

What Kiwis' Want:

KiwiSaver Product Disclosure Statements

Aaron Gilbert, Ayesha Scott and Kayla Czar¹

Department of Finance, Auckland University of Technology
& Auckland Centre for Financial Research

¹ Research project approved by the Auckland University of Technology Ethics Committee on 22 September 2017; AUTEK Reference number 17/324. The authors would like to thank the participants for generously giving their time to this research. This project has also benefitted from consultation with Elena Vinton (Public Trust), Penny Sheerin (Chapman Tripp), Tim Williams (Chapman Trip) and Sarah Beauchamp (ANZ). We also want to thank Simon Haines, Rob Sloan, and Gillian Boyes of the FMA for their comments and note that their feedback does not represent an endorsement of the report by the FMA.

For comments and feedback, please contact the Research team at readabilitystudy@aut.ac.nz.

Executive Summary

The report outlines research conducted on the readability and usability of KiwiSaver Product Disclosure Statements (PDSs). Forty-eight New Zealanders participated in one of six focus groups, and were asked to read an anonymised (but real) PDS and discuss their thoughts. The responses provide a deeper understanding of the accessibility of the information contained in KiwiSaver disclosures, and the subsequent usefulness for investor decision making. Although this study considered the case of KiwiSaver specifically, some of the below recommendations are expected to be relevant for financial disclosures more generally.

This summary outlines several key recommendations for regulators and providers to consider going forward.

1. Information relevant to all KiwiSaver funds to be presented in a separate stand-alone document prepared by a relevant independent body (as opposed to fund providers).

Currently, all providers are required to include basic information common to all KiwiSaver funds. Common and provider-specific information is currently intertwined, making it harder for investors to distinguish between providers. Additionally, the increased size of the documents due to the common information acts as a barrier to reading multiple PDS documents to compare across providers. A common document provided by an independent body, setting out the benefits, and functioning of KiwiSaver in general provided in addition to shorter, provider-specific disclosure may improve comparability and engagement.

2. The stand-alone document should contain a Glossary of (Standard) Terms.

Although common in the earlier prospectuses, this section is missing from simplified disclosures (we assume due to the word count). The CFFC has developed a KiwiSaver-specific glossary in conjunction with Workplace Savings. At present, providers are free to use terminology as suits them, and this impacts comparability. Inclusion of a glossary, and the requirement for providers to use only common jargon, may aid investors in understanding jargon.

3. A short quiz to be completed first, assessing the most appropriate fund type for an investor. This allows investors to then access the relevant information for their situation, rather than drown in irrelevant details. For example, sorted.org.nz's KiwiSaver quiz.

4. Structure of the documents should be organised by fund type,

Currently, the PDS presents information by topic (risk exposure, fees etc.) rather than by fund type. This prevents easy comparison between Provider A's conservative fund and that of Provider B, as readers need to flick throughout the document. Additionally, it results in the reader having to read about multiple fund types, most of which are not relevant to them. Collecting important information such as risk exposure, fees and relevant targeted examples by fund type allows investors to take their quiz result (3 above), identify the relevant fund type and then quickly compare between providers.

5. Disclosure information should be offered in two parts, to address mistrust in KiwiSaver itself:

- a. General information common to all providers and/or KiwiSaver itself, provided in one document by the FMA.
 - b. Provider/fund specific information, compiled by an independent third party and distributed by either that third party or the providers themselves (or both).
6. **Formatting of the document needs to keep accessibility for all readers at the forefront**, including details like standardised colour schemes and easy-to-read graphs with informative legends. Consistency of brand appears to have sacrificed readability for many investors.

For comments and feedback, please contact the Research team at readabilitystudy@aut.ac.nz .

1. Introduction

Information is vital for investors making informed financial decisions, and the accessibility of relevant information is considered a priority for regulators. In New Zealand, investment disclosure is heavily regulated by the Financial Markets Authority (FMA), legislated under the Financial Markets Conduct Act 2013 (“FMCA”). In addition to continuous disclosure requirements, i.e. making new information publically available in a timely manner, the FMCA sets out the requirement that product disclosure “must be worded and presented in [a] clear, concise, and effective manner”². In effect, this requires that that information be understandable by the average investor. Put differently, should be *readable*. Readability requires disclosure to be in ‘plain English’ to allow ‘prudent but non-expert’ investors to be able to digest the information contained in the disclosure. The mandated disclosure required for managed funds, such as KiwiSaver, is the Product Disclosure Statements (PDSs). PDSs are required to be relatively short, no more than either 6,000 words or 12 pages, and to convey the key information investors need to make informed decisions regarding the financial product or managed fund in question.

KiwiSaver is an ideal context in which to examine investor disclosures (specifically Product Disclosure Statements), as it is a continuously-marketed investment vehicle open to the entire New Zealand population. While stakeholders increasingly recognise that investors need more accessible information to make decisions, little is known about the form that information should take. Gilbert and Scott (2017) employed a number of readability metrics to examine the effectiveness of the new simplified disclosure regulations for this special case of KiwiSaver PDSs. Specifically, they explored the linguistic differences between the former disclosure documentation, the prospectus and investment statement, and the current product disclosure statements. They find that PDSs were an improvement over the old documents, but did not necessarily fully achieve the goal of simplified disclosure.

In this study, we test the understanding of 48 New Zealanders, and then for their thoughts on the usability and readability of PDSs. The participants, who attended one of six focus group sessions across Auckland, read an anonymised (but real) PDS, and were asked for their take on a range of issues, including whether it contained the information necessary to make a decision regarding KiwiSaver. While the responses were broadly in line with Gilbert and Scott’s (2017) analysis, there were also some surprises. In this paper, we outline the key results of this study and provide a number of

² s61 Financial Markets Conduct Act 2013.

recommendations for the format and type of information that is key for investors to make these decisions going forward.

Introduced in 2007 to help New Zealanders save for their retirement, KiwiSaver is a defined contribution superannuation savings scheme. The scheme is 'opt-out', whereby employees and eligible investors³ are given a short period to decide to not join KiwiSaver. In the absence of opting-out, investors need to make three main decisions regarding their KiwiSaver investment: (a) their contribution rate (3, 4, or 8%); (b) the fund type (cash, conservative, moderate, balanced, growth or aggressive); and, (c) the fund provider. If no decision is made, an investor is auto-enrolled in a 'default' fund, a conservative fund run by a limited number of providers.⁴ As at October 2017, KiwiSaver funds were managed by 30 different schemes, totalling approximately NZ\$40 billion funds under management (FMA 2017).

Gilbert and Scott (2017) found that KiwiSaver PDS text requires between a year 13 and university entrance level of education to comprehend the document. Currently, approximately 1 in 2 students complete high school (in New Zealand, high school certification is Level 3 NCEA). According to the Standard & Poor's Global Financial Literacy Survey (2014), 39% of New Zealanders are financially illiterate⁵. Therefore, potential and existing KiwiSaver investors have vastly disparate financial literacy. In addition, KiwiSaver is a long-term investment, requiring periodic decision-making as investors' circumstances and lifestyles change. To maximise the efficacy of KiwiSaver, people must be able to make sound decisions. Therefore, improving KiwiSaver disclosure is important, as this is the primary source of information available to investors.

