KASPANZ MEMBERS NEWSLETTER 13: 2018 **Kiwi** saver | Annuity | Superannuation | Protection Association of NZ.

Hi everybody

KASPANZ *www.kaspanz.com* was formed in February 2013, and we continue to enhance our reputation with our regularly refreshed website with retirement income articles and comment. The Consumer voice has to be heard, the economist voice, and a limited diet of individual commentators of various worth, needs additional stimulus and Kaspanz tries to provide that through information and influence. Remember to click onto the website www.kaspanz.com on a regular basis to see what's there, and remind friends and associates. We like supporters to join Kaspanz, and this is easily done on the home page, and you can also get free updates of new website information per e-mail alert. Look for the home page icon. The site posts new articles weekly.

EDITORIAL

Not sure what's worse, the obscene salaries paid to many Chief Executives and senior staff, or the Section 70 overseas pensions spousal issue, and reduction of New Zealand Superannuation payments. The more you read on both topics, and look at the evidence; you can see what a mess we accept. The Gap between rich and poor has widened over the last 30 years and the explosion in CEO salaries illustrates the gap, and the section 70 issue is poor policy, surrounded by a cone of silence by the Governments in place.

QUICK BITES

- January 2018 Australian Financial Times reported that 57% Aussies of those aged 60-64 are working, and for those aged 65 years and over 12.7%. The upward trend continues!
- Brian Gaynor noted in the 10 years to the end of 2017, NZ House prices grew 63% and Auckland prices 96% meaning they close to doubled. Less well known is the fact international shares also grew 63%, NZ Shares grew 108% and NZ Bonds 96%
- Shamubeel Eaqab reports that in the 2017 year, 31,000 homes were consented. The large majority of this number continues to be stand-alone homes. Medium density e.g. Townhouses 15%, but apartments only 10%. It appears Banks policy re apartment's remains very restrictive, contrary to the need and demand for high density homes.
- Noticed the New Zealand Superannuation Fund recruiting for a new Chief Executive. The 37.4 billion fund and increasing all the time (Government has re-started contributions) has had good

performance returns over the last decade, but remember it's been a golden period for shares, not difficult for anyone to maintain a solid return. Kaspanz notes that this niche group employs 140 people, including 55 investment professionals. Why so many, with much of their funds passive investments. Another Government bureaucracy with too little attention to what are the actual needs?

- Kiwi Saver Tracker :A tool for comparing funds, risk assessment etc. https://public.tableau.com/profile/fmaadmin#!/vizhome/FMAKiwiSaverTracker/Story1
- United Kingdom Financial Conduct Authority CEO Andrew Bailey said in 2018 "In a study of the asset management market we found weak price competition, high profits and complex opaque charges". NZ mirrors overseas practice, so it almost certainly applies to NZ. High fees and profit making have been a goldmine for NZ fund managers for years!
- https://www.sharesies.nz/ an easy way to start investing. A simple on line investment platform. It cost $30 to join, and you can invest as little as $2 into one of 6 NZX share market funds. Over 6000 people have joined and over $10,000,000 are under management.
- Thirty three of the 35 OECD countries have deposit insurance or government guarantee; New Zealand and Israel are the 2 exceptions.
- Royal Commission into Banks in Aussie. Anyone notice the prolific real estate brochures, marketing material in NZ banks, and an emerging trend of the last 5 years. Any there Commission arrangements in place (kickbacks) for allowing such business material in the customer service areas of our banks, and if so why? I mentioned my personal concern to my local Westpac bank on a number of occasions, was told management decision for allowing such display material.

LONGEVITY

Noted an article from the United Kingdom, showing a sharp increase in deaths. The Office for National statistics noted life expectancy is decreasing in the UK, with older people dying at a rate higher than previous trends, and rising life expectancy stalling An Oxford professor (Danny Dorling} who analysed the data , said the figures were alarming, suggesting frail people were increasing, Alzheimer's and austerity measures possibly contributing? Dorling also said people were somewhat blasé about the situation, "5 years ago such data would have got a lot more attention".

- The NZ Listener Feb 2018 reported *"We may be living longer, but those extra years are increasingly likely to be marred by ill health*. A study published in Age and Ageing, the journal of the British Geriatrics Society, reports that the number of older people diagnosed with 4 or more diseases will double between 2015 and 2035. A third will be diagnosed with dementia, depression or a cognitive impairment and many also will have severe arthritis and or diabetes".
- Too many NZ commentators glibly talk about longevity, without any assessment of what that means!

