

'The challenges of choice'
4 Questions

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'The challenges of choice' **4 Questions**

- What is the core role of our Superannuation industry ?
- Why is this so important ?
- Have we created choices for employers and investors ?
- Where to from here ?

The what ?

Essential part of our retirement incomes framework

A retirement savings system which is:

- Interdependently effective with the social welfare system
- Accessible and efficient across the payments, taxation, workplace and retail distribution environments
- Equitable - balances the interests of those who participate
- Ensures responsibility and performance by those who are given 'other peoples money' in trust

The why ?

- **New Zealanders have greater aspirations for their quality of life in retirement than the system currently delivers**
 - How do NZ Super & KiwiSaver compare to super in Australia ?
 - If only we hadn't changed super in the mid 80's ?
 - Compulsion isn't necessary for savings growth but 'opt in' schemes have not been as successful as compulsion
- **Government has 'finite' funding**
 - Government contribution is 'overweight' & burdens taxpayers
 - Co-contribution incentive approach is fiscally straining
 - Tax enhancement is an effective complementary mechanism
- **A national savings pool is a catalyst for economic growth**
 - Reduces reliance on foreign savings
 - Banks are not 'match funding' so can't deliver surplus capital
 - Protects NZ when the inevitable crisis comes
 - Alignment between long savings and 'nation building' projects

Have we created choices ?

There are many...

- **Distribution – access**
 - Employers
 - Bank branches
 - Advisers
 - Default
- **Products – schemes**
 - Plus 50 schemes – significant risk of rationalisation
 - Top 7 control c.90% market share
- **Fund managers**
 - Given local and offshore managers, we have a multitude

Have we created choices ?

...and there are few

- **KiwiSaver is a bit like the 'T Model' Ford – any colour you like as long as it's black...**
 - **It is our only form of superannuation with incentive**
 - **Structural simplicity of our system is world class**
 - **NZ has benefitted from the learnings of others**
 - **Can we resist the temptation to make it a political football ?**
- **Does it meet the needs of all prospective investors ?**
 - **Yes if you are a long term or work place saver**
 - **Limitations for broader investors – a challenge ?**
- **What drives the return to investors ?**
 1. **Cost**
 2. **Structure**
 3. **Tax effectiveness**
 4. **Asset allocation**
 5. **Fund or stock selection**

Have we created choices ?

Harder than it needs to be ?

Probably not

- **KiwiSaver is a market rich in choice of products that are:**
 - **Low cost**
 - **Simply structured**
 - **Tax effective**
 - **Strongly regulated**
 - **'Dollar cost averaging' investors into the market**
- **Given the investment by investors, government, industry & employers the system must be rigorously managed to maintain confidence and deliver benefits**
- **It would be tragic if we allowed investor benefits to be marginalised or mismanaged & we own this accountability**
- **Some obligations may be worth reviewing but providers should 'look inwards before they look outwards'**

Where to from here ?

Challenges - regulation

- **Major regulatory change is unfolding:**
 - Adviser regulation
 - Life insurance taxation (life insurers tend to cross subsidise)
 - Securities Act review
 - Anti-Money Laundering
 - Prudential regulation of insurers
- **Benefits will emerge:**
 - Stronger and better regulated market participants
 - Advice quality will improve
 - Risks should be mitigated
- **However...**
 - Costs will rise
 - Distribution will shrink
 - Greater commerciality will impact business models & pricing

Where to from here ?

Challenges – industry structure

- **The proliferation of KiwiSaver providers may reverse**
 - Potential to cause discontinuity to employers & investors
 - May be a threat to consumer confidence
 - Operational risk is high
- **Wealth management is not an attractive market**
 - Contrary to some perceptions most participants lose money
 - Unless business conditions improve patience might fade
 - Services and support may be the compromise
- **The cost of advice provision to KiwiSavers is high**
 - A scalable advice model is a pressing market need
 - Overly conservative asset allocation is a long term benefit risk
- **Trans-Tasman harmonisation is not obvious**
 - We are far from 'one market' – tax structures, advice
 - The benefits are greater for NZ to achieve harmonisation

Where to from here ?

Opportunities - policy

- **Transition to retirement**
 - What is the plan for benefits accumulated for retirement ?
 - Surely we cannot allow ineffective decumulation ?
- **Creating flexible options**
 - KiwiSaver suits many today but it's restrictive framework may come under pressure as the market matures and needs change
 - Need to develop attractive solutions for today's non-believers
- **Compulsion**
 - Whilst not on the agenda it will inevitably become an issue
 - The arguments against compulsion will diminish in time
- **New Zealand Super**
 - Can New Zealand swim against the tide ?
- **Tax enhancement**
 - Is an efficient way to drive savings growth
 - May enable Trans-Tasman harmonisation

Where to from here ?

Opportunities - the workplace

- **Employers and their 'employee value proposition'**
 - Workplace super will be an increasingly valuable feature
 - A key difference with Australian remuneration
 - Trans-Tasman harmonisation would be of significant value to employers operating such businesses and those considering it
 - Employers who have invested in their 'packaging' to employees have reaped the rewards due to a 'good employer'
- **Workplace superannuation providers**
 - Delivering efficiently with technology the key enabler
 - Not allowing legislation to impede effective engagement
 - Focus on member education & developing 'self-help' solutions
 - Creating a comprehensive 'member to customer' program
 - We are an arm of the employer to add value to employees

***Thankyou for your time today and
we are open for questions***