



**MINISTRY OF BUSINESS,
INNOVATION & EMPLOYMENT**
HIKINA WHAKATUTUKI



Regulatory impact statement

Changes to annual statement information for KiwiSaver investors

December 2016

Agency disclosure statement

This regulatory impact statement (RIS) has been prepared by the Ministry of Business, Innovation and Employment (MBIE).

This RIS provides an analysis of options to include additional information on the annual statements sent to KiwiSaver investors.

The analysis is informed by:

- Relevant academic research into the disclosure of information in regards to retirement savings products and financial product disclosure.
- Insights from behavioural science, in particular, the kinds of behavioural prompts that are likely to spur people to respond and take action.
- Formal (through the release of a discussion document) and informal consultation with a number of KiwiSaver providers.
- Consultation with the Financial Markets Authority (FMA) and the Commission for Financial Capability (CFFC). The initial proposals put forward in the discussion document were developed in close consultation with both the FMA and CFFC.

There are some limitations on the analysis undertaken:

- The FMA contracted some consumer research in 2016 on how KiwiSaver annual statements are perceived, and how people use them. The outcome of this research has informed the development of the policy proposals, but the proposed changes have not as yet been tested on consumers.
- While the high-level objective of this policy work is to help investors to make decisions to positively influence their retirement savings outcomes in KiwiSaver (appropriate to their circumstances) the analysis is limited to a focus on interventions to KiwiSaver annual statements. There are a range of other measures (both regulatory and non-regulatory) that could be examined in order to help investors make KiwiSaver investment decisions that we have not assessed as part of this policy work.

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1 December 2016

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Executive summary

1. This Regulatory Impact Statement makes three recommendations for additional financial product information to be disclosed to KiwiSaver investors through the annual statements they receive from their KiwiSaver providers. The additional information we are recommending should be included is:
 - the disclosure of total fees in dollars;
 - projected retirement savings and income figures calculated using standardised government-provided or supported assumptions; and
 - some additional mandatory prescribed key information – namely a summary of transactions and the amount the investor’s KiwiSaver account grew by over the year; supported by guidance to providers that they should be considering how to prompt investors to take action on their fund choice and contribution rate through the annual statement.
2. New Zealanders who invest in KiwiSaver currently receive an annual statement from their KiwiSaver provider detailing information about their retirement savings over the course of that year. The legislative requirements for the annual statement are minimal, and only require the investor to be given their balance in the scheme at the start and at the end of the accounting period, and the amount of each type of contribution received by the manager in respect of the investor during the period.
3. In practice, many KiwiSaver providers include additional information in the annual statement such as which fund the investor is in and their savings history. The majority of additional information that providers disclose in annual statements is appropriate, but the amount and type of additional information is not consistently provided across the industry.
4. Our policy recommendations are intended to help investors make more-informed decisions about their KiwiSaver by ensuring that certain key information is provided to them and to take action as necessary. This action will be specific to the individual investor; it may involve a change of fund, an increase in contribution or in some cases a change in provider.
5. This requires some increase to the legislative requirements for annual statements. However we consider that there are also sufficient incentives for KiwiSaver providers to continue to innovate in their communications to investors about fund choice and contribution rate. We are therefore retaining a certain level of discretion and flexibility in the requirements to allow KiwiSaver providers tailor their messages to investors. This will be supported by best-practice industry guidance.

1 Introduction

7. The proposals assessed in this RIS are intended to improve the type of information included in KiwiSaver annual statements, and the way it is presented. We intend that these changes will help investors consider the adequacy of their KiwiSaver savings, and prompt investors to take action if need be. In particular, we would like to prompt investors to resume or increase their contributions to their KiwiSaver investment. We would also like investors to make fully informed choices about the funds they are in, and even their choice of provider.
8. Taken together these outcomes would help to remedy the inertia we have observed amongst KiwiSaver investors, particularly in regards to the number KiwiSaver investors who are not contributing anything towards their KiwiSaver investment.

Government has taken steps to help New Zealanders improve their investor capability

9. More broadly, the changes we are proposing will also work towards improving the level of investor capability amongst New Zealanders. Building the financial capability of New Zealanders is a priority for the Government in order to improve the wellbeing of New Zealand's families and communities, reduce hardship, increase investment, and grow the economy. Government supports a number of initiatives targeting financial capability. The Commission for Financial Capability provides financial education and carries out regular reviews of retirement income policy. However, to make good financial decisions, New Zealanders also need access to key information about financial products, in an accessible format.
10. One of the pillars underpinning the government's commitment to financial capability goal is a commitment to help improve investor capability¹. This focus on investor capability is particularly important, as many New Zealanders are now investing in financial markets through KiwiSaver. KiwiSaver is the most widely held voluntary private retirement savings scheme in New Zealand. Over 2.6 million New Zealanders are members, and for many of these investors, KiwiSaver will be their first, and possibly only, experience with a long-term investment product. The amount invested in KiwiSaver is substantial: in 2016 the Crown contributed \$728 million, employers contributed \$1.6 billion, and members contributed \$3.2 billion.

Recent changes in financial product disclosure information for investors

11. The government has already recognised the importance of easily accessible financial disclosure information through recent changes to financial product disclosure under the Financial Markets Conduct Act 2013 (FMC Act). The changes made under the FMC Act emphasised that disclosure for retail investors should be clear, concise and easy to understand. Much of the content of the disclosure documents is now prescribed to ensure consistency and comparability. The content is presented in plain English, with limited use of acronyms and set page limits to avoid information overload for investors. In particular, these principles were applied to the disclosure of managed funds (such as KiwiSaver products) as it

¹ See Government Statement on Financial Capability at <http://www.cffc.org.nz/assets/Uploads/Financial-Capability-Government-Statement.pdf>

was recognised that managed fund products were likely to be widely held by retail (non-institutional, household) investors.

12. These changes are most evident in the Product Disclosure Statement (PDS) and Quarterly Fund Updates (Fund Update). These documents are designed to present the key information retail investors need to understand the financial product being offered. The information in these documents is supported by additional information available through an online register; the disclosure of information through the online register allows the PDS and Fund Updates to be focussed on certain key information.

