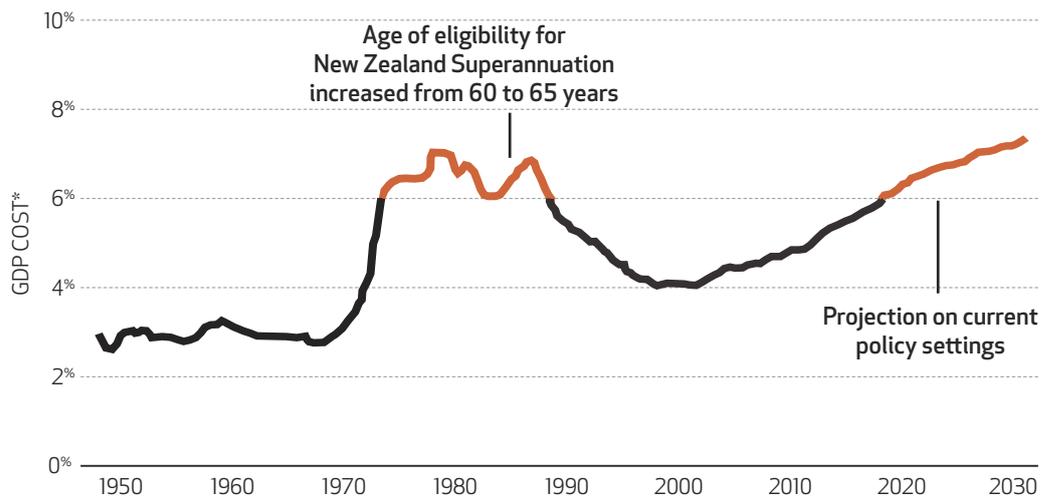
SOURCE: NZ FUNDS, 30 JULY 2014.

Why save for retirement?

A goal of the Wealth at Work programme is to address topics that are of use to employees (and management) at all levels of financial literacy. One such topic is the need to self-provide for retirement.

Like the rest of the developed world, New Zealand has an ageing population. The number aged over 65 years grew by 100% between 1976 and 2007 and will grow by another 100% by 2051 so that those over 65 years of age will make up one in four of the total population.² This means that, in the absence of any change, the cost of New Zealand Superannuation will nearly double as a proportion of gross domestic product. In many developed countries, the simple answer has been to increase the age of entitlement. We expect this to also happen in New Zealand. Interestingly, increasing the age of entitlement is also likely to alter when New Zealanders can access their KiwiSaver savings.

NEW ZEALAND SUPERANNUATION AND THE "UNSUSTAINABLE RED ZONE"



SOURCE: THE NEW ZEALAND TREASURY, *BEFORE TAX, AS A PERCENTAGE OF GDP.

Of more concern than the rising age of entitlement is the standard of living New Zealand Superannuation provides. At \$367 a week for an individual, or \$565 a week for a couple, New Zealand Superannuation is unlikely to meet employees' retirement needs. A recent study by Ashton and O'Sullivan (2012) found that New Zealand Superannuation was insufficient to fund a healthy lifestyle in retirement.

NEW ZEALAND SUPERANNUATION NEEDS SUPPLEMENTING



SOURCE: ASHTON, T. & O'SULLIVAN, J. (2012), A MINIMUM INCOME FOR HEALTHY LIVING (MIHL) – OLDER NEW ZEALANDERS, FINANCIAL SERVICES COUNCIL: HOW TO SUPERSIZE RETIREMENT INCOMES.

What do employees need to retire?