THE NEW ZEALAND SUPERANNUATION FUND

NZ Superannuation and Retirement Income Act 2001 established: The New Zealand Superannuation Fund, a pool of assets on the Crown's balance sheet; and the Guardians of New Zealand Superannuation, a Crown entity charged with managing the Fund.

The Government uses the Fund to save now in order to help pay for the future cost of providing universal superannuation. In this way the Fund helps smooth the cost of superannuation between today's taxpayers and future generations.

The Guardians of New Zealand Superannuation is the Crown entity charged with managing and administering the Fund. It operates by investing initial Government contributions – and returns generated from these investments – in New Zealand and internationally, in order to grow the size of the Fund over the long term.

Government contributions to the Super Fund were suspended between 2009 and 2017. In December 2017 contributions resumed, with $500 million allocated in the 2018 financial period. From around 2035/36, the Government will begin to withdraw money from the Fund to help pay for New Zealand Superannuation. The Fund will continue to grow until it peaks in size in 2070s.

The Fund is therefore a long-term, growth-oriented, global investment fund.

Frequently Asked Questions

What is the difference between the Guardians and the Fund?

In simple terms, the New Zealand Superannuation Fund is the money and the Guardians of New Zealand Superannuation is the organization set up to manage the money. Both the Fund and the Guardians were established under the New Zealand Superannuation and Retirement Income Act 2001 (the Act).

The purpose of the Fund is to reduce the tax burden on future taxpayers of the cost of New Zealand Superannuation. The purpose of the Guardians is to manage and administer the Fund.

Does the NZ Government influence investment decisions?

No. The Act which established the Guardians and the Fund made the Guardians operationally autonomous from the Crown. This means that the Government does not decide who can be nominated for the Guardians' Board, nor does it have any role in the Guardians' investment decisions. The Government can only direct the Guardians as to the level of risk and return in the Fund.

Why don't you invest more of the fund in New Zealand?

While we actively seek opportunities to invest in New Zealand, and believe we do have a home-town advantage that makes it worthwhile investing a significant proportion of the Fund here, all our investment decisions are made a commercial basis. In global terms New Zealand is very small investment market, and it is important that the Fund is appropriately diversified. New Zealand investments therefore need to stack up against all the alternative investment options that are available to us globally. We expect the Fund's New Zealand investments to deliver a premium return in order to compensate for the risk of concentrating too much of the Fund here. As one of the few institutional investors of scale in New Zealand, we also maintain a high level of price discipline.

Is the expectation that the Fund will exceed the Treasury bill return 2.7% too easy a performance benchmark?

We have made clear that T-Bills + 2.7% is the rate of return we expect to be able to *average* over rolling 20-year periods. We aspire to outperforming the +2.7% whenever we have the opportunities to do so. For further details see our Performance section.

Why do you report your investment returns inclusive of NZ tax?

Returns are reported net of all costs and overseas tax. As the Fund is a Crown asset, we consider NZ tax paid a return to the Crown i.e. it is part of our total return.

Do you manage individual retirement accounts?

No - we only invest Government contributions.

How do you assess whether unlisted 'private markets' assets are adding value?

As a general principle, we require all investments to be valued at fair value. In the case of listed assets, fair value is readily determined by reference to traded prices on recognised exchanges. For unlisted 'private markets' assets, where quoted market prices are not available, fair value will be determined on the basis of independent valuations, where practical.

Where it is not practical to obtain an independent valuation, an investment manager's valuation will be used. If we are not satisfied that an investment manager's valuation is sufficiently reliable, we will value the investment at cost less any impairment. We ensure that any independent valuations are conducted at least annually by qualified independent professional advisors.

Before valuations are booked, the valuation methods used by the advisors are tested by an internal Valuation Working Group, comprising senior members of the Investments and Finance teams.

RETIREMENT COMMISSIONER HITS BACK AT PENSION CRITICISM

15 April 2018

Retirement Commissioner Diane Maxwell says New Zealand needs to raise the age of eligibility for New Zealand Superannuation. New Zealand's Retirement Commissioner has hit back at criticism of the country's pension system and lack of reform. Last week a visiting expert said New Zealand was lagging behind other countries by failing to undertake a comprehensive review of its retirement policy.

That followed a report released by the Organisation for Economic Cooperation and Development (OECD) which pointed to New Zealand being one of the least generous nations when it came to comparing the state pension to the average wage.

New Zealand was ranked sixth worse equal with Australia in its 2017 Pensions at a Glance report with just 43 per cent of the average wage being paid out to retirees.

That compared to the top OECD ranked nation Norway which paid out 110 per cent of the average wage.

Diane Maxwell, said tables like the one in that report were a simple way of comparing countries but it wasn't that simple.

"It is a tidy equation to use to simplify something that really isn't that simple."