2 Status quo and problem definition

Status quo

KiwiSaver annual statements

13. New Zealanders who invest in KiwiSaver currently receive an annual statement from their KiwiSaver provider detailing information about their retirement savings over the course of that year. The requirements for what should be included in these annual statements are contained in Part 3 section 100 of the Financial Markets Conduct Act 2013 and Part 3 regulations 69-71 of the Financial Markets Conduct Regulations 2014.
14. The content requirements set out in regulations for annual statements are minimal: the investor must be sent information about their balance in the scheme at the start and at the end of the accounting period, and the amount of each type of contribution received by the manager in respect of the investor during the period.
15. Many KiwiSaver providers also disclose some additional information about KiwiSaver investors' account balances. This often includes a savings history, some fee information and the type of fund the investor is in. However, the amount and type of additional information is not consistently provided across the industry.

Other communications and projection tools provided to KiwiSavers

16. In terms of financial product information, KiwiSaver investors have access to information about the KiwiSaver funds they are invested in through the PDS and Fund Updates. The PDS is provided to investors at the time they join a KiwiSaver Scheme and is available online. The Fund Updates are published online each quarter but are not required to be sent directly to investors.
17. KiwiSaver investors also have access to other tools to help them make decisions about their retirement savings. For instance, CFFC hosts a number of online calculators on its Sorted website (www.sorted.org.nz) to help investors understand how their investment decisions could impact on their retirement savings outcomes. CFFC also provides a tool called the KiwiSaver Fund finder (www.fundfinder.sorted.org.nz) to help investors make decisions about what KiwiSaver provider and fund they should be in.
18. KiwiSaver providers also communicate to investors about their retirement savings and they have existing incentives to communicate in an effective and engaging way. Encouraging increased contributions will result in an overall increase in funds under management for the provider and this is good for their business. Encouraging an active fund choice will likely result in a more engaged member over the long term and this is also likely to be good for the provider's business.
19. Many KiwiSaver providers have retirement savings calculators on their websites and a number have told us they are developing more tools to help investors understand their KiwiSaver investment. In addition, KiwiSaver providers often have other communications

targeted directly at their KiwiSaver members. These communications range from generic to increasingly personalised; for example, many KiwiSaver providers run a campaign around the end of the financial year prompting investors to consider whether they have contributed enough to receive their full member tax credit from the government in that year.

20. Some providers make transparency on fees a selling point, but most do not.

Problem definition

Many New Zealanders are not making informed decisions about their KiwiSaver investment

21. Many KiwiSaver investors are not making informed or active decisions about their retirement savings in KiwiSaver and do not have a clear view of the retirement savings they will have, or how long it will last in retirement. Despite being encouraged to take greater responsibility for their financial wellbeing in retirement, many New Zealanders have not calculated how much they will need to save to have the retirement lifestyle they desire.²
22. We know that making investment decisions can be difficult and a large number of New Zealanders fail to make good decisions about their retirement savings. Many New Zealanders stay in KiwiSaver default funds without considering whether another fund might better suit their circumstances. Approximately 17 per cent of KiwiSaver members are in default funds. The default funds have a conservative investment approach, which includes a 15 to 25 per cent allocation to growth assets. The Government decided that default funds would have a conservative asset allocation because they are a temporary 'parking space' for default members who had not yet made an active choice.³
23. More significantly, many KiwiSaver members do not contribute enough towards their KiwiSaver account – and some are not making any contributions. In 2016, of the 2.6 million New Zealanders who are members of KiwiSaver, 1.1 million were not contributing anything towards their retirement savings.⁴ This lack of contributions suggests that many people are not taking action to ensure they will have enough private retirement savings.
24. The Commission for Financial Capability's *Sorted* website published an article in October 2016 that showed the difference contribution rate and fund choice could make over the long term. The *Sorted* example took someone with an average salary of \$60,000 over their entire career of 47 years, from age 18 to 65. Without any action, the investor would end up with close to \$215,000 in their KiwiSaver. Increasing how much they put into KiwiSaver from 3 per cent to 8 per cent could give them \$197,000 more, while switching from a conservative to a growth fund could give them \$133,000 more.⁵
25. We do not, however, have evidence as to whether the inaction of KiwiSavers is due solely, or in part, to inertia, or limited understanding of retirement savings, or whether it is due to other reasons (for example a lack of financial resources in a household means retirement savings is deprioritised in favour of everyday expenses).

² Kirsty Johnston, Christine Tether, Ashley Tomlinson, *Financial Product Disclosure: Insights from Behavioural Economics*, Occasional Paper 15/01, February 2015. Available from www.mbie.govt.nz/publications

³ *Future KiwiSaver Default Provider Arrangements*, Cabinet Paper, 2014.

⁴ *KiwiSaver Annual Report*, Financial Markets Authority 2016.

⁵ Like KiwiSaver on Red Bull. Commission for Financial Capability. 3 October 2016.

<https://www.sorted.org.nz/must-reads/like-kiwisaver-on-red-bull/>

The lack of active decision-making may be caused by the complexity of required decisions and behavioural biases

26. The inertia observed in KiwiSaver members may be partly due to the fact that retirement savings products require sophisticated decision making.
27. Retirement savings products require people to make decisions, often years in advance, about factors that will have a significant influence on the level of retirement income they will receive. In particular the rate of contribution can have a major impact on a person's retirement income, followed by fund selection and amount of fees paid. These impacts are often underestimated by investors.
28. Returns on investment, growth in wages and expected mortality also significantly impact on the adequacy of retirement incomes, and these factors are difficult for average New Zealanders to predict.⁶
29. Moreover, insights from behavioural economics suggest that people are subject to significant biases and cognitive errors that can lead to sub-optimal retirement saving decisions. For example, people are not very good at making trade-offs between the present and the future. Moreover, people tend to have inertia in relation to financial decision-making, and stick with the status quo rather than making active decisions. A recent report on KiwiSaver by the NZIER identified that "lessons from the behavioural economics and finance literature strongly suggest that many individuals will not adequately save for their retirement, or diversify appropriately or invest appropriately, given information gaps and various behavioural 'biases'."⁷

Moreover, there is a lack of meaningful information provided to KiwiSaver members

30. KiwiSaver members are not being given meaningful information about their retirement savings. In particular, we have evidence to suggest that an opportunity is being lost to communicate to investors through the annual statement about their retirement savings.