In the National Strategy for Financially Capability,⁶ the CFFC found "disengaged KiwiSaver members may not be contributing enough, or not be in the optimal type of fund" to suit their individual requirements. Unreadable or hard to understand information acts as a barrier to engagement, making people less willing to make any decision. Given that KiwiSaver is marketed for all citizens and permanent residents under 65 years old, and that disadvantaged New Zealanders are those most likely to need the safety net KiwiSaver provides for their retirement, allowing all investors access to the

³ Eligibility requirements include being under 65 years old and a New Zealand citizen or permanent resident and residing in New Zealand.

⁴ New members evenly allocated across all default providers by the IRD. The current list of providers offering a default fund includes: AMP, ANZ, ASB, Mercer, Fisher Funds, Grosvenor, KiwiBank, BNZ and Westpac.

⁵ Although New Zealand is ranked in the top 15 countries globally for financial literacy, nearly 40% of the population lacking the knowledge to make informed financial decisions is a problem in the context of KiwiSaver.

⁶ See <https://www.nationalstrategy.org.nz/national-strategy/saveinvest/>, Accessed March 2018.

information they require to make informed decisions regarding their investment is integral to supporting all New Zealanders in their retirement.

Finally, a common theme coming from providers, regulators and commentators regarding KiwiSaver is that many KiwiSaver investors are not actively engaged with KiwiSaver. Investors are required to make a series of decisions, both initially when they join/or are joined, and then periodically throughout time as circumstances change. Recent survey data⁷ has overwhelmingly concluded that a significant proportion of KiwiSaver investors are not engaging at all, or opting for a 'set and forget' policy, and this is likely to disproportionately impact those with lower financial understanding more such as women and lower socio-economic people. A lack of engagement with the decision-making process has a two-fold impact. Firstly, if investors struggle to engage with their fund provider, they are not making the periodic decisions required to ensure the best outcome for their retirement. Secondly, a lack of engagement on the part of investors fosters a lack of competition in the KiwiSaver sector. By not voting with their feet, investors unwittingly allow the sector to charge higher fees, resulting in potentially tens of thousands of dollars less in retirement. A potential barrier to engagement is information, and in particular whether the reader can understand the information provided. Decisions that are hard, or information that cannot be easily accessed has been shown to result in apathy, avoiding making decisions and disengagement (Harrison et al. 2006).

The bottom line is that KiwiSaver investors need access to information in a form that a layman can understand to make an informed decision about their retirement savings. The provision of accessible information, including where it is made available and by whom; and, the content of the information and disclosure itself, is an integral component of improving the ability of investors to make informed financial decisions.

2. Recommendations

This study used both quantitative and qualitative participant responses to gain insight into the usability and readability of KiwiSaver product disclosure statements (PDSs). Doing so has provided a deeper understanding of the accessibility of the information contained in KiwiSaver disclosures, and the subsequent usefulness for investor decision making. Although this study considered the case of KiwiSaver specifically, some of the below recommendations are expected to be relevant for financial disclosures more generally.

⁷ For example, see ANZ's KiwiSaver Survey Findings (August, 2017) Report. Accessed online March 2018.

7. Information relevant to all KiwiSaver funds to be presented in a separate stand-alone document prepared by a relevant independent body (as opposed to fund providers).

Currently, all providers are required to include basic information common to all KiwiSaver funds. Common and provider-specific information is intertwined, making it harder for investors to distinguish between providers. Additionally, the increased size of the documents due to the common information acts as a barrier to reading multiple PDS documents to compare across providers. A common document provided by an independent body, setting out the benefits, and functioning of KiwiSaver in general provided in addition to shorter, provider-specific disclosure may improve comparability and engagement.

8. The stand-alone document should contain a Glossary of (Standard) Terms.

Although common in the earlier prospectuses, this section is missing from simplified disclosures (we assume due to the word count). The CFFC has developed a KiwiSaver-specific glossary in conjunction with Workplace Savings. At present, providers are free to use terminology as suits them, and this impacts comparability. Inclusion of a glossary, and the requirement for providers to use only common jargon, may aid investors in understanding jargon.

9. A short quiz to be completed first, assessing the most appropriate fund type for an investor.

This allows investors to then access the relevant information for their situation, rather than drown in irrelevant details. For example, sorted.org.nz's KiwiSaver quiz.

10. Structure of the documents should be organised by fund type,

Currently, the PDS presents information by topic (risk exposure, fees etc.) rather than by fund type. This prevents easy comparison between Provider A's conservative fund and that of Provider B, as readers need to flick throughout the document. Additionally, it results in the reader having to read about multiple fund types, most of which are not relevant to them. Collecting important information such as risk exposure, fees and relevant targeted examples by fund type allows investors to take their quiz result (3 above), identify the relevant fund type and then quickly compare between providers.

11. Disclosure information should be offered in two parts, to address mistrust in KiwiSaver itself:

- a. General information common to all providers and/or KiwiSaver itself, provided in one document by the FMA.
- b. Provider/fund specific information, compiled by an independent third party and distributed by either that third party or the providers themselves (or both).

12. Formatting of the document needs to keep accessibility for all readers at the forefront, including details like standardised colour schemes and easy-to-read graphs with informative legends. Consistency of brand appears to have sacrificed readability for many investors.

3. Methodology

KiwiSaver is an ideal example of a continuously-marketed financial product/fund, offered to the New Zealand population as a whole. To investigate how successful the PDSs are in terms of providing the average eligible New Zealander access to the information contained in the documents, we recruited 48 New Zealand residents to participate in a two-hour focus group session. Focus groups were held at one of the three Auckland-based AUT campuses (North Campus at Akoranga, City Campus in the CBD and South Campus at Manukau) and involved between 4 and 10 participants each. Each focus group consisted of a quantitative (survey) component and a qualitative group discussion, the audio of which was recorded and transcribed by the research team.

Participant Recruitment

We invited the general public to take part in the Readability Project via an advertisement placed on popular classifieds platform TradeMe and shared via social media.⁸ Participants were offered a small financial inducement to participate in the two-hour focus group study. We required participants to be over 18 and eligible for KiwiSaver, i.e. a New Zealand citizen or permanent resident. Those willing to participate contacted us via email, we checked their eligibility for the study and offered a place in one of the six available focus group sessions. In the event a participant could not attend the times on offer, they were excluded from the study. In all, we had 48 participants.

Focus Group Session

Participants examined one of two anonymised (but real) product disclosure statements⁹ and answered the survey in two parts, covering the participants' demographic information and financial literacy (part 1, completed before reading the PDS), and their understanding and perceptions of the PDS (part 2, completed after reading the PDS). The PDSs were anonymised by replacing the name of the provider with a fictional name. Doing so avoided unconscious brand bias that may have impacted people's perceptions, as well as protecting fund providers' anonymity. The selection of the two PDS documents was based on the empirical results of Gilbert and Scott (2017). Specifically, we avoided funds with obvious and recognisable branding such as banks and then selected an "average" readable and unreadable PDS, as measured by the Fog Index. The good PDS had a Fog Index of 13.78, indicating a university entrance level of education, while the bad PDS had a Fog Index of 16.25, indicating a third year university level of education (level 7 according to the NZQA guidelines).

