

Speech Congratulating the 2014 Morningstar Fund Award Finalists

By Peter Neilson, CEO, Financial Services Council

(Comments prepared for the 2014 Morningstar Fund Awards, 5pm, Maritime Museum, Hobson Street, Auckland, 26 February 2014.)

Firstly, I would like to congratulate the award finalists and to thank you all for attending this celebration of the outstanding performance of the fund managers in New Zealand during the last year. The Morningstar awards are one of the rare occasions at which we recognise the role the funds management industry plays in building and protecting the wealth of New Zealanders.

Within the industry we often take for granted the good we do for the wider community. Helping New Zealanders save and invest well to realise their dreams is a noble cause.

The industry adds value in so many ways.

We help New Zealanders diversify their investment risk by sector and internationally.

We advise New Zealanders to stay in the market long term so they do not miss out on the inevitable upturns in the market that follow the down turns.

We help New Zealanders to understand the benefits of compounding returns (interest on interest).

We help New Zealanders match their investments with their appetite for risk.

We help New Zealanders to understand the benefits of investing in growth assets to deliver a comfortable retirement income at the least cost.

This election year will see retirement savings adequacy firmly on the agenda for debate. The FSC has over the last three years funded research and polling to ensure that there is an evidence base for that conversation.

With a maximum of just \$357 a week from NZ Super for someone living alone only 8% of New Zealanders believe they can have a comfortable retirement on that alone.

Today's school leavers know they have a very good chance of living a further 30 years after they reach 65.

Regardless of what age you believe eligibility for NZ Super should occur, if we want to choose when we can retire and enjoy a comfortable retirement then most New Zealanders are going to have to save more, invest in more growth assets and become less dependent on investing in real estate.

If middle income New Zealand is to be able to fund a comfortable retirement from their savings then:

- We will need to step up coverage and contributions into KiwiSaver.
- Have default KiwiSavers placed in balanced or growth rather than conservative portfolios.
- Offset the increased risk with capital guarantees to protect those retiring in the worst years from investment markets.
- Remove the over-taxation of compound return financial products.
- Maintain the value of NZ Super as the first tier of retirement income.

We have polling that we will release in the coming months that shows that most KiwiSavers do not know the risk type of their KiwiSaver fund and that with appropriately priced capital guarantees most people in conservative funds would be prepared to move to balanced or growth funds that earn higher returns.

Most New Zealanders understand that paying less than 0.5% per year for guarantees to earn 2% or more per year on average is a very good deal.

It is now 40 years since the passage of the NZ Superannuation Bill back in 1974. If that scheme was still in place we would now have a fund of more than \$250billion compared with the Morningstar end of December 2013 total for the entire New Zealand industry funds under management of around \$42billion. The funds management industry would have been five times larger. New Zealanders on an average income would be retiring with a nest egg above \$200,000 sufficient to earn more than \$200 a week extra on top of New Zealander Super. Just think how much more of our economy would now be owned by us if that scheme had not been abolished in 1975.

The FSC this year will continue to promote practical plans to lift contributions into and the coverage of KiwiSaver.

The statistics are clear; portfolio allocation and tax are overwhelmingly the drivers of fund performance, with fees a very distant third. In your reports and media statements I would ask the funds management industry to join the debate about KiwiSaver and retirement savings. If contributions don't rise, if funds are not in growth assets and we don't fix the over-taxation of long term savings then most New Zealanders will find their savings run out well before their life does. We have a role in educating the public about these issues.

My congratulations again to all the winners.

Enjoy your evening.

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