It is common for fees to be disclosed in an incomplete and misleading way

31. We have identified a particular problem with the disclosure of fees in KiwiSaver Annual statements. KiwiSaver products tend to have multifaceted fee structures and only a few KiwiSaver providers include a total fees figure, in dollars, in annual statements. While there is no requirement to provide information about the fees paid, many providers are only disclosing the fixed member fee (average \$32 per annum) on the annual statement and do not disclose the 'management' fee, or other fees that are charged to the fund. These fees are not insignificant: in the year to 31 March 2016, on average KiwiSaver investors paid \$125 in fees and other expenses.⁸

⁶ Research has been undertaken on the importance of adequate disclosure of information for retirement savings products: Fleishman-Mayer, L., Hung, A., Yoong, J., Clift, J. & Tassot, C., *Designing Better Pension Benefit Statements, Current Status, Best Practices and Insights from the Field of Judgment and Decisionmaking*, RAND Working Paper, April 2013; Financial Education and Saving for Retirement: Why Financial Education is needed for Retirement Saving, OECD, Pages: 103–114 in *Improving Financial Education and Awareness on Insurance and Private Pensions*; Rinaldi, A., & Giacomel, E., *Information to Members of Dc Pension Plans: Conceptual Framework and International Trends*, International Organisation of Pension Supervisors Working Paper No. 5, September 2008.

⁷ KiwiSaver and the wealth of New Zealanders: NZIER perspective on the joint agency evaluation report NZIER report to the Financial Services Council. August 2015.

https://nzier.org.nz/static/media/filer_public/e0/a6/e0a66c09-7fe1-4959-88d5-5245eae9600c/kiwisaver_the_wealth_of_nzers-nzier_report_to_fsc_aug15.pdf

⁸ <https://fma.govt.nz/assets/Reports/161004-FMA-KiwiSaver-Report-2016.pdf>

32. The partial disclosure of fees in annual statements can lead consumers to assume they are paying fewer fees than in reality. Information about fees is disclosed in the PDS and Fund Updates but as these are generic sales and information documents, fees are disclosed as a percentage figure.

The personalised nature and high readership of Annual Statements creates a unique opportunity to engage with investors and prompt behaviour change

33. The annual statement presents a unique opportunity for communications to influence investors' behaviour. Behavioural science research has shown that people like information that is personalised and will respond and take action if the messages are tailored to them.⁹ The personalised nature of the annual statement and the fact it is sent directly to investors makes it a more powerful vehicle for engaging with investors than many other communications investors receive on their KiwiSaver.
34. We also have evidence that investors read the information in their annual statement, and that there is an appetite to receive more. The FMA contracted consumer research in 2016 on how KiwiSaver annual statements are perceived and how people use them. This research showed that recall and readership of annual statements is high – nine out of ten people could recall receiving their statement and four out of five had read it. People reported finding all aspects of the statements useful, particularly their current balance and contribution amounts.
35. Consumers also had a strong preference to receive additional information about their retirement savings that shows them what they are on track to receive when they retire. The additional information people most wanted to receive was a projected retirement savings lump sum, what that lump sum would convert to as a weekly income, and how long that income would last. There is also evidence that projected savings are effective ways to motivate people to save more: one study tested seven different ways of framing retirement assets and found that a retirement lump sum projection and annual income projection were the two most successful motivators, respectively making 41 and 39 per cent of people exposed to them more interested in increasing their retirement savings.¹⁰
36. Given the high levels of readership of annual statements, we believe there is an opportunity for them to be used as a decision-making tool to prompt investors to take action if they are not on track to accumulate as much as they think they will need in retirement.

Inertia and information asymmetries prevent investors from demanding the information they need to make better-informed decisions about their KiwiSaver

37. In the absence of government intervention we do not believe that investors will demand this information from providers. We have detected a certain amount of inactivity and inertia from investors in regards to their retirement savings. Although the FMA survey indicated that there is an appetite for improved information, we do not believe that consumers will demand it in a way that makes the market respond.
38. In relation to fee disclosure in particular, there is information asymmetry between KiwiSaver providers and consumers, so consumers are not aware that they are not being given a full picture of all the fees they are paying. In absence of regulatory requirements for fee

⁹ The Behavioural Insights Team, *EAST: Four Simple Ways to Apply Behavioural Insights*, April 11 2014, available at <http://www.behaviouralinsights.co.uk/publications/east-four-simple-ways-to-apply-behavioural-insights/>

¹⁰ Behavior Insights to Improve Retirement. Jodi DiCenzo. 2015. <http://www.retirement-insight.com/behavior-insights-improve-retirement/>

disclosure in annual statements we do not believe that providers have existing incentives to disclose total fees. Given the highly personalised nature of the annual statement, individuals are very unlikely to compare the fees they see disclosed on their statement with anyone else and so would be unlikely to detect the lack of fee disclosure.

Consumer inertia may be contributing to weak price competition across KiwiSaver providers

39. A New Zealand Treasury report last year found that KiwiSaver fee levels appear to be in the upper half of comparator countries and well above the extremely low fees available in some markets, such as, Finland, Israel and the United Kingdom.¹¹ The Treasury noted that consumer demand could improve competition on the basis of fees as levels of financial literacy and information rise.
40. Note that higher fees are not necessarily correlated with higher returns: interim findings of an asset management market study by the United Kingdom's Financial Conduct Authority found that on average higher costs for actively managed funds are not justified by higher returns.

¹¹ Review of the KiwiSaver Fund Manager Market Dynamics and Allocation of Assets. Andreas Heuser, Jack Kwok, Daniel Snethlage and Dillon Watts – New Zealand Treasury. September 2015.
<http://www.treasury.govt.nz/publications/research-policy/tp/kiwisaver/tp-kiwisaver.pdf>

3 Objectives and options analysis

High-level policy goals: help investors make decisions appropriate to their circumstances to positively influence their retirement savings outcomes in KiwiSaver.

41. Our high-level policy goal is that investors will be given information that will help them to maximise their current investment options and make decisions appropriate to their circumstances to improve their retirement savings outcomes.
42. We have identified four objectives that sit under this goal. We will be assessing proposed changes to the KiwiSaver Annual statement against these objectives.