⁸ Including Twitter, Facebook and Neighbourly.

⁹ The two Product Disclosure Statements were chosen based on their quantified 'readability' metric, as measured by the Fog Index (see Gilbert and Scott 2017 for further information).

Following the survey, a focus group discussion expanded on some of the issues people found regarding the PDSs, including their usability, what needed improvement, what worked and general KiwiSaver attitudes.

4. Results

Who Did We Talk To?

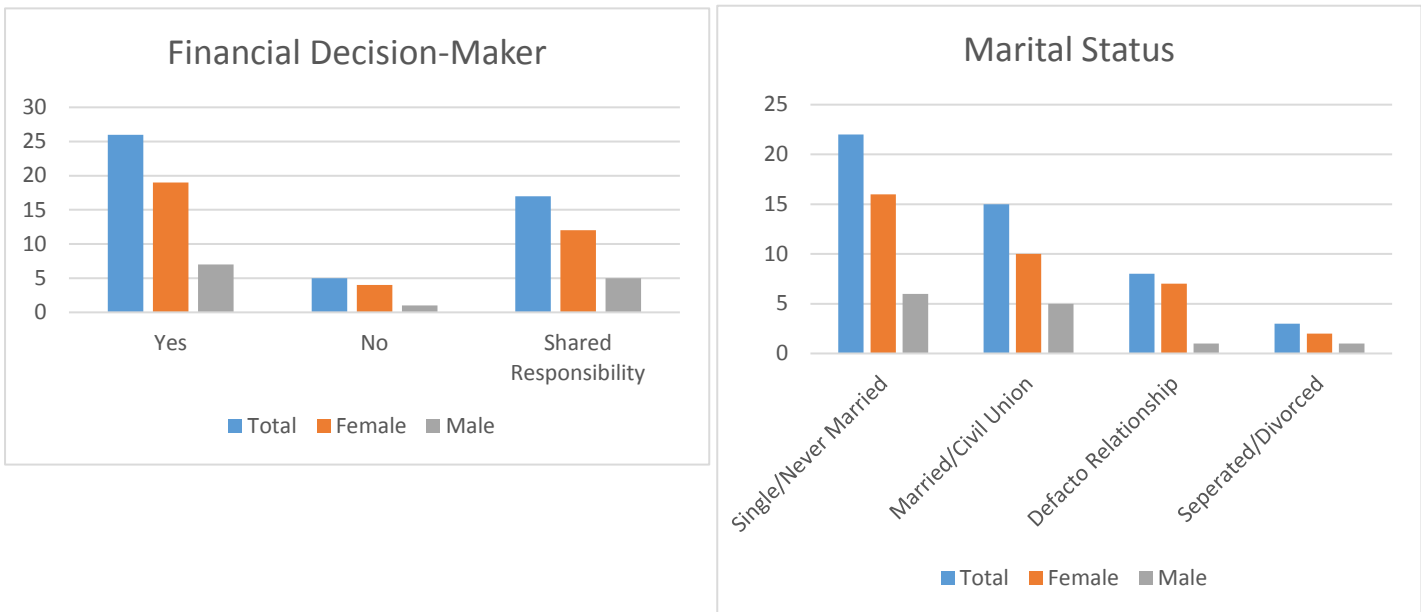
The demographic questions we asked are contained in Box 1, and a graphical summary of participants is contained in Appendix A. Our 48 participants were overwhelmingly female (35 v 13 males) and young (half the sample under the age of 36). The single largest age group was 26-35 year olds, 17 of the sample. The New Zealand population median age is 38 years old (2013 census). The participants

BOX 1: Demographics (Part 1 Survey)

- 1) *What is your age?*
- 2) *Which gender best describes you?*
- 3) *What is your ethnicity? (Please select all that apply)*
- 4) *What is the highest level of education you have completed?*
- 5) *What is your current employment status? Please choose the option that best describes your circumstances.*
- 6) *What is your gross annual income from all sources before tax?*
- 7) *What is your marital status?*
- 8) *Are you the person who makes financial decisions in your household?*
- 9) *What type of accommodation are you currently living in?*

were also better educated than the New Zealand average, with 17 (35%) having a postgraduate qualification or higher, compared with a national average of less than 5%, and 28 had some form of tertiary qualification (including diplomas and certificate level qualifications). Our sample does seem generally representative of New Zealanders in relation to income, as 21 of the sample reported earning between \$0 and \$40,000 per annum, in line with the national median income in 2017 of \$48,000.

However, as incomes in Auckland are generally higher than other regions of New Zealand, we may be capturing a higher proportion of lower income earners than average.



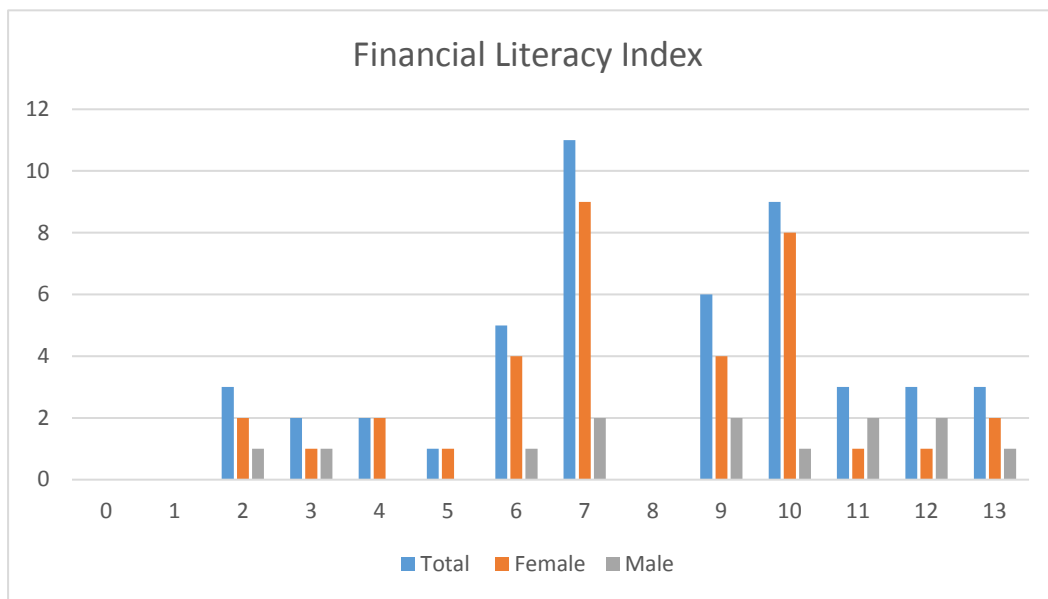
Married participants were more likely to share decision-making. The majority of our participants, 36 people, rent rather than own their homes. This is not surprising given that our participants tended to be younger, earning a low income, and the high cost of property in Auckland. Of note, this is also the group that is in greater need of KiwiSaver, as a result of the much higher income needs in retirement of those without a fully owned house.