Maxwell said looking at the replacement rate - how much people get when they retire compared to when they work - was not that helpful for people.

"It often bears no resemblance to what you spend while working."

"Working is expensive."

Using herself as an example she pointed to the costs of getting to work - driving a car and paying for petrol and parking as well as the cost of childcare and doggy day-care and paying someone to do the housework and gardening.

"The day you stop work is the day you start doing your own garden and washing your own car," she said.

In the United States, where she has just visited for a major pension policy conference, Maxwell said people were told they needed to have 75 per cent of their income to live off in retirement.

"You do not. “In reality it is a very individual thing."

She says nice tidy charts out of the OECD don't allow people to compare the wealth and wellbeing of people and information like whether healthcare is publicly funded; there are free buses and rates rebates - all factors which New Zealand has. “They matter greatly for retirees."

"It is not about just the relationship to what you earned but the cost of living."

New Zealand has also come under fire in the last week from a visiting pension expert who said country was lagging behind when it came to global changes.

David Harris, a consultant based in the United Kingdom, said the country was getting out of kilter with the rest of the world where many had moved to increase the retirement age and push up savings rates.

Raising the age of eligibility for New Zealand Superannuation and increasing the contribution rate for KiwiSaver were both recommendations made in Maxwell's 2016 review of retirement policy.

The previous National-led government rebuffed her proposal to increase the KiwiSaver rate from 3 per cent to 4 per cent but had planned to raise the retirement age from 65 to 67.

But new Labour Prime Minister Jacinda Ardern has already said she will not raise the retirement age under her leadership although the Government is considering an increase to the KiwiSaver rate.

Maxwell said New Zealand needed to raise the age of eligibility for New Zealand Superannuation.

"To think you can be retired for 30 years and still get super at 65 ... it's not affordable. We are going to have to raise the age."

Asked what she planned to do in the face of Ardern's stance Maxwell said: "My job is to keep being an independent voice."

Maxwell said it was not easy to see that the population was ageing.

"But it is happening."

She said New Zealand Superannuation is costing $38 million a day at the moment but in 20 years' time it would be $117 million a day.

"It is terrifying."

Maxwell said 65 today was not old for many people. While there was a group of people who would not cope with the age being raised, 65 was already too late for many of them.

She said the Government needed to step in and help older workers retrain and for those who could not work due to health, provide a benefit to them which was not New Zealand Superannuation.

Half of the OECD countries have already raised the retirement age.

"We cannot pretend this is not coming down the track."

Maxwell said people needed a long lead-in time so they could plan for the change.

She said the alternative was increasing taxes or reducing other areas of spending like health or education to keep paying for it.

"Our politicians need to be our leaders. They need to lead us through difficult decisions and an ageing population and how we deal with it is one of those."

EDITORIAL COMMENT

The retirement Commissioner has been consistent for a long period that NZ must raise the age of eligibility for NZ Super. I find Diana's articles and comments often difficult to follow, and sometimes contradictory, but she is consistent on the issue above. I don't share her concern re the age of eligibility, though a rise to 67 years over a 20 year lead in time is worthy of discussion. I am concerned at the extravagant language she uses when talking about costs, and the accuracy of her comments, calm and measured evidence based information is what I want from the Retirement Commissioner. Instead throw away lines, and emotive rhetoric comes through, raising the question how well she actually knows her subject material; she often seems to be having a dollar each way on the key issues being discussed.

SENIOR EXECUTIVES AND CEO PAY: NEW ZEALAND'S GREAT CON

The 2014 book "Indispensable and other Myths: Why the CEO Pay experiment failed and How to fix it" by Michael Dorff, University of California, reinforces an earlier article published in National Business Review, December 12th, 2014, entitled "*Salary inflation: Put a cap on Executive Pay"*.

National Business review (Dec 12, 2014) reported at that time 17 Fonterra staff receiving annual salaries of more than $1 million dollars. The large farming co-operative business adopted the industry standard reply" *All our employees are remunerated against the market reference*" when asked to comment. Fonterra executives performed poorly, particularly in media communications and responsiveness in the 2014 Milk Powder debacle, revealing the underbelly of bloated salaries and non-performance. Forward to January 2018, and Fonterra features once more, with their costly decision to engage with *Fonterra Chinese* partner Beingmate's.