Objective one: Investors are given key information about their investment in a clear, concise and easy to understand way.

43. We consider there are some key pieces of information that investors should have access to in order to allow them to understand their KiwiSaver investment, and make better, more-informed decisions.
44. The key information includes the balance, returns, tax, and fees and other charges. This information also needs to be easily accessible and easy to understand.

Objective two: Investors are prompted to take action (as necessary).

45. Because of the aforementioned behavioural biases, we consider that investors should be prompted to check, and if necessary change, the aspects of their investment they control that could positively impact their retirement savings outcomes – most importantly, contribution rate, followed by fund choice.

Objective three: KiwiSaver providers are encouraged to innovate and tailor their messaging to the members of their KiwiSaver scheme

46. While the main outcome we are trying to achieve is improving investors' access to more meaningful information to prompt behaviour change, there is a balance to be struck between regulatory intervention and allowing KiwiSaver providers to innovate.
47. Where possible, we seek to capitalise on KiwiSaver providers existing incentives to innovate and find new and effective ways to engage with their investors. In particular, given the fact that consumers respond well to personalised information, KiwiSaver providers should be able to continue to tailor messaging to their investors.

Objective four: Costs are outweighed by net benefits to consumers

48. Implementation costs should be minimised where possible, especially as costs of regulation are often passed on to consumers in the form of higher fees. However, some higher upfront costs, particularly if they are one-off costs, may be justified by an ongoing benefit to consumers. In assessing options against this criterion we have considered the systems and disclosure requirements providers currently have in place in order to determine how much cost will be imposed through the proposed changes.

Weighting of objectives

49. Whilst all of the objectives listed above are important, the first two objectives are weighted more heavily in our options analysis below. This is because the high-level objective of this policy work is to help investors make decisions to positively influence their retirement savings outcomes in KiwiSaver and it is more important that the first two objectives be fulfilled in order to satisfy the high level objective.

Options analysis

50. In developing proposals for changes to annual statements, we worked in close consultation with the FMA and CFFC to draft a package of proposed changes. We then undertook targeted consultation with KiwiSaver providers on the proposals. This consultation included a 'mocked-up' version of the changes we were proposing in order to give providers a visual tool to respond to. This mock-up is attached as Annex 1.
51. The proposed changes to annual statements we consulted KiwiSaver providers on were:
 - current balance
 - projected retirement lump sum and income
 - total fees paid that year
 - the total amount that the investor's account grew by over the year
 - summary transaction figures detailing the money that has gone in and out of the investor's account during the year
 - the prompter question: "How do I increase my retirement income?"
52. We also consulted on whether some further information should be required, such as:
 - the investor's retirement savings history
 - a summary of information on the main types of funds
 - the investor's actual investment mix.
53. Following the feedback we received through the consultation process, we have determined there are three main components we are proposing new requirements around:
 - Fees disclosure
 - Projected retirement savings and income figures
 - Behavioural prompts to consider fund choice and contribution rate.
54. Each of these three components is analysed separately below. Our proposed change is a package that combines an option for fee disclosure, an option for projected retirement savings figures and an option for other essential information and behavioural prompts.

Options for fees disclosure in KiwiSaver annual statements

55. Transparency on fees charged will contribute to better decisions by investors (by prompting them to seek more information and possibly change providers if they are not satisfied their fees are translating into added value). This could also lead to greater competition on fees.

56. Transparency is also an end in and of itself. There is a general fairness benefit that is achieved by providers being required to tell consumers how much they are paying for the service they are receiving.
57. We have considered two options for the disclosure of fees in annual statements. Both involve a requirement to disclose fees in the context of gross returns.
58. As outlined above, there is a specific problem with the disclosure of fees in annual statements. Many KiwiSaver providers (while still complying with existing requirements) are only disclosing some fees to investors and are not giving investors a full picture of all the fees they are paying. Given the impact that fees can have on a person's retirement income, if investors are not aware of how much they are paying in fees, they will not have enough information to make a fully informed investment decision.

Status Quo

59. Under the status quo, there are no requirements to disclose fees in annual statements. Many providers are likely to continue disclosing only the (relatively small) fixed membership fee, and will not provide information on total fees that affect the investment.
60. We do not consider the status quo is viable as, in the absence of regulatory requirements, many providers are only disclosing a portion of the total fees investors are paying. Given the impact that fees can have on an investor's KiwiSaver balances, investors should be given full disclosure about all the fees they are paying so they can make informed decisions.
61. The costs and risks of maintaining the status quo include a large number of investors remaining unaware how much they are paying in fees. This is unfair, prevents informed decision-making, and could contribute to weak fee competition.
62. The benefits of maintaining the status quo are that providers do not face costs of change.

Option one: Total dollar fees, placed in the context of gross returns (preferred option)

63. This option requires a dollar figure to be disclosed encompassing all of the fees the investor has been charged throughout the year. A gross return figure would also be required so that investors are given fees in the context of returns.

Withheld under the Official Information Act 1982, Section 9 (2)(b)

64. A risk is that once consumers understand the fees they are paying, this may prompt a 'race to the bottom' for low fee funds at the expense of other services.
65. The benefits of this option are that investors will better understand the fees they are paying and will therefore be able to make more-informed decisions about their KiwiSaver. This is fairer and may support fee competition between providers.
66. Dollar fee disclosure could also help improve providers' communications with KiwiSaver investors, as once more investors have a full picture of all the fees they are paying, providers will have a strong incentive to communicate to investors the value they provide for the fees they charge.

Option two: Disclosure of fees in line with product disclosure statements and fund updates

67. Under this option, the annual member fee would be provided as a dollar figure, and other fees may be provided as a percentage, or incorporated into a total dollar value if the provider wishes to do this. This would mean that information on fees would, as a minimum, be presented in Annual Statements in the same way it is currently presented in Product Disclosure Statements and Quarterly Fund Updates.
68. The costs of this option include some change costs for providers (though lower change costs than those required to deliver total fees in dollars), and limited consumer understanding of the actual dollar fees they are paying. We suspect that investors will underestimate the actual dollar fee as the percentage itself will appear very small (often 1–2%).
69. The benefits of this option are that disclosure of fees in annual statements is somewhat improved and there is less potential for consumers to assume the only fee they are charged is their (relatively low) membership fee. It would also marry-up what is provided in annual statements with what is provided in the PDS and Fund Updates so consumers receive consistent message across all three documents.