BOX 2: Financial Literacy - Basic Knowledge (Part 1)

- 10) Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you did not withdraw any money? (i) More than \$102; (ii) Exactly \$102; (iii) Less than \$102; (iv) Do Not Know; (v) Prefer not to answer.
- 11) Assume a friend inherits \$10000 today and his sibling inherits \$10000 3 years from now. Who is richer because of the inheritance? (i) My Friend; (ii) His Sibling; (iii) They are equally rich; (iv) Do not know; (v) Prefer not to answer.
- 12) Suppose that in the year 2030, your income has doubled and prices of all goods have doubled too. In 2030, how much will you be able to buy with your income? (i) More than today; (ii) The same; (iii) Less than today; (iv) Do not know; (v) Prefer not to answer.

What do they know about finance?

Before asking participants to read the PDS and provide their thoughts, we tested their financial literacy. Doing so allows us to control for their general financial knowledge that may help them when reading the PDS. Our 13-question financial literacy index is based on van Rooij *et al.* (2011), and is calculated by summing the number of questions that the participant gets correct. Knowledge of key finance concepts was tested across the 13 questions (see Boxes 2 and 3), including time value of money, diversification, compounding interest, interest rates, risk, and illusion. Small modifications were made from van Rooij *et al.*'s original questions to bring terminology in line with that used in New Zealand.



BOX 3: Financial Literacy - Advanced Knowledge (Part 1)

- 13) *Which statement describes the main function of the stock market?* (i) The stock market helps to predict stock earnings; (ii) The stock market results in an increase in the price of stocks; (iii) The stock market brings people who want to buy stocks together with those who want to sell stocks; (iv) None of the above; (v) Do not know; (vi) Prefer not to answer.
- 14) *What happens if somebody buys the stock of firm B in the stock market?* (i) She owns part of firm B; (ii) She has lent money to firm B; (iii) She is liable for firm B debt; (iv) None of the above; (v) Do not know; (vi) Prefer not to answer.
- 15) *Which statement about managed funds is correct?* (i) Once one invests in a managed fund, one cannot withdraw the money in the first year; (ii) Managed funds can invest in several assets, for example invest in both stocks and bonds; (iii) Managed funds pay a guaranteed rate of return which depends on their past performance; (iv) None of the above; (v) Do not know; (vi) Prefer not to answer.
- 16) *What happens if somebody buys a bond in firm B?* (i) He owns part of firm B; (ii) He has lent money to firm B; (iii) He is liable for firm B's debt; (iv) None of the above; (v) Do not know; (vi) Prefer not to answer.
- 17) *Considering a long time period (for example 10 or 20 years), which asset normally gives the highest return?* (i) Savings accounts; (ii) Bonds; (iii) Stocks; (iv) Do not know; (v) Prefer not to answer.
- 18) *Normally, which asset displays the highest fluctuations over time?* (i) Savings accounts; (ii) Bonds; (iii) Stocks; (iv) Do not know; (v) Prefer not to answer.
- 19) *When an investor spreads her money among different assets, does the risk of losing money:* (i) Increase; (ii) Decrease; (iii) Stay the same; (iv) Do not know; (v) Prefer not to answer.
- 20) *Stocks are normally riskier than bonds.* (i) True; (ii) False; (iii) Do not know; (iv) Prefer not to answer.
- 21) *Buying a company's shares usually provides a safer return than a stock managed fund.* (i) True; (ii) False; (iii) Do not know; (iv) Prefer not to answer.
- 22) *If the interest rate falls, what should happen to bond prices?* (i) Rise; (ii) Fall; (iii) Stay the same; (iv) None of the above; (v) Do not know; (vi) Prefer not to answer.

Figure 1 provides a breakdown of the financial literacy index scores. We see two peaks in the financial literacy index, one at 7 and the other at 10. The highest value is 13, obtained by three people, while the lowest value is 2, also obtained by three people. In both cases it is two women and one man that scored the highest and lowest scores. When we split the index by gender, we observe that male participants had a higher score on average, 8.6 vs 7.7 for females. This is consistent with the literature regarding financial literacy.

Participants' KiwiSaver Participation

Our sample is heavily skewed towards those who are already enrolled in KiwiSaver, 40 vs 8. With over 2.7 million New Zealanders already invested in the scheme, representing over 70% of the eligible population, the high number of participants in KiwiSaver is not surprising. Sixteen of our sample has been in KiwiSaver since, or close to, the inception of KiwiSaver. Only 2 people joined KiwiSaver in the last 2 years. Our participants do show some indication of the lack of engagement that has been observed widely in studies of KiwiSaver, as 12 of those enrolled are

BOX 4: Personal Financial Circumstances (Part 1)

- 23) *To what extent have you thought about your financial planning for your retirement?* (i) A lot; (ii) A fair amount; (iii) A little; (iv) Not at all.
- 24) *Are you enrolled in KiwiSaver?* (i) Yes; (ii) No.
- 25) *Approximately how long have you been a member of the KiwiSaver scheme?* (i) 0-2 Years; (ii) 2-4 Years; (iii) 4-6 Years; (iv) 6-8 Years; (v) 8-10 Years; (vi) Not Sure.
- 26) *Do you know the name of your KiwiSaver scheme?* (i) Yes; (ii) No.
- 27) *Please indicate your contribution rate:* (i) 3%; (ii) 4%; (iii) 8%; (iv) Not sure; (v) Other, please specify: _____
- 28) *With regards to your KiwiSaver scheme, did you:* (i) Actively choose a desired KiwiSaver scheme provider; (ii) Enrol in a default KiwiSaver scheme provider; (iii) Change from a default KiwiSaver scheme to an active choice; (iv) I am not sure.
- 29) *Did you use a prospectus or product disclosure statement to decide on which KiwiSaver fund to join?* (i) Yes; (ii) No; (iii) Cannot remember.
- 30) *If you didn't use a prospectus or product disclosure statement, how did you decide which KiwiSaver fund to join?*

not sure who their money is with, while 6 are unsure what their contribution rate is or how they came to be in the fund they are in. Just under half (18) of the sample is contributing the minimum (3%) for employed people and just 4 are contributing the maximum (8%). Of the 7 people who indicated 'other', most were self-employed or in casual employment and making manual contributions. Several of the sample are currently contributing nothing (one is on a contribution holiday). Less than half (16) of participants have made an active decision on their KiwiSaver fund, with a further 12 moving from a default scheme to an actively chosen fund. Just 6 remain in a default scheme. Of the 40 participants in KiwiSaver, only 11 can remember using a PDS (or prospectus as it was prior to 2016) to make their choice, despite 28 people having made an active decision. This is not surprising given widespread industry understanding that people do not read these disclosures. Certainly, there appears to be a need to improve disclosure documents to make them more useful and the information they contain more accessible. Such a finding also raises questions regarding where people are getting the information they then rely on to make KiwiSaver decisions.

How well did people understand what they read?

