

**Feedback to FMA: Proposed guidance on KiwiSaver fees and value for money**

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<b>QUESTION</b>	<b>COMMENT</b>
1	Yes.
2	No comment to make.
3	Concerns about unintended consequences of advice fees and trail commission changes. See discussion over.
4	No comment to make.
5	Yes. See comments over.
6	No comment to make.
7	No.

Financial Advice New Zealand is a professional membership body for financial advisers in New Zealand. It represents around 1600 members, of which roughly a third offer KiwiSaver advice as part of their core business.

Financial Advice New Zealand has no direct involvement with the provision of KiwiSaver products. However, one of our mandates under our Constitution is to work with financial service providers, and their industry bodies, to promote consumer focused products and services.

We support the goals of providing guidance to KiwiSaver managers and supervisors to ensure KiwiSaver fees are not unreasonable and provide value for money to consumers.

Whilst financial advisers can and do make their own assessment of product suitability for their clients based on their assessment of value, we recognise that currently only a small portion of consumers access advice (independent or otherwise) before determining their KiwiSaver product and provider. For these consumers in particular, the focus on reasonable fund fees and value for money is supported.

We recognise that fees can make a big difference to retirement balances for KiwiSaver members and have a compounding effect over time, especially for people with low balances. We support initiatives which seek to minimise this negative effect.

We encourage more people to gain independent advice around what for many is their second largest investment after their home. KiwiSaver is not a set and forget product and ongoing advice should be encouraged. Therefore we don't support initiatives which may increase barriers to people seeking this advice when they first join KiwiSaver and throughout their lives.

Our feedback is primarily in these areas; advice fees and commissions.

**3. Do you agree with the examples we have identified of when KiwiSaver fees may be unreasonable, or inconsistent with the related overarching statutory duties? If not, please outline your reasons.**

We do not support the inclusion of shared advice fees and trail commissions as examples of costs which may cause fund fees to be deemed unreasonable – unless those fees and commissions are themselves unreasonable.

**Unintended consequences for little value**

We believe this guidance's spotlight on trail commissions and advice fees may have the unintended consequence of a reduction in the availability and seeking of KiwiSaver advice which over the long-term would have a much bigger negative consumer impact.

With so few KiwiSaver members seeking advice at the moment, the scale of a fund fee reduction by removing shared advice fees and commissions would be inconsequential. Their inclusion or exclusion would not take a fund fee from being unreasonable to reasonable.

**Cost of being unadvised**

On balance, we believe the much bigger "cost" to a KiwiSaver member is not seeking advice and ending up in the wrong product or fund for their age and stage. This "cost" at retirement is likely to be much greater than the small cost of shared advice fees and commissions being included in their fund fees over that period.

The example of KiwiSaver movements from growth and balanced funds to conservative funds during the first phase of Covid-19 is a good example of the “cost” of being unadvised.

### **Research supports the value of advice**

Independent research Financial Advice NZ commissioned this year of 2000 New Zealanders, “Trust in Advice” showed the value of gaining financial advice:

- Only 53% of unadvised Kiwis in the survey said they had a good understanding of how much investment risk they can afford to take at their age and in their circumstances, this figure increased to over 80% for people who had received financial planning or investment advice.
- People who received financial advice are twice as likely as unadvised New Zealanders to feel at least reasonably prepared for retirement (50.1% vs 26.4%).
- 69.3% of people who received advice from a financial planner saying their financial security has increased as a result of that advice.
- Whilst only 52% of unadvised Kiwis in the survey said they had at least a good understanding of how much money they needed in retirement, this figure increased to over 70% for people who had received financial planning or investment advice.

These are statistics we must listen to – financial advice is worthwhile and valuable and leads to good consumer outcomes. Non advised respondents in the survey said their main barriers to seeking advice were affordability (29.1%), circumstances (37.5%), and an overestimation of their own abilities (37.0%).

If KiwiSaver members have to choose to pay directly to access KiwiSaver advice, we are concerned that will put up a barrier to accessing advice and those members will miss the opportunity of maximising their long term returns. This “cost” is significant.

### **Unadvised don’t see the value - yet**

Our research showed that 45.8% of advised clients felt better prepared for the financial impact of Covid-19 because they received financial advice. When the non-advised were asked if they thought they would have been better prepared if they had received advice, only 19.9% agreed. This highlights that unadvised consumers are yet to fully understand the value of advice, therefore they aren’t likely to choose to pay their KiwiSaver provider, or other adviser, directly for that advice.

### **Advice should be encouraged – it is value for money**

KiwiSaver is not a lock and leave product and we should be encouraging people to seek advice throughout their lives as their life stage changes and their balances build up.

We strongly believe that the cost of advice and commissions does provide value for money and improves long term consumer outcomes. Consumers who have gained independent financial advice, which commissions directly support, are more likely to be in the right KiwiSaver fund and contributing the right amount in order to reach their retirement, or first home, goals.

### **Trail commissions support KiwiSaver advice**

The provision of trail commission has allowed KiwiSaver members access to professional advice in a low-cost manner. If KiwiSaver providers reduce or remove trail commission through concerns around this guidance, even less consumers will have access to independent KiwiSaver advice as advisers are likely to be less willing to offer the service and/or consumers will be unwilling to pay for it.

KiwiSaver advice is already a loss-making product for most financial advisers. Consumers are often not charged for the advice, with advisers gaining remuneration only through trail commissions. As an

example, the cost to a financial planner to give advice to a KiwiSaver client falls in the range \$500 to \$1,000. The average KiwiSaver balance at close to \$20,000 would provide a trail commission on a per annum basis of \$50. It takes a long time to amortise this cost recovery from receiving a trail, even before the cost of providing ongoing advice is factored in.

We do however agree that trail commission without some aspect of ongoing support is unreasonable. At a minimum, these consumers should be supported ongoing through regular newsletters, access to their financial adviser and the offer of a regular review.

**Solution – wait for the market to mature**

As the KiwiSaver market matures and more people seek advice, and fees and commission increase to the extent that their removal would make a material impact on fund fees, then this would be the time to consider direct fees.

Right now, however, the market is not mature enough and the negative consequences run the risk of creating negative consumer outcomes for KiwiSaver members.

**5. Do you think this guidance will help managers and supervisors to understand their ongoing obligation not to charge unreasonable fees and their statutory duties that relate to fees and value for money? Please outline the reasons for your answer.**

Yes, the examples are clear.

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<sup>i</sup> <https://financialadvice.nz/wp-content/uploads/2020/10/Financial-Advice-NZ-Trust-in-Advice-Double-page.pdf>