Feedback received during consultation and how this has affected our options

70. All submitters supported in principle the proposal to include total fees. Some expressed concern that our mock-up annual statement placed undue emphasis on fees and that there was a risk in driving investors towards low fee/low return funds, or discouraging investors from saving with KiwiSaver.
71. Many thought that fees should be presented in the context of – or with the same emphasis as – returns generated, to present a more balanced picture of the performance of the fund. We agree with this feedback and have reflected it in Option One above.
72. Most providers felt that an overemphasis on fees had led us to not give enough prominence to fund choice, given that fund choice is a large determinant of retirement outcomes.
73. All providers except those who already have systems in place to disclose total fees expressed strong objections to the proposed timeframe to include total fees in 2017 annual statements, with many saying that it was impossible for them to change their systems in time. In response to this feedback we are now proposing that the disclosure of total dollar fees will not happen until 2018 annual statements and that option two (percentage disclosure) will serve as an interim solution in 2017 annual statements.
74. We also consulted on an option that would allow fees to be estimated as a dollar value by multiplying the investor's end-of-year account balance by the percentage fees disclosed in the PDS and Fund Updates at regular points (for example, monthly) throughout the year. After considering the feedback we received, we do not propose this option should be considered as we believe that the figure generated through this method would not be accurate and would therefore be misleading to investors.

Options for fees disclosure in KiwiSaver annual statements

Options – Disclosure of Fees	Objective one: Investors are given key information about their investment in a clear, concise and easy to understand way	Objective two: Investors are prompted to take action (as necessary)	Objective three: KiwiSaver providers are encouraged to innovate and tailor their messaging to the members of their KiwiSaver scheme	Objective four: Costs are outweighed by net benefits to consumers
<p><i>Status Quo:</i></p> <p><i>No requirement to disclose fees</i></p>	<p>X</p> <p>Investors are not told how much they are paying for the management of their investment. Many investors will only receive their (comparatively small) membership fee in their annual statement and will assume they are paying fewer fees than in reality.</p>	<p>X</p> <p>Investors cannot consider whether their fees offer value for money if they do not know what their fees are relative to their returns.</p>	<p>✓</p> <p>There is scope for KiwiSaver providers to provide any messaging or information about fees, but they do not have significant incentives to do so.</p>	<p>X</p> <p>There is no change in cost for providers but consumers continue to bear the costs of incomplete, and sometimes misleading, fee disclosure.</p>
<p><i>Option One: Total dollar fees (placed in the context of gross returns)</i></p>	<p>✓✓</p> <p>Combining all fees into a single dollar figure will make it easy for the investor to understand the fees they are paying.</p>	<p>✓</p> <p>Seeing the fees they are charged in the context of their returns could prompt investors to check whether they could receive a better deal from another provider.</p>	<p>✓✓</p> <p>Once more investors are given a full picture of all the fees they are paying providers will have a strong incentive to communicate to investors the value they provide for the fees they charge.</p>	<p>✓</p> <div style="border: 1px solid black; padding: 5px;"> <p>Withheld under the Official Information Act 1982, Section 9 (2)(b)</p> </div>
<p><i>Option Two: Disclosure of fees copied from product disclosure statements and fund updates – i.e. percentage rate for all fees except membership fee</i></p>	<p>✓</p> <p>Whilst this form of disclosure is more accurate than the partial disclosure that currently occurs, the information will not be as meaningful to consumers. Investors will probably underestimate the actual dollar fee they are paying as the percentage itself will appear very small (often 1–2%).</p>	<p>X</p> <p>Disclosure in percentage terms is unlikely to drive behaviour change in consumers.</p>	<p>X</p> <p>The requirements would stipulate that the existing disclosure of fees from product disclosure statements and fund updates would be copied directly into annual statements.</p>	<p>✓</p> <p>There would be some cost to amend existing annual statement templates (but less than for option one).</p>

✓✓	Meets objectives
✓	Partially meets objectives
X	Does not meet objectives
	Preferred option

Options for projected retirement savings and income figures

75. We have considered three options and the status quo in relation to the inclusion of retirement savings and retirement income figures in annual statements.
76. One way to trigger consumer action is for the statements to include a projection of what the investor is on track to receive when they retire, along with information about how they could improve their retirement outcome by contributing more and/or (if appropriate) changing into a different type of fund (e.g. a higher risk fund for a younger person).

Status Quo

77. Under the status quo there would be no requirement for providers to include any projections in annual statements. We expect that some providers would continue to provide online calculators that a consumer can use to create a projection based on the provider's assumptions.
78. Most KiwiSaver providers do not currently include projected retirement savings balance and income figures in annual statements. Many KiwiSaver providers have their own retirement income calculators online. These calculators require investors to enter information in order to tailor the projections to their circumstances. These calculators are based on assumptions that the provider has developed and so there is variation across the industry.
79. The costs of maintaining the status quo are that most investors will not receive retirement projections and will have to go to extra lengths to find out whether they are on track to receive an adequate retirement income. This will contribute to insufficient saving and uninformed KiwiSaver decisions.
80. The benefits are no additional costs for providers.

Option One: Projected retirement savings and income figures are provided in all KiwiSaver annual statements and the assumptions on which these are based are standardised across the industry and provided by the government.

81. Under this option, all KiwiSaver providers would include projected retirement savings and income figures in annual statements. The retirement income figures would take the lump sum the investor is projected to have accumulated upon retirement and convert it into an annual or weekly income. We proposed that these projected figures would be based on the assumptions that the Commission for Financial Capability (CFFC) currently uses in its own retirement and KiwiSaver calculators (with some modifications). CFFC's calculators can be found on its Sorted website: www.sorted.org.nz. This option was consulted on in the discussion document.
82. The text below provides an example of how this information could be presented in the annual statement

What you're on track to receive at age 65

We estimate* that you'll have a retirement savings lump sum of **\$300,000** and an annual retirement income of **\$15,500 for 20 years**. You may also be eligible for a fortnightly NZ superannuation payment to add to your retirement income.