To assess whether participants understood the information contained in the PDS, we asked readers a series of questions relating to information required for making sound KiwiSaver decisions. One point to note, the questions we asked do not necessarily line up with the legislation regarding what must be in the PDS. For instance, the PDS uses a risk scale to give an 'overall' sense of the risk involved. The risk scale has been criticised given the recent past has resulted in a lack of difference between the risk scale score of a conservative vs an aggressive fund. Additionally, from a theoretical point of view, the type of risk exposure taken is important as not all risks impact the portfolio equally.¹⁰

Specifically, we asked participants to select the appropriate fund for

BOX 5: After reading PDS – Key Information (Part 2)

- 31) *Of the funds offered by this fund manager, which is the most appropriate for you based on your characteristics?* (i) Cash Fund; (ii) Conservative Fund; (iii) Moderate Fund; (iv) Balanced Fund; (v) Growth Fund; (vi) Aggressive Fund.
- For the rest of the questions, use the fund you selected in Q31.*
- 32) *How much will you be charged in management expenses?* _____
- 33) *Does this fund charge performance fees?* (i) Yes; (ii) No; (iii) Do not know.
- 34) *Which of the following are reasons that funds can be withdrawn before retirement?*
 (i) Financial Hardship: Yes / No / Not Sure
 (ii) Repay Debt: Yes / No / Not Sure
 (iii) Bankruptcy: Yes / No / Not Sure
 (iv) First Home Purchase: Yes / No / Not Sure
- 35) *How heavily exposed is this fund to the following sources of risk?*
 (i) Market Risk: Low / Moderate / Heavily / Not Sure
 (ii) Interest Rate Risk: Low / Moderate / Heavily / Not Sure
 (iii) Default Risk: Low / Moderate / Heavily / Not Sure
 (iv) Currency Risk: Low / Moderate / Heavily / Not Sure
- 36) *Does the fund hedge its currency risk?* (i) Yes; (ii) No; (iii) Do not know.
- 37) *What is the fund's benchmark?*

- 38) *Does the fund use a high water mark in determining performance fees?* (i) Yes; (ii) No; (iii) Do not know.
- 39) *What are the likely expected returns for this fund?* (i) 0-4%; (ii) 4%-6%; (iii) 6%-8%; (iv) 8%-10%; (v) 10%-12%; (vi) 12+%
- 40) *What are the costs of switching to a different fund with the same fund manager?* _____

themselves, and then based on that choice, to identify what the applicable fees were, the circumstances for withdrawal, and what benchmark the fund used (although this information is only contained in one of the PDS documents). Questions are shown in Box 5. We identify whether the users could accurately answer each question, and then sum the number of correct responses across the participants.

Participants did particularly well on the circumstances in which they can withdraw funds. Between 42 and 46 out of 48 participants got these questions correct. However, participants got the fee questions incorrect more often, with 34 correctly identifying the management fee they would be charged, but only 27 able to identify if their fund charged performance fees. In one of the PDS's, this information was separate from the majority of the fees disclosure and was unclear as to the fee's purpose or its

¹⁰ We also note that we have elected to use certain terms that may not have been used by the fund providers themselves. This may have impacted the understanding demonstrated by the participants. We note there is currently no standard glossary of terms, for instance the two PDS documents use different terms to explain the concept of a benchmark, and so we used the most common term.

level. For those who had the PDS containing benchmark information, only 11 out of 23 were able to identify the benchmark applicable for their fund. The results suggest that there is some work to do to allow investors to understand the information contained in the PDS more clearly.

What did people think of what they read?

To get some preliminary feedback on what participants thought of the PDS they read, we asked them to rate various aspects of the document (see Box 6). We began by asking people to rate whether different sets of information were easy or hard to understand (Q41). The results suggested that in most categories more participants found the information easy to understand than found it hard. The exception to this was expected returns, which is not explicitly covered in the PDS, despite being seen by many participants as critical information on which to base their KiwiSaver fund manager decision (see *Focus Group Responses*). Surprisingly, risk was seen as hard to understand by 21 of respondents despite the simplified risk scale contained in each PDS and a reasonably prominent section on risk later in the document. This suggests that the risk scale and the relatively generalised discussion on risk is not accessible for nearly half of the participants. Of perhaps the most concern, however, was that 20 respondents found the information on the appropriate fund for their circumstances to be hard to

understand. Considered to be one of the most important decisions regarding KiwiSaver, the fact 20 of our respondents found it difficult suggests a significant reworking of this information is required.

In contrast, only 6 respondents found information on withdrawing from KiwiSaver hard to understand, this was also listed as irrelevant for many. A third of respondents struggled to understand the fees they would be charged. Given the somewhat inconsistent figures provided in the PDSs (it is not uncommon to see figures for the same fee differ by several basis points in different parts of the PDS) it is surprising this was seen as easy to understand. However, the focus group discussions suggest this is likely a result of the success of the fees example contained in the PDS to illustrate the concept of charges. Switching was seen as difficult for just over one-third of our participants.

We then asked participants to rate a variety of statements on a five point Likert scale from strongly disagree to strong agree, including length, language and usability of the document for financial decision making. The PDS is significantly shorter than the prospectuses that they replaced,

however, at nearly 20 pages each there is still an argument that size may act as a deterrent to reading them. Nearly equal numbers of participants disagreed vs agreed with the statement (18 vs 19). The

BOX 6: After reading PDS – Opinion on PDS (Part 2)

- 41) *For each information category, do you think the information contained in the PDS was easy or hard to understand?*
 - (i) Risk: Easy to understand / Hard to understand
 - (ii) Expected Return: Easy to understand / Hard to understand
 - (iii) Fees: Easy to understand / Hard to understand
 - (iv) Most appropriate type of fund: Easy ... / Hard ...
 - (v) Switching: Easy to understand / Hard to understand
 - (vi) Withdrawal of funds: Easy ... / Hard ...
- 42) *In my opinion the length of the product disclosure statement was about right:* (i) Strongly Disagree; (ii) Disagree; (iii) Neutral; (iv) Agree; (v) Strongly Agree.
- 43) *What would be the maximum number of pages a product disclosure statement could be before you would be unwilling to read it when making a decision about your KiwiSaver fund?*
 - (i) Less than 5 pages; (ii) 6-10 pages; (iii) 10-15 pages;
 - (iv) 15-20 pages; (v) Not sure.
- 44) *The language in the product disclosure statement was generally easy to understand:*
 - (i) Strongly Disagree; (ii) Disagree; (iii) Neutral; (iv) Agree; (v) Strongly Agree.
- 45) *There was very little finance jargon in the product disclosure statement:* (i) Strongly Disagree; (ii) Disagree; (iii) Neutral; (iv) Agree; (v) Strongly Agree.
- 46) *I could understand the finance jargon in the product disclosure statement easily:* (i) Strongly Disagree; (ii) Disagree; (iii) Neutral; (iv) Agree; (v) Strongly Agree.
- 47) *All the information that I needed to make a decision was contained in the PDS:* (i) Strongly Disagree; (ii) Disagree; (iii) Neutral; (iv) Agree; (v) Strongly Agree.
- 48) *If you felt information was missing, what extra information would you have wanted?_____*
- 49) *Only information relevant to my decision was contained in the PDS:* (i) Strongly Disagree; (ii) Disagree; (iii) Neutral; (iv) Agree; (v) Strongly Agree.
- 50) *If there was more information than necessary, please indicate which sections you felt were not required._____*
- 51) *If I were to consider switching to a different KiwiSaver provider, I would rely mainly on the product disclosure statement:*
 - (i) Strongly Disagree; (ii) Disagree; (iii) Neutral; (iv) Agree; (v) Strongly Agree.
- 52) *If you wouldn't rely on the PDS, what would you base your decision on?_____*
- 53) *How much time would you be willing to commit to making a decision on which KiwiSaver provider and fund to invest with?_____*

average score was 3.08 suggesting that people were, on average, neutral regarding length. When participants were asked for the maximum length the PDS could be before they were unwilling to read it, 18 people felt that it should be less than 10 pages vs 17 people who would read a document between 15-20 pages (currently the law allows for 6,000 words or 12 pages, although most opt for 6,000 words).

