

Workplace Wealth Insight

BECOMING AN 'EXEMPLARY' EMPLOYER

NZFUNDS

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With the launch of KiwiSaver in 2007, New Zealand has belatedly commenced a concerted push to repopularise personal retirement saving almost 20 years after radical tax changes spelled the demise of corporate superannuation schemes.

Similarly, the contraction in corporate super has left New Zealand two decades or so behind many other developed countries in the development of personal retirement savings. We are also 'behind the 8 ball' in terms of building up our personal retirement savings to offset the Government's declining ability to sustain present retirement income funding to support an increasingly aged population.

By 2009, only 10% of the corporate superannuation schemes that had existed in 1990 still remained in operation. This sector's contraction has led to a dramatic fall in the participation rate by employees in regular retirement savings programmes. As a result, there is an increased risk that fewer New Zealanders will be able to fund their retirement lifestyle.

But many New Zealanders are not blind to the fact that the level of income from NZ Super is unlikely to generate anything but a modest lifestyle in retirement. The fact that 1.2 million employed people have enrolled in KiwiSaver – over two times what The Treasury forecast pre KiwiSaver commencing – shows that the scheme has rapidly filled the void for a simple, low cost – and Government sponsored – retirement savings scheme.

Getting on board KiwiSaver is the first of 5 required steps to optimise the process of accumulating sufficient wealth for one's targeted retirement lifestyle. However, there is a risk in New Zealand that, like has occurred in more developed savings markets, KiwiSaver members believe that participation alone will mean their retirement wealth objectives will be achieved. The complacency risk that can occur has been recently recorded in the US and Australia, where the average retirement savings account of those near retirement (55 years+) is well below what they will require to replace loss of their employment income at retirement.

For those amongst us who have the time to close the wealth accumulation gap, the opportunity exists to learn and adopt the right behaviours and actions that increase the probability of adequately funding our retirement. While some of these actions may seem obvious to the astute individual, projecting what your household expenditure might be in retirement (light years away for some), having a sense of your likely time in retirement and calculating the sum required to fund retirement income, risks being beyond the financial knowledge of most individuals.

Accessing the insights and technology to get in control on ones personal finances is much more than learning about investment. It's learning about the fundamentals of making sound financial decisions.

However, obtaining access to such knowledge in a time efficient and cost effective manner for the majority of the working population is a significant challenge. Only a slim minority have the spare time and inclination to focus on such a dry topic in our leisure hours. This is why successful financial guidance programmes are typically delivered in the place where wealth accumulators both habitually reside and also associate as a knowledge growth environment – the workplace.

The benefit for participating employees is very clear – they obtain the insights through which they have the opportunity to get in control of their financial future.

However, the employer also needs to get on board by understanding that their payback for facilitating financial guidance programmes exceeds the costs associated with running such a programme – being principally employee downtime.

Many employers already offer a range of non compensation benefits – health insurance, employee assistance programmes and in more recent times, KiwiSaver contributions. In the latter case, IRD surveys indicate only a small minority of employers are doing anything about ensuring their KiwiSaver 'investment' is effective in achieving an improvement in their employees' future financial state.

Fortunately, the employer payback from facilitating in-house financial guidance programme, both humanistically and financially, has been well documented. By facilitating such programmes as an employee benefit, employers have boosted their employee attraction, motivation and retention capabilities relative to their competitors. They also receive a financial benefit from less financially distracted employees, reduced absenteeism and the resulting improved productivity flows through to enhanced business profitability. And well above the direct costs of running such programmes.

Most importantly, by such positive actions these employers lift the potential they will be recognised by their most valuable asset – their employees – as an exemplary employer.

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