83. A single set of assumptions would enable investors to track the projected growth of their KiwiSaver investment across time, and across providers (if they change providers). It would ensure that any changes are due to their investment decisions and market forces. This would give investors some insight into the cause and effect of their investment decisions.
84. Providers' existing online retirement income calculators would continue to be based on assumptions that the provider establishes themselves. Providers would need to address any discrepancy between the annual statement projections and the projections from their online calculators in their communications to their customers.
85. The main cost of this option is high implementation costs for providers. There is also a risk that investors may be confused by discrepancies between the projected figures generated by providers' online calculators and what they are being told in annual statements.
86. The benefits of this option are that every consumer is given a robust projection, which may prompt them to consider whether they are on track to have as much money in retirement as they would like, and whether they should be contributing more or changing funds.
87. Standard assumptions would also ensure that investors were comparing 'apples with apples' across time and if they changed providers.

Option Two: Projected retirement savings and income figures are based on providers' existing retirement income calculators, or on the Commission for Financial Capability's calculator.

88. Under this option, providers who have existing retirement income calculators could use those assumptions to generate projected retirement figures in annual statements. Those who did not have their own calculators would be required to use the Commission for Financial Capability's calculator.
89. The main cost of this option is some implementation cost for providers (though probably less than implementing standard assumptions). A risk is that depending on the providers' assumptions, some consumers will receive much more optimistic projections than other consumers, and may not make appropriate decisions. This could be mitigated by placing some parameters around the assumptions providers are allowed to use.
90. The main benefit of this option is that, like the more-prescribed option, it provides an effective prompt and reality check for investors. However, it also provides consistency between what is provided to investors in their annual statements what they will calculate for themselves in their providers' online calculators.

Option Three: Annual statements include a link to the retirement and KiwiSaver calculators on the Sorted website, or the provider's own calculator (if they have one). A standardised 'prompt' would also be included to prompt investors to think about their contribution rate and fund choice.

91. Under this option providers would include a link to the calculators on the Sorted website, directing investors there to calculate their projected retirement income balances. A prompt for investors to consider their contribution rate and fund choice might also be included; for instance, an example might be included that illustrates how a small increase in contributions could result in a large increase in the retirement savings balance in the long term.
92. The main cost of this option is some implementation cost to providers (though significantly less than including a personalised projection). The cost to consumers is that they will have to go to extra lengths to find out whether they are on track to receive an adequate retirement income. This will contribute to insufficient saving and uninformed KiwiSaver decisions.
93. The main benefit of this option is that it introduces a potential behavioural prompt without imposing high implementation costs on providers. In addition, if consumers do follow the link to the provider's or the Sorted calculators, they will be able to try out different scenarios and

will be a step closer to making a more-informed decision about their KiwiSaver settings than if they only knew their current projection, but not how it could be impacted by changing their contribution rate or choice of fund.

Feedback received during consultation and how this has affected our options analysis

94. We had a mixed response to option one, which we consulted on, with some providers supportive and others submitting that they should be able to use the assumptions that they currently use on their own retirement income calculators.
95. Providers also highlighted that they don't have access to some of the information used by the Sorted calculator, such as salary and contribution rate.
96. A number of providers expressed concern that part of their unique offering was their bespoke calculator, which had greater functionality than the Sorted calculator. They felt too much prescription would stifle innovation. Some providers felt it would be confusing to provide customers with a projection in their annual statement that differed from the projection the customer received via other channels.
97. In response to this feedback from providers we developed and assessed option two – that providers could use their existing retirement income calculators to generate projections in annual statements.

Options for projected retirement savings and income figures

Option – Retirement Income Projections	Objective one: Investors are given key information about their investment in a clear, concise and easy to understand way	Objective two: Investors are prompted to take action (as necessary)	Objective three: KiwiSaver providers are encouraged to innovate and tailor their messaging to the members of their KiwiSaver scheme	Objective four: Costs are outweighed by net benefits to consumers
<i>Status Quo</i>	<p>✓ Some providers currently include projected retirement income figures, but there are no requirements for them to do so, and the assumptions behind them vary. Investors may not understand that the projected figure will depend on which provider they are invested with and how conservative or optimistic their assumptions are.</p>	<p>✓ The providers that include a projection usually also include prompts to consider fund choice and contribution rate.</p>	<p>✓✓ The lack of legislative requirements allows providers to develop their own calculators if they choose to do so.</p>	<p>✓ No additional implementation costs. However, only some consumers would receive this information.</p>
<p><i>Option One: Projected retirement savings and income figures will be provided in all KiwiSaver annual statements using standardised government-provided assumptions.</i></p> <p><i>Providers' existing online retirement income calculators would continue to be based on assumptions that the provider establishes themselves.</i></p>	<p>✓✓ Providing all investors with projected retirement savings and income figures will help them understand how their current investment choices are likely to impact on their retirement outcomes.</p> <p>Investors may be confused by discrepancies between the projected figures generated by providers' online calculators and what they are being told in annual statements.</p>	<p>✓✓ Providing a projection on each investor's statement would 'force the questions' and prompt them to consider whether they are on track to have as much money in retirement as they would like, and whether they should be contributing more or changing funds.</p> <p>Providing a regular (e.g. annual) income as well as a lump sum would allow investors to compare their projected retirement income to their current income, giving them a present-day reference point to help them decide whether the projected income would be enough for them to live on in retirement.</p>	<p>✓ Providers could continue to innovate and provide additional functionality on their own online calculators.</p> <p>There would be limited ability for providers to innovate on annual statements in regards to retirement income projections as the value of the projection in the statement is based on the underlying assumptions being consistent and largely unchanged over many years.</p>	<p>✓ There would be change costs for providers – largely arising from the internal IT system changes needed to generate the projections.</p> <p>Providers would also face lesser costs from redesigning their annual statements.</p> <p>Consumers benefit from meaningful information that helps them decide whether they need to take action to change their retirement outcome.</p>
<p><i>Option Two: Projected retirement savings and income figures based on providers' existing calculators.</i></p> <p><i>As with option one, this would include a lump sum and a weekly or annual income stream.</i></p>	<p>✓ As with option one, a projected retirement income will help investors understand how their current investment choices are likely to impact on their retirement outcomes, irrespective of whether the assumptions are provided by government or established by the provider themselves.</p> <p>Providers could change the assumptions on which their projections are based over time, so investors would not know whether a change in projection was due to a decision they made or due to a change in the underlying assumptions.</p> <p>Investors who switched providers would face a similar issue.</p> <p>However there would be more consistency between what is provided to investors in their annual statements and online calculators as most providers would be using the same assumptions for both.</p>	<p>✓✓ As with option one, this would prompt investors to take action if they are not on track to receive as much as they think they will need when they retire.</p>	<p>✓✓ We would expect that as providers would be using their existing online calculators as the basis for generating the projected retirement income figures in annual statements that this would give them greater scope to innovate and perhaps create more nuanced messaging over time.</p>	<p>✓✓ As most providers do not currently include projected retirement income figures in their annual statements there would still be costs associated with incorporating this information into their existing statement templates.</p> <p>The costs associated with internal IT changes would be less under this option (in contrast to Option One) as most providers would use their existing retirement income calculators to generate the projections.</p>
<p><i>Option Three: Link to calculators on Sorted website or provider's calculator.</i></p> <p><i>Those providers that currently provide projections would be able to continue doing so.</i></p>	<p>✓ The policy goal would only be partially fulfilled as only some consumers would take the initiative and carry out the extra steps to calculate their projected retirement income figures.</p> <p>While those who do go to an online calculator are likely to get access to richer, more personalised information, we estimate that many people would not see any personalised retirement projections under this option.</p>	<p>✓ Less likely to prompt behaviour change than providing a projection on the statement.</p>	<p>✓✓ Providers could continue to innovate through their own online calculators.</p>	<p>✓ There would be some changes to existing templates to incorporate the links to the online calculators but there would be limited IT system changes required as providers could use their existing calculators.</p>