Concerning the language used in the PDS statements, we asked participants if the language was easy to understand, if there was only a small amount of finance jargon in the PDS, and if jargon was easy to understand. People were marginally more positive regarding the ease of the language, with an average score of 3.15 out of 5. However, the use of financial jargon is a concern. The average score for the amount of jargon was 2.63, and only 11 participants indicated there was little finance jargon. In addition, only 13 people found the jargon easy to understand with 21 struggling (average score 2.49 which was the joint lowest score). These findings are also supported in the focus group discussions where people were generally positive on the quality of the language in the reports, but struggled with the use of jargon.

Of greatest concern however is the results for Q47 where we asked participants if all the information they needed to make a decision was contained in the PDS. The average score for this question was 2.49, the joint lowest of any of these questions. Twenty-eight participants, over half our sample, indicated that they did not have all the information they needed. In contrast, just eight felt that they *did* have all the information they required. Q48 prompted participants for what they felt was missing. Participants in general pointed to a lack of information regarding past performance as the only real information currently lacking. What was apparent however, was that while the rest of the information was available, readers felt it was presented poorly, which likely explains the results in Q47. Many participants felt that the documents needed to be simpler to understand, and in particular that the financial jargon either needed to be more clearly explained or removed. Additionally, participants wanted more examples, especially in relation to what their KiwiSaver might be worth at retirement.

Despite feeling that not all the relevant information was available or accessible, participants were evenly split on whether there was too much information. Several identified the information regarding moving to an Australian Super Fund in particular as irrelevant, while 13 felt the level of information was adequate and 17 were neutral.

Participants were also relatively negative on whether they would rely on the PDS when making a decision about KiwiSaver. The average score was 2.54, and 29 participants indicated they would not rely on the PDS. Given the disclosure statement is intended to be an investor's primary source of information when making a decision, we view this as problematic. When asked what they would base

their decision on, if not the PDS, 39 participants offered answers. The most common basis for making a decision was the opinion of friends, family or someone that they knew (16 participants); 11 indicated that they would rely on financial advisers and 11 also indicated they would research online (common information they would seek was independent information from sources like financial media and Morningstar, and ratings information); 10 would want to talk directly to the KiwiSaver provider and 5 would rely on reviews of the KiwiSaver providers. Finally, 4 people would talk to their bank for advice. Of note is that all the major banks in New Zealand have their own KiwiSaver funds, and as documented in the discussion, trust is a large issue for investors.

When asked how long participants would take to make a decision we received a wide range of answers. For example, 4 people indicated that they would be willing to take no more than an hour to make a decision, and half the sample was willing to spend no more than 4 hours on the decision. At the other end of the scale, a number of participants indicated that they would reflect for weeks before making a decision, while 7 participants would devote as long as was required to make a good decision. Given the fact that 16 participants were willing to commit less than 2 hours to the decision, PDS documents need to be even more concise as it seems unlikely that people will be prepared to spend significant time working through documents before making a decision.

Focus Group Responses

General discussion followed completion of the survey questions. Groups were prompted by researchers with semi-structured questions (examples contained in Box 5) and the conversation was permitted to develop naturally. Discussions ran between

BOX 7: Examples of Group Discussion Questions

Had participants read a PDS or prospectus cover to cover previously?

What parts of the PDS were hard to read or understand?

What parts of the PDS were easy to read or understand?

If you had a regulator, government minister or KiwiSaver provider in the room, what would you want to ask or tell them?

around 15 mins and 35 mins depending on the size of the group and the nature of the conversation that developed. All focus groups were audio-recorded and transcribed, with several common themes identified across the groups.

Participants in the focus group noted several positive aspects of the PDS documents. The first, which came through very strongly in most of the six focus group sessions, was that the examples demonstrating how fees function are extremely helpful. In fact, one of the consistent suggestions was that the PDS contain more examples, particularly looking at allowing people to understand how much they may have by retirement. The other consistent positive expressed was that the PDS was easy to

read. However, while the examples helped participants understand the way the fees functioned, and the language was easy to read, there were a number of issues raised by participants.

One of the most common complaints related to the use of finance jargon. As indicated in the survey, many participants felt there was too much finance jargon used, and that the lack of a glossary or definitions for terms made the document harder to understand. One example of jargon that came up repeatedly was PIR, the prescribed investor rate. This is the tax rate at which KiwiSavers are taxed on the income they make from their KiwiSaver funds. Several participants raised this as an example of terminology that made it difficult for them to understand what they were reading, and which in other circumstances may have prevented them from reading the document. It is worth noting that KiwiSaver prospectuses, which were not constrained by a word limit, commonly had glossaries. These appear to have been sacrificed due to the strict limits placed on the length of the PDS (see Recommendation 1).

Participants also noted that the PDS documents contained irrelevant information that could easily have been delivered in alternative fashions. The biggest driver of people feeling information was irrelevant was being presented with information that was not related to their particular circumstances. The common examples here included the information on withdrawing or transferring funds, particularly in terms of transferring funds to or from Australia. Several participants noted that this information could be reduced to simply directing people where to find more detailed information online, rather than providing several paragraphs on various scenarios in the PDS. It was also noted that having information on how to withdraw funds from a fund you had yet to invest in seemed odd. The suggestion of directing people to additional information rather than putting it into the PDS paired with the observation of one participant that the PDS documents were “old-fashioned” documents. This participant noted that the PDS was designed to be read on paper. Many participants indicated that they would be looking to access information online. An advantage of the online approach is availability of clickable links that could direct people to additional information without cluttering up a document with unnecessary detail.

The structure of the PDS was difficult to follow, as information was scattered throughout the document, and mixed in with information relating to other fund types. For instance, the information relating to a particular fund type, i.e. the conservative fund, can be in several places. It is interesting to note, one of the two PDS documents was for a provider who only offered three funds. Participants still felt overwhelmed with the volume of information presented, as it is currently presented. In one of the anonymised PDS's we used, the description of the investment options contained information on the asset mix, risk indication and time frame, but the fees information was contained much later in the

document. In the other PDS, a brief description of the products offered in the Key Information Summary section lacked the asset mix, but a later (extended) description did not have the fees information. Participants felt that having all the information related to a single fund type in a single location, even a single page, would greatly assist readers and allow for easier comparison of information between fund providers, rather than just between fund types from the same provider.