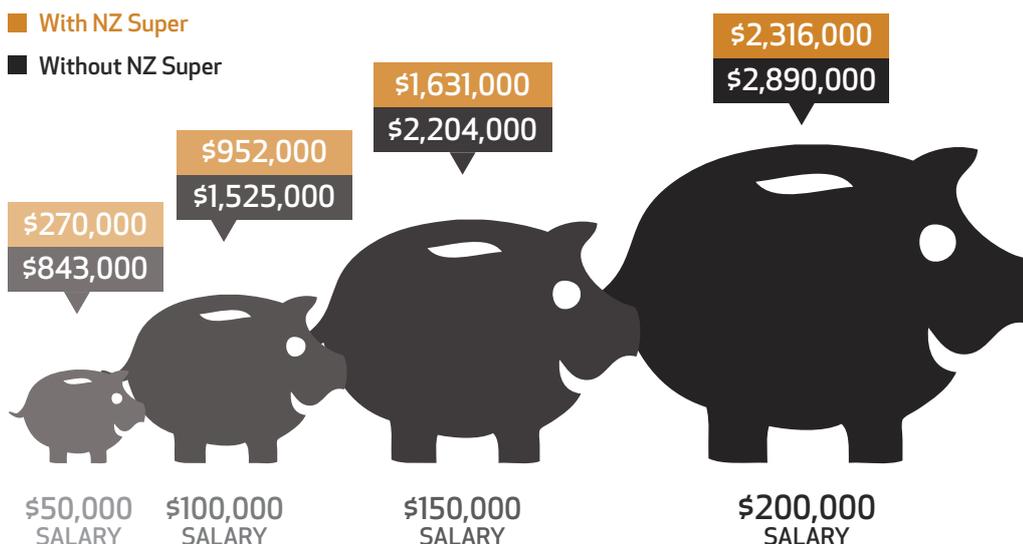
When the results of myWealth's 5,786 users are aggregated, a clear picture of what employees seek for retirement emerges. The average employee wishes to retire at 64, on 61% of their final income and expects to spend 27 years in retirement.

Most employees who had been through the workshop, "Why Save for Retirement?", chose not to include New Zealand Superannuation in their retirement calculations, signalling they see any future New Zealand Superannuation payments as a bonus. This mindset should enable them to navigate any future change in eligibility without impacting their retirement confidence.

At first sight employees' wealth targets for retirement were intimidating, but as the options employees had at their disposal were explained, the programme demonstrated that most retirement objectives are neither unreasonable nor unachievable.

Interestingly, 59% of employees modelled keeping their home rather than using the equity built up to fund their retirement. This should enable them to have sufficient funds to bridge any saving shortfall, or to fund an unexpectedly long retirement.

EMPLOYEE RETIREMENT WEALTH TARGETS

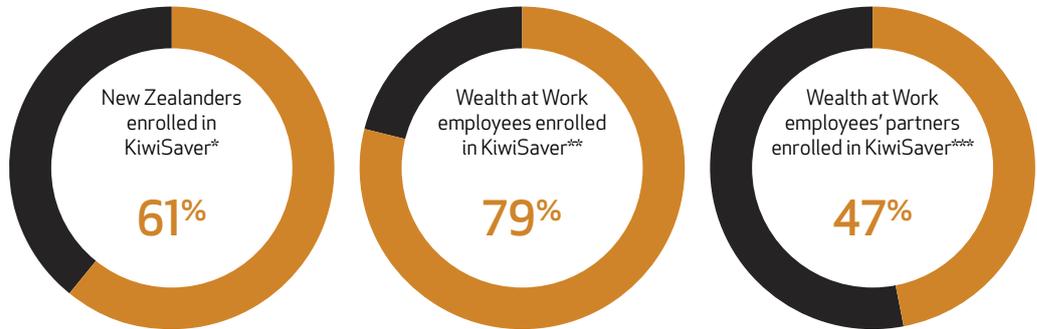


SOURCE: NZ FUNDS CALCULATIONS, BASED ON ASSUMPTIONS USED IN NZ FUNDS' MYWEALTH SOFTWARE, 7 APRIL 2014.

KiwiSaver: a great start, but not the whole solution

We had anticipated that communicating the merits of KiwiSaver would constitute a significant part of the programme. However, KiwiSaver participation rates amongst Wealth at Work companies were already significantly above the national average. Despite high participation rates, many employees were unfamiliar with the nuances of KiwiSaver, such as the ability to withdraw for a first home purchase and the flexibility of the contributions holiday provision.