✓✓	Meets objectives
✓	Partially meets objectives
X	Does not meet objectives
	Preferred option

Other key information and options for behavioural prompts to help investors consider fund choice and contribution rate

98. Given the potential complexity of retirement savings products, we consider investors should be given information that would help them understand, and consider, key aspects of their KiwiSaver investment. In the targeted consultation to KiwiSaver providers we also proposed that the annual statement should include certain behavioural ‘prompts’ to spur investors to take action if need be. We have considered two options and the status quo. Further detail on these is provided below.

Status Quo

99. Under current legislative requirements investors are given their account balance and a summary of all of the contributions that they made towards their KiwiSaver account that year.
100. In addition to the regulatory requirements many providers send other information about the investor’s KiwiSaver investment. This often includes information about what fund (or funds) the investor’s money is invested in, and sometimes a savings history is provided.
101. The main benefits of this option are that providers are given discretion as to how to tailor and target their communications about fund choice and contribution rate to investors and costs are incurred at the provider’s discretion and so may not be passed on to consumers.
102. The main costs of this option are that KiwiSaver investors may miss out on crucial information if a certain minimum level of content is not prescribed in regulations.

Option One: Additional mandatory prescribed content

103. We consulted KiwiSaver providers on a proposal to prescribe a certain amount of mandatory content on annual statements. The proposed prescribed content was intended to detail for investors some of the key figures they needed to understand, in a simple, easy to understand format. Information to prompt investors to consider their contribution rate and fund choice was also proposed. In summary the information we proposed was:
- the total amount that the investor’s account grew by over the year
 - summary transaction figures detailing the money that has gone in and out of the investor’s account during the year
 - the prompter question: “How do I increase my retirement income?”.
104. We also consulted on whether some further information should be required, such as:
- the investor’s retirement savings history
 - a summary of information on the main types of funds
 - the investor’s actual investment mix.
105. The exact prompts and wording would be subject to consumer testing. The text below provides an example of how a behavioural prompt could appear on the annual statement.

How do I increase my retirement income?

You could:

- Change funds
- Increase your contributions

Find out how over the page or contact us on abcinvestments@sample.com or 0800 123 456.

106. The main benefits of this option are that we would be setting a fairly robust set of minimum standards that consumers could consistently rely on in subsequent annual statements.
107. The main costs of this option are that it reduces providers' flexibility to tailor communications to investors and to continue to innovate to find better ways to engage KiwiSaver investors about fund choice and contribution rate. A higher level of prescription is also likely to increase the costs of regulation to consumers.

Option Two: less prescribed information supported by industry best practice guidance

108. Under this option we are proposing that a more limited amount of information would be required under legislation and providers would retain a wider discretion as to how they communicate to their members through annual statements. The content requirements would be supported by 'best practice' industry guidance. Under this option we would prescribe that providers must include:
 - the total amount that the investor's account grew by over the year
 - summary transaction figures detailing the money that has gone in and out of the investor's account during the year
109. Communications about how investors might consider fund choice and contribution rate would be left to providers to tailor to their investor base.
110. The main benefit of this option is that it allows providers to innovate in their communications to investors.
111. The main risk with this option is that providers may choose not to include behavioural prompts or messaging about fund choice and contribution rate if not required to do so in legislation; however, we consider that there may be sufficient existing incentives for them to do so.

Feedback received during consultation and how this has affected our options analysis

112. During consultation we received feedback from providers that they wished to retain the ability to tailor their communications to investors to a greater degree than we were proposing. Following this feedback we developed Option Two, as we felt that there could be merit in requiring a more limited amount of information and allowing providers more flexibility to find new and innovative ways to help investors consider some of the aspects of their KiwiSaver investment – in particular fund choice and contribution rate.

