

Retirement and Financial Literacy

Thursday, 5th September 2013

Massey University Tea Gardens, Wellington

PROGRAMME

08.15 - 9.00 Registration, Massey Tea Gardens

Morning Session

- 09.00 – 09.10 Welcome by **Professor Ted Zorn** and **Professor Bart Frijns**
- 09.10 - 09.20 Opening Speech by **Hon Craig Foss, MP**
- 09.20 - 10.40 Two presentations (25 minutes each including some time for questions)
- Diane Maxwell** – *The place of financial literacy in retirement income policy*
- Professor. Bart Frijns** – *Kiwisaver Funds*

10.40 - 11.00 Morning Tea

- 11.00 – 12.00 Panel discussion ***How financially literate does one have to be to make an informed retirement decision?***
- Panel Members –**Dr Morris Altman, Diana Crossan, Dr Malcolm Menzies, Dr Grant Scobie**
- 12.00 - 12.40 Presentation (25 minutes)
- Dr Helen Roberts** - *Credit Cards, Excess Debt, and the Time Value of Money: The Parable of the Debt Banana*

12.40 - 13.30 Lunch

Afternoon Session

- 13.30 - 13.45 Setting the scene for the workshop – **Dr Pushpa Wood** – *What is the key financial literacy knowledge people need to financially prepare for retirement?*
- 13.45 - 14.30 Workshop – small group discussion
- 14.30 - 15.00 Report back from the Workshop and Q & A Session
- 15.00 - 15.40 Presentation (25 minutes)
- Peter Neilson** – *What are the practical financial literacy needs of New Zealanders to achieve a comfortable retirement?*
- 15.40 - 15.45 Closing remarks by **Dr Pushpa Wood**

15.45 - 16.00 Afternoon Tea

Financial Literacy Symposium

Retirement and Financial Literacy

Hosted by

Auckland Centre for Financial Research

New Zealand Centre for Personal Financial Education

5th September 2013,

Massey University Tea Gardens,

Museum Building, Buckle Street, Wellington

For further details on various activities during the Money Week click on the link below <http://moneyweek.org.nz/>

MONEY WEEK 2013

The Auckland Centre for Financial Research

The Auckland Centre for Financial Research is a Centre for excellence in empirical and applied financial econometric research. As one of its objectives, the Centre engages with industry by conducting robust and relevant research. The Centre hosts top-ranked researchers, has established relationships with leading academics from around the world, and develops new research talent through its postdoctoral researchers and PhD and postgraduate students. The Centre publishes its own journal Applied Finance Letters, that presents academic research in a way that is relevant to industry and regulators.

The Centre will host the following events in the near future:

- 15 - 17 December 2013 – 2013 Auckland Finance Meeting
- May 2014 – New Zealand Capital Market Symposium on Fund Management

For more information on ACFR activities visit www.acfr.aut.ac.nz or email bfrijs@aut.ac.nz

Fin-Ed Centre



FINANCIAL EDUCATION AND RESEARCH CENTRE

Fin-Ed Centre

The Financial Education and Research Centre was founded by Westpac New Zealand and Massey University to improve New Zealanders' knowledge, attitudes and behaviour towards money matters. Westpac and Massey University are committed to improving financial literacy for the benefit of the country and this specialist centre aims to improve the quality and access of education on personal finance and identify knowledge gaps and how they can be addressed. Key projects include a 20-year longitudinal study that will follow up to 300 New Zealanders to understand their needs for financial knowledge at different life stages, a multi-level certification programme for personal financial educators and the New Zealand Retirement Expenditure Survey – a joint initiative between the centre and savings industry body Workplace Savings NZ to establish guidelines for 'modest' and 'comfortable' retirement.

Visit <http://fin-ed.massey.ac.nz> for an update on activities or contact Fin-Ed Centre Director, Dr Pushpa Wood, at fin-ed@massey.ac.nz

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08.15 - 9.00 **Registration, Massey Tea Gardens**

Morning Session

09.00 – 09.10 Welcome by **Professor Ted Zorn** and **Professor Bart Frijns**

09.10 - 09.20 Opening Speech by **Hon Craig Foss, MP**

09.20 - 10.40 **Diane Maxwell** – *The place of financial literacy in retirement income policy*

Professor. Bart Frijns – *Kiwisaver Funds*

The Place of Financial Literacy in Retirement Income Policy

Diane Maxwell (Commission for Financial Literacy and Retirement Income)

An international trend towards more responsibility for retirement income being passed from states and corporations to individuals also increases levels of risk for the individuals concerned. Public pensions address some risks, but are coming under more and more pressure. In most countries a new balance is being struck between public and private funding of retirement income.

From a public policy perspective, there is a range of responses available to ensure that citizens save more for their own retirements. At one end of the continuum governments can make saving compulsory. Or they can apply “soft compulsion” or provide incentives to save. A third option is for individual saving for retirement to be entirely voluntary, with measures in place to ensure that people are financially competent and plan to suit their own circumstances and aspirations.

The gamut of options from compulsion to a purely voluntary system is associated with increasing investment in financial information, education and advice, aimed at achieving greater levels of financial literacy. This presentation will discuss the role of financial literacy as a key element of retirement income policy.

An Empirical Analysis of KiwiSaver Funds

Prof Bart Frijns (Auckland University of Technology and Auckland Centre for Financial Research)

We examine the behaviour and performance of KiwiSaver funds. For the majority of fund providers, moderate and balanced funds are linear combinations of the conservative and growth funds that these providers offer, and for some fund providers, the replicated funds incur lower fees than the actual funds, suggesting mispricing in the calculation of fees. We find that there is substantial difference in the amount of risk-taking and market exposure of KiwiSaver “Growth” funds, making it very difficult to compare these funds simply based on returns. Risk-adjusted performance reveals that there is little evidence of systematic outperformance of funds. None of the KiwiSaver funds exploit the well-known size effect by exposing their fund to small-cap or the value effect, by exposing their fund to value stocks. We find no evidence for significant positive market timing skills, and in several cases we find significant negative market timing skills.

10.40 - 11.00 **Morning Tea**

11.00 – 12.00 Panel discussion ***How financially literate does one have to be to make an informed retirement decision?***

Panel Leader – **Dr Aaron Gilbert**

Panel Members –**Dr Morris Altman, Diana Crossan, Dr Malcolm Menzies, Dr Grant Scobie**

The introduction of KiwiSaver signalled a shift in financial responsibility from government to households with regards to retirement saving. With such a shift in responsibility, financial literacy becomes important: people need to have sufficient knowledge and information to make an informed decision. Important questions are: how much financial literacy is required to make informed decisions; what policies should be put in place to enhance financial literacy education; what regulation needs to be in place to protect households.

Dr Aaron Gilbert (Auckland University of Technology and Auckland Centre for Financial Research)

Prof. Morris Altman (Victoria University Wellington)

Diana Crossan (Board Member of Fin-Ed Centre)

Dr Grant Scobie (NZ Treasury)

Dr Malcolm Menzies (Commission for Financial Literacy and Retirement Income)

12.00 - 12.40 Presentation (25 minutes)
Dr Helen Roberts

Credit Cards, Excess Debt, and the Time Value of Money: The Parable of the Debt Banana

Dr Helen Roberts (Otago University)

The