Fonterra is just one pop up example, of Corporate incompetence and probably collusion with Recruitment agencies, in a cartel which rewards each other, in pushing forward remuneration packages which are not required. There is an urgent need to simplify complicated remuneration structures and similarly pay for performance links need in depth attention. United Kingdom's Deborah Hargreaves, chair of the Independent high pay commission, says that there is no discernible evidence of link between executive pay and corporate performance, echoing numerous research studies and my own research in 1996 on this topic while visiting the United Kingdom, with the conclusion the link between pay and actual performance was highly questionable.
What we have in many senior positions are men and women of integrity, work knowledge and performance, but despite their best efforts will make mistakes, cannot as individuals influence overall performance and certainly should not command outrageous salaries for their individual effort.
To the man in the street, these Fonterra positions are probably worth in actual value and performance somewhere between $250,000 and $500,000 dollars per annum salary, but wage creep over the last 2 decades coupled to individual's powerlessness and feelings of helplessness to challenge the practice of inflated executive pay, has resulted in the excessive salaries being paid at senior levels.

In the 1970's the average American CEO earned 25 times the salary of the average shop floor worker. Today such positions earn 300 times or more. The United States is always the land of extremes, which is exactly why there is no need for New Zealand to follow such practice

A correspondence with significant Australian experience replying to my earlier article *"Salary inflation: Put a cap on top pay*" wrote the following

> "*I think we have been impaled by them and simply don't know what to do. Boards will pay (egged on by management) whatever it takes to get the pick of the crop, based purely on corporate results in the past. And it can be a bidding war as candidates play off competitors. New Zealand bought the very personable (though very variable) Paul Reynolds from the UK to head up Telecom after Theresa Gattung; Australia Telstra bought US Solomon Trujillo to head the company, who then bought in two of his mates ('the three amigos'). They had no understanding of Australian culture, put the government totally offside and got paid out handsomely for their American arrogance. The point being it is a global market but boards can get it very wrong but pay a huge cost. I think the moral to the story is, if you stand beside something that is growing very fast you look like you did it: and you can command imaginative salaries from impressionable boards.*

First, corporate boards are not experts in recruitment: all they usually agree on is they want 'the best'. They understand you pay for 'the best'. And this is an area of immense subjectivity. First, inevitably, they engage the search and head-hunt people who probably propel exec salaries upwards (they have an interest in doing so). So they want to raise the ante on what they can offer to attract (their estimation) of suitable applicants. Since they have no especial knowledge of the industry or the standing of the seeking corporate within it except what you and I see in the press their major carrot is money. My hunch is that the intermediaries could have been a substantial source of salary (and perks) blowout".

Second is what economists refer to as a shadow price: the international price that overhangs the local markets in terms of salaries and perks. Lots of people don't want to compete on the international market, but the shadow price--what they might get internationally-- hangs over local salaries. It is very difficult to push back against the greed of US and UK bankers for example".

The intermediaries comment is spot on. Recruitment agencies are part of the spiral, often commission based, and operating from market forces and impulse rather than a body of research knowledge. Remuneration authorities and Boards need to obtain knowledge of what's occurred in this area, have a sound knowledge of the research literature on the topic and start to protect shareholders, and public services from executive income absurdities. In my view numerous Boards of Directors have underperformed in remuneration governance, few having knowledge of what the evidence is telling them.

It is important in this discussion that we must not lose sight of the outcomes in this issue, what is the solution. Government has a role in talking about this issue, similar to the Reserve bank talking down the Official cash rate, and the business community e.g. Chambers of Commerce needs to grapple with salary levels. Reducing costs while rewarding competent employees with realistic salary remuneration, raises issues of fairness, equity, social justice and business performance. It should not be too hard to get a formula which provides realistic reimbursement, and some flexibility, and not to produce the obscene outcome of Apple CEO TIM Cook 2011 salary of over $350 million. The Swedish approach 12/1 formula the boss receiving 12 times the salary of the lowest paid employee is a good start.

When you look at the reality of low remuneration levels for the aged care industry employee, and then switch immediately to CEO salaries or remuneration being paid e.g. Senior Auckland Council staff, the New Zealand Racing Board, Health Authorities and investment fund managers in the New Zealand Super Fund, you immediately see the contradictions and the enormity of the problem. Let the conversation begin

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2. REMEMBER ITS ONLY $10 AND PUT YOUR SURNAME WHEN YOU PAY, SO WE CAN IDENTIFY THE PAYMENT

THIS NEWSLETTER CONTAINS A NUMBER OF OPINIONS FREQUENTLY THOSE OF THE EDITOR, IT IS WRITTEN IN A CHATTY MANNER, AND DOES NOT PRETEND TO BE A MORTGAGE ON KNOWLEDGE. IT IS DESIGNED TO MAKE THE READER THINK AND TO HELP EXPLORE ISSUES SO BETTER PUBLIC POLICY DEVELOPMENT AND SOLID INFORMATION EMERGES.

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