Other key information and options for behavioural prompts to help investors consider fund choice and contribution rate

Option – behavioural prompts and other essential information	Objective one: Investors are given key information about their investment in a clear, concise and easy to understand way	Objective two: Investors are prompted to take action (as necessary)	Objective three: KiwiSaver providers are encouraged to innovate and tailor their messaging to the members of their KiwiSaver scheme	Objective four: Costs are outweighed by net benefits to consumers
<i>Status Quo</i>	<p>X</p> <p>Investors are not currently being given all of the necessary information for them to understand, and make decisions about, their KiwiSaver.</p> <p>The investor usually has to calculate the amount their account grew or decreased by over the year, and it is not always clear what the key figures are as they are often buried amongst other information.</p>	<p>✓</p> <p>While some providers include behaviour prompts in annual statements, others do not</p>	<p>✓✓</p> <p>Under current legislative requirements providers are given wide discretion to tailor the messages of their annual statements to their client base.</p>	<p>✓✓</p> <p>There is no change cost for providers, but consumers continue to bear the costs of poor decision making regarding their KiwiSaver.</p>
<i>Option One: Additional mandatory prescribed content</i>	<p>✓✓</p> <p>This approach would ensure that the key information we believe investors need would be required in legislation. This is also consistent with the approach taken to financial product disclosure for retail investors under the FMC Act.</p>	<p>✓✓</p> <p>Prescription would ensure that all KiwiSaver investors receive prompts to take action on their KiwiSaver investment.</p>	<p>X</p> <p>There would be only limited ability for KiwiSaver providers to innovate and tailor communications under this option.</p>	<p>X</p> <p>It is likely that a reasonably high level of prescription will increase implementation costs as providers will need to change their existing statements. Similar outcomes for consumers may be achieved with less prescription.</p>
<i>Option Two: A more limited amount of information to be mandatory prescribed content (supported by guidance)</i>	<p>✓✓</p> <p>The key transaction figures would be prescribed under this option as well as the amount that the investor's account grew by.</p>	<p>✓✓</p> <p>We would seek to guide providers as to the content they should consider including.</p> <p>We would not have control over the final content requirements however best-practice guidance, combined with providers' existing incentives to encourage investors to engage with their KiwiSaver and contribute more should ensure that investors receive appropriate information.</p>	<p>✓✓</p> <p>There would be reasonably wide scope for KiwiSaver providers to tailor communications under this option.</p>	<p>✓</p> <p>We expect there would be some implementation costs, but providers would have wider discretion as to the changes made and the costs incurred (compared to Option One)</p>

✓✓	Meets objectives
✓	Partially meets objectives
X	Does not meet objectives
	Preferred option

4 Conclusions and recommendations

113. Following our analysis of options for changes to annual statements we recommend that the following changes should be made:
- The disclosure of total fees in dollars placed in the context of gross returns to incorporate feedback from providers (with an interim solution in 2017 that allows percentage disclosure).
 - Projected retirement savings and income figures provided using standardised government-provided or supported assumptions (providers' existing online retirement income calculators would continue to be based on their own assumptions).
 - some additional mandatory prescribed key information – namely a summary of transactions and the amount the investor's KiwiSaver account grew by over the year. This would be supported by guidance to providers that they should be considering how to prompt investors to take action on their fund choice and contribution rate through the annual statement.
114. We consider that the above package of proposed changes to annual statements will give investors some key information to help them make investment decisions. Requiring a minimum standard for information in annual statements should ensure that all investors are given information that helps them make more-informed investment decisions.
115. We believe that these changes will capitalise on the high readership of annual statements, and, prompt investors to take action on their contribution rate, fund choice, and, where appropriate their choice of provider.
116. We also consider that allowing providers to innovate and tailor their messages to investors about fund choice and contribution rates will result in better outcomes for consumers in the long term. There are sufficient incentives in place for providers to continue to engage with investors on these aspects of their KiwiSaver investment. We have also had a number of informal discussions with providers where they have referenced the additional tools and communications they can develop (or have developed) to tailor messaging to KiwiSaver investors. This activity will not be unduly impacted by the proposed changes to annual statements.
117. While we expect that there will be sizeable implementation costs for the proposed changes, we consider that the potential benefits of these changes to investors' overall retirement savings should outweigh the costs in the long term.
118. However these benefits will only be received by investors if they take action. For those investors who do not take action, the costs of the proposals will outweigh the benefits. Despite this risk of inaction, we consider the potential for benefit warrants the regulatory intervention and the costs incurred.
119. We also consider that improved fee disclosure will facilitate competition across the industry, resulting in lower fees and better service from KiwiSaver providers for consumers in the long term. This is likely to benefit all consumers even if only a small portion of consumers take action in relation to the fees they are charged.

5 Implementation plan

120. The proposed changes will be implemented through new regulations under the Financial Markets Conduct Act 2013.
121. The changes to fee disclosure and projected retirement income figures will require a significant amount of further consultation with KiwiSaver providers in order to establish the exact requirements. It is likely that the FMA will develop a framework or methodology as to how the income projections in the annual statements are to be calculated. This will allow a method of calculation to be established without setting the requirements in regulations, thus allowing a greater degree of flexibility.
122. In regards to the presentation of content, we also plan to undertake consumer testing before finalising the exact content requirements. This applies particularly to the presentation of retirement income figures and how people perceive, and respond to this information. We would also be seeking feedback as to whether consumers are prompted to take action as a result of the proposed changes.
123. We will also continue working with the FMA and CFFC to establish guidance and surrounding communications needed to support the changes.

Transitional arrangement: Disclosure of fees in percentage form, in line with product disclosure statements and fund updates

124. KiwiSaver providers have indicated that they will be unable to make system changes in time to deliver the proposed changes to fees disclosure and projected retirement income figures until 2018 annual statements. We are therefore proposing an interim solution to improve the disclosure of fees in 2017 annual statements. The other changes will not be implemented until 2018.
125. Under the interim solution, information on fees in Annual Statements would be presented as set out in Option Two for fees disclosure – this is, in the same way it is currently presented in Product Disclosure Statements and Quarterly Fund Updates where the annual member fee is provided as a dollar figure, and all other fees are combined as a single percentage value.
126. While this is not as accessible to a consumer, and is more difficult to compare against returns, it will reduce the risk of annual statements misleading investors into believing they are paying fewer fees than in reality.

6 Monitoring, evaluation and review

127. The FMA will monitor the disclosure of information in annual statements as part of its existing monitoring of providers' financial product disclosure.
128. The FMA will also continue to monitor the additional tools providers develop on their websites and the messages that consumers are receiving from providers via existing online retirement income calculators.
129. The FMA also conducts an annual consumer survey and will ask for feedback on the changes to annual statements as part of this survey.

Annex 1 – Mock-up Annual Statement (consultation version)