KIWISAVER PARTICIPATION RATES



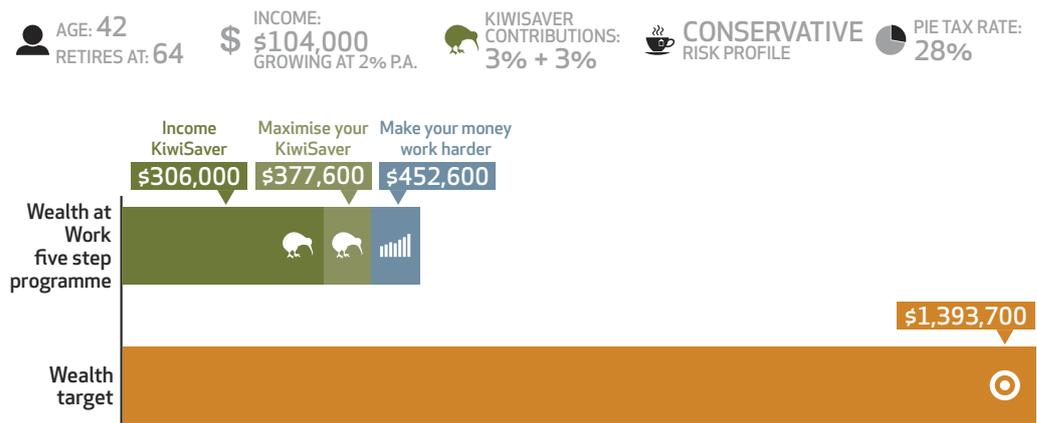
SOURCE: *INLAND REVENUE, ELIGIBLE NEW ZEALANDERS 18 - 64 YEARS, 30 JUNE 2013.
 WEALTH AT WORK PROGRAMME, 4 AUGUST 2014. *WEALTH AT WORK SURVEY, 30 JULY 2013.

The primary misconception that needed to be addressed was that by enrolling in KiwiSaver, and paying off the mortgage, employees' retirement objectives would be met. Unfortunately, being enrolled does not mean being sorted. The programme demonstrated that for the average employee enrolled in the programme, KiwiSaver would only meet 30% of his or her retirement needs.³

An area where value could be added was in ensuring employees harvest member tax credits of up to \$521 p.a. for partners and dependants over the age of 18. Our research found only 47% of Wealth at Work participants had done this. For a couple, with one partner not earning, this adds approximately \$71,600 to their retirement saving at little additional cost.³

A second area where employees could get more out of KiwiSaver without having to contribute more was in asset allocation. By helping employees understand their risk profiles and the benefit of holding a portion of their KiwiSaver in growth assets, the average employee had the ability to add an estimated \$75,000 to their retirement savings over a 22 year time horizon.³

GETTING THE MOST OUT OF KIWISAVER



SOURCE: NZ FUNDS CALCULATIONS, BASED ON AVERAGE MYWEALTH SOFTWARE USER, 7 APRIL 2014.

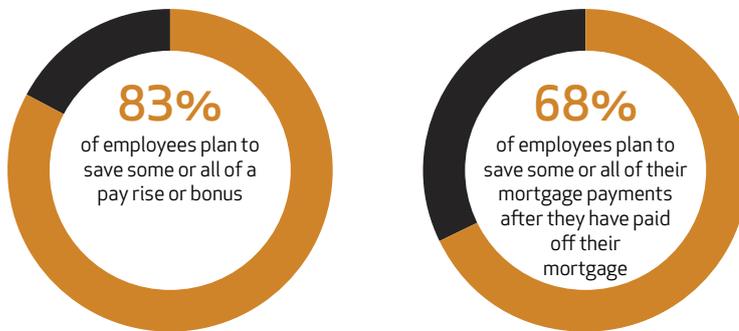
Bridging the remaining gap

For most employees the issue is not whether they are saving – almost all are in one form or another – but where to find extra dollars to save. We found the answer by listening to both employers and employees.

Employers felt they were rewarding skill and loyalty with rising rewards, but that savings rates were too low. Employees felt they needed all they were currently earning to live. However, when asked whether they would save more if their circumstances changed, most said “yes”.

83% of employees surveyed said they wished to save 52% on average of any increase in compensation. 68% planned to save some (or all) of their mortgage payments after they had paid off the mortgage. In both cases, employees’ existing lifestyles would not be impacted, in fact they would gradually rise, but not at the expense of their retirement wealth.