Another frequent concern was the lack of past return information. While the value of past returns for decision-making is questionable in light of academic literature indicating no evidence of consistent outperformance, and the statement from fund managers themselves in the PDS and other communications that past returns are no predictor of future returns, the lack of this information devalued the PDS in the eyes of participants. There is no doubt that several people felt that comparing after-fee past returns was the most important characteristic when choosing between funds. While the value of this information is debatable, its lack in the PDS may be enough to stop people from looking at the PDS at all, and relying simply on returns rather than comparing across a range of aspects (including fees). A number of participants also felt that information on whether the fund invests ethically was relevant information that should have been included in the PDS. While the information is available from other sources, participants indicated that it reduced the value of the PDS as a one-stop shop for all the relevant information they needed to make a decision.¹¹

Several other discussion themes are relevant in relation to rethinking KiwiSaver disclosure documents. The first was a general lack of understanding with regard to KiwiSaver. One participant expressed a belief that KiwiSaver was government guaranteed, another was confused with regards to how to claim the member tax credits, while someone was surprised that there wasn't just one KiwiSaver fund. Quite a few people also struggled with what the purpose of KiwiSaver was. While they understood at an abstract level that it was for retirement, and that it could be used for a first home and in cases of financial hardship, the reason for why they needed to save (or invest) using KiwiSaver was not clear to them. This raised concerns with at least one participant that the disclosure documents failed to articulate the benefit of KiwiSaver while spending considerable time on the negatives i.e. the risks involved. A consequence of the lack of articulated benefit was several participants in separate focus groups raising the question of what the advantage was of investing in a KiwiSaver fund vs putting the money into a bank term deposit. The need for the PDS to clearly articulate the way KiwiSaver works,

¹¹ One comment raised was the issue of new fund offerings which lack historical information. It is our suggestion that it is simply pointed out that there is currently no historical information.

and the benefit of KiwiSaver, is a consequence of wide target audience of KiwiSaver, many of whom are not financially savvy.

The second point raised was a general mistrust in KiwiSaver. The mistrust was predominantly targeted at the government and at providers. A frequent concern expressed regarding the PDS was the fact that the providers rather than an independent third party produced them. Participants felt concerned that the provider might be hiding negative information, or putting an overly positive spin on the information. One participant in particular was scathing of providers including industry awards and rankings in the PDS, as they felt these to be subjective, unclear with regards to who and why the awards were given, and that they resulted in the document becoming a sales document. While this was not a universally held view, it does demonstrate a more widespread feeling of mistrust at the quality and objectivity of the information provided by the providers.

Mistrust in relation to the government appears to stem from a lack of clarity as to the purpose of KiwiSaver, and the frequent changes that have been made to KiwiSaver since its introduction. The 'benefit' of KiwiSaver has certainly been impacted by the changes with many of the perks of KiwiSaver being either rolled back or removed i.e. the reduction in the government tax credit, the removal of the KickStart benefit and the introduction of taxes on employer contributions. This is not the first research to highlight the impact that these changes have had, and the mistrust that it has generated. It is a concern that should be considered when making changes going forward.

A consequence of the difficulty in understanding the information provided, the amount of detail and information provided, and the misunderstandings and mistrust of KiwiSaver was disengagement and inaction. One participant noted that they had tried in the past to change KiwiSaver provider but had felt so overwhelmed that they didn't feel confident enough to make a change. Other participants also seemed hesitant to make decisions due to either mistrust of the information, or the amount of information they needed to absorb. To maximise the outcomes for members, there needs to be a level of competition between providers forcing down fees, and making providers work to deliver the best possible returns to their participants. Apathy and inaction due to feelings of overwhelm and incapability of making a decision limits competition between providers.

Also highlighted is the issue with treating and regulating KiwiSaver as we do any other financial products. Those participating in IPOs, new bond issues, or even non-KiwiSaver managed funds, where decisions are made using similar documents with a similar purpose, tend to be those who are more actively engaged with financial markets in general. KiwiSaver, on the other hand, has used soft compulsion to drive participation by all New Zealanders, including a large number who have little

knowledge and/or interest in finance. Participants are also struggling to get sufficiently accessible information to feel comfortable about the KiwiSaver decisions they need to make. This leads us to question whether KiwiSaver disclosure and provision of necessary information should be viewed in the same way as the disclosure of more standard financial products.

Participants offered a number of suggestions they felt would improve the PDS documents (see Section 2, Recommendations). The first was to restructure the documents. One aspect participants felt made the documents hard to use was that the information for each fund type was spread throughout the document. This meant that a reader, having decided on an appropriate type of fund, couldn't simply look at a single page or two related just to that fund type, but rather had to read through information on all fund types. A natural starting point to the PDS would therefore actually be a short questionnaire, as per sorted.org.nz, to determine their appropriate fund type, followed by directing the reader to a specific page. Participants were also keen to see the information standardised further, to allow for easier comparison between a number of different providers. One participant noted that the documents were seemingly designed to allow for comparison within a provider, but not between providers. Consolidating all the information for each fund type would also allow for greater use of examples than is currently the case.

Second, it was noted much of the information within the PDS is identical between providers. Nearly one third of the word count of the PDS documents, roughly 1800 words, is mandatory text, required by legislators. This results in difficulty comparing providers, as it forces the reader to wade through the same material in multiple documents. This is a likely barrier to spending time comparing different KiwiSaver providers. An alternative may be to have a separate document which provides the information applicable to all fund providers, leaving providers to prepare and provide a much smaller, and more targeted, document. There are also two additional advantages of such a document. First, rather than acting as only a disclosure document, the improved PDS could serve as a guide to KiwiSaver in a more general sense, explaining the complete functioning of KiwiSaver and so filling a gap in understanding missing under the current regime. Second, by having at least most of the general information provided by an independent source it may improve trust in the PDS in general.

The final suggestion made related to practical formatting matters, such as the readability of figures and charts. Participants felt branding was placed above accessibility. One of the two PDS documents we used relied on different shades of blue for the asset mix figures, resulting in confusion and people struggling to interpret the figure. Another instance involved a graph where two sets of information were overlaid in the same graph. Readers eventually gave up trying to figure out the information

contained in the figure. While readers were generally supportive of being given information in more visual forms, the feedback suggests that in some cases rather than clarify the text, the graphs simply confused readers further.

5. Conclusions and Implications

Information is integral to investors making informed financial decisions and subsequently continuous and 'readable' disclosure of key information is the focus of regulators. Readability in the context of financial disclosures refers to desirable traits of 'easy to read' text, such as plain English, jargon-free language contained in short sentences. When a financial product is marketed widely to an entire population, for example the retirement savings scheme KiwiSaver in New Zealand, accessible information contained in readable disclosures is arguably even more important. KiwiSaver, in particular, illustrates this importance through a number of factors, including the disparate financial literacy and capability of the population; the increasing importance of having an adequate amount of personal savings to fund retirement; and, the requirement for an investor to make periodic decisions regarding their investment to achieve an optimal outcome.

In this paper, we asked 48 New Zealanders to participate in one of six focus groups, and provide their thoughts on the usability and readability of KiwiSaver PDSs. Each participant read an anonymised (but real) PDS, and were asked their opinion across a range of issues, including whether it contained the information they believed necessary to make a decision regarding KiwiSaver. Forty of our sample are currently enrolled in a KiwiSaver scheme.

The participants were predominantly young (half the sample under 36 years old) and female (35 participants), and participants were better educated (17 with a postgraduate qualification or higher) than the New Zealand average (less than 5% postgraduate-level qualification). Our sample was generally representative of New Zealanders, with 21 participants earning \$0-40,000 per annum, in line with the 2017 median income of \$48,000. Our sample also comprised of 23 participants in a relationship (married or de-facto), with all participants either the primary financial decision-maker or sharing decisions with their partner. The majority of our participants do not own their own home, likely due to the younger, lower income demographic of our sample. This is the group for which optimal retirement savings and KiwiSaver outcomes is particularly important, given the higher cost of living in retirement for those need to rent rather than live in their own home.

To control for financial literacy, we assessed participants' understanding of finance and financial concepts using thirteen questions based on van Rooij *et al.* (2011). Our results are in line with the

extant financial literacy literature, with an average of 8.6 out of a maximum of 13 for male participants, and 7.7 for female participants. In terms of engagement with their individual KiwiSaver, 12 out of 40 people in enrolled KiwiSaver do not know where their money is and 18 are contributing the minimum amount for employed members. Twenty-eight participants have made an active decision regarding their investment, however only 11 remember using a PDS to do so. This finding is in line with similar studies of KiwiSaver member engagement, and places emphasis on the requirement to improve the accessibility of disclosure documents to ensure investors are accessing good quality, regulated, information to inform their financial decisions.

Our participants identified several areas for improvement and while many of the responses provided were expected, there were some surprises. Importantly, over half of participants indicated the PDS did not contain all the information they needed to make a KiwiSaver decision. Many felt the documents needed to be easier to understand and the financial jargon needed to be defined or removed. Participants felt the examples illustrated the concepts well, however there were not enough of them, particularly around how much they could expect to have in retirement. Potential future returns information was also identified as missing from the PDS, as well as past returns of the fund. Participants were evenly split on whether there was too much information, however most identified the section on moving to Australia as the primary culprit of irrelevance. Over half indicated they would not use a PDS to make a decision. Again, such responses underline the need to make disclosure information accessible to investors in a form they understand and can use to make informed financial decisions.

There were several unexpected findings. Firstly, a general lack of understanding around KiwiSaver was evident. Many raised the question of why KiwiSaver exists at all, and a number of participants felt the PDS did not convey the benefits of the scheme while articulating at length the magnitude of risks involved. Secondly, there was a sense of mistrust of KiwiSaver in general. Uncertainty around the government and providers was a primary theme of focus group discussions, including the vested interest of providers in advertising and disclosing information about their scheme. Additionally, changing policies around KiwiSaver – including tax regimes, contribution levels and retirement age necessary for withdrawal – seemed to exacerbate uncertainty and the perception of KiwiSaver as 'risky'.

The insightful comments and views expressed by participants have allowed the compilation of a number of recommendations for improvement of KiwiSaver Product Disclosure Statements and financial disclosures more generally, included in Section 2 of the report. Future work will look to

design an example template for such disclosures (in the context of KiwiSaver), informed by these recommendations. Additional work will test such a template and assess investor reactions to the (arguably) improved document. The research has raised several additional questions around investor decision making to be explored in future studies, perhaps the most interesting being: Does the provision of more accessible information improve investors' ability to 'vote with their feet' and therefore increase competition of the KiwiSaver sector?

13. References

FMA. (2017). KiwiSaver Annual Report. <https://fma.govt.nz/assets/Reports/FMA-KiwiSaver-Report-2017.pdf>

Gilbert, A. and A. Scott. (2017). Short and Sweet or Just Short? The Readability of Product Disclosure Statements. *Applied Finance Letters*. 6(1): 1 – 7.

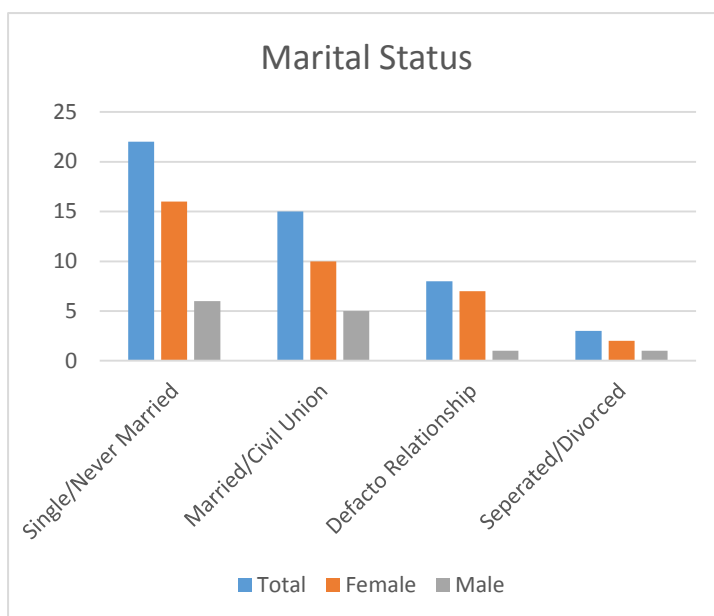
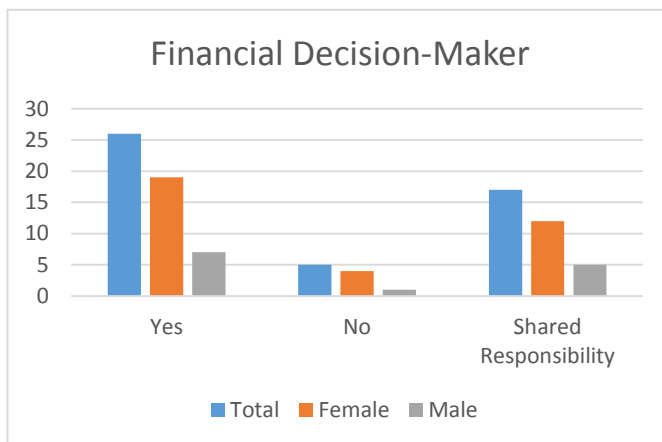
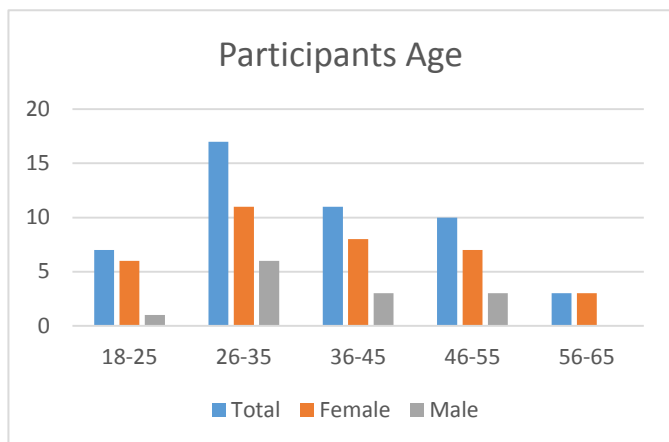
Harrison, T., Waite, K. and P. White. (2006). Analysis by Paralysis: the pension purchase decision process. *International Journal of Bank Marketing*. 24(1): 5-23.

van Rooij, M., Lusardi, A. and R. Alessie. (2011). Financial literacy and stock market participation. *Journal of Financial Economics*. 101: 449 – 472.

NZ Stats Census 2013 'We count on you'. Retrieved from http://www.stats.govt.nz/browse_for_stats/snapshots-of-nz/infographics/we-count-on-you.aspx. Accessed March 2017.

A. Appendix 1

Participant Summary



What Kiwis' Want: KiwiSaver Product Disclosure Statements