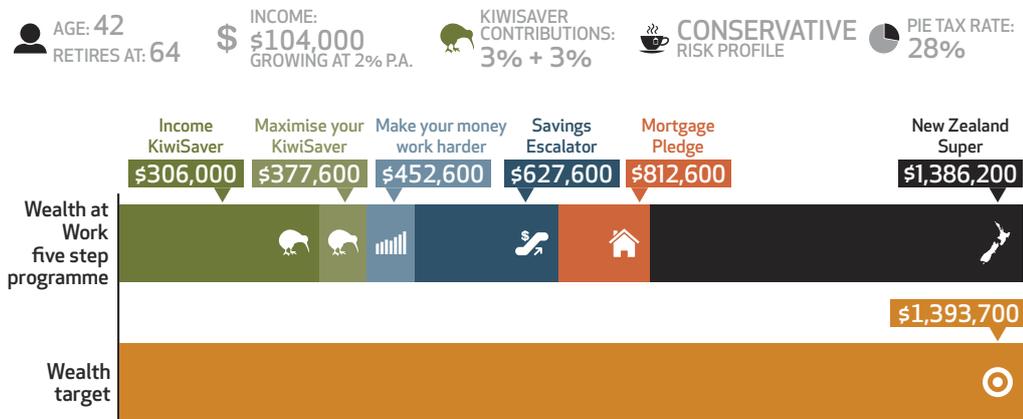
WAYS TO SAVE WITHOUT REDUCING YOUR CURRENT LIFESTYLE



SOURCE: WEALTH AT WORK SURVEY, 30 JULY 2013.

Despite their desire to do the right thing, employees must overcome an unnecessary quantum of form filling to turn theory into practice. Employers can play a valuable role by helping automate employees’ retirement savings. New Zealanders will need to save approximately 10% of their income over their working life to retire on similar terms to their counterparts in Australia, the United Kingdom and the United States.⁴ A work-based system where, in addition to KiwiSaver, employees can pledge to increase their savings rates if and when their remuneration increases, would be ideal.

USING WORK-BASED SYSTEMS TO BRIDGE THE GAP



SOURCE: NZ FUNDS CALCULATIONS, BASED ON AVERAGE MYWEALTH SOFTWARE USER, 7 APRIL 2014. ASSUMES SAVINGS ESCALATOR 1% OF GROSS SALARY EACH YEAR FOR FOUR YEARS.

The importance of regulated advice

The law has thrust employers into playing a prominent role in helping New Zealanders provide for retirement. It requires them to administer KiwiSaver and contribute financially. As employees become more engaged, the number and complexity of questions asked are likely to rise. Most human resource teams are ill suited to providing financial advice, and while the law provides liability carve outs, this does not necessarily protect the employer from civil action or employment disputes.

The Wealth at Work programme provides employees with access to Authorised Financial Advisers (AFAs). AFAs are able to provide personalised financial advice on all categories of financial products. They are also subject to a Code of Professional Conduct in addition to general obligations under the Financial Advisers Act 2008. AFAs are licensed and regulated by the Financial Markets Authority.

The significance of providing complementary access to an AFA should not be underestimated. It is one thing to present a concept in a workshop and quite another to help an employee apply the theory to their personal financial circumstances. Without the latter, the programme fulfils a theoretical role, not a practical one. For every workshop held, employees requested around three hours of one-on-one personalised financial advice.

WEALTH AT WORK RESULTS



SOURCE: WEALTH AT WORK PROGRAMME, 4 AUGUST 2014.

Summary

Every year New Zealand companies spend over \$1.2 billion on employee KiwiSaver contributions.¹ Until recently most companies have seen this as an obligation rather than an opportunity. By being a conduit to high quality regulated advice and personalised work-based tools like NZ Funds' myWealth software, employers can now help employees meet their retirement objectives and in doing so, ensure their company is regarded as a rewarding long-term career option for the best employees in their industry.

¹ Source: Inland Revenue Department at www.kiwisaver.govt.nz

² Source: Statistics New Zealand, Scenario: medium fertility, low mortality, net migration 10,000 p.a.

³ Source: NZ Funds calculations, based on assumptions used in NZ Funds' myWealth software, 7 April 2014.

⁴ Source: NZ Funds estimates, source material available on request, Australia 2012 estimated average 9% increasing to 12% by 2019, United Kingdom 2012 estimated average 9.7%, United States 2012 estimated average 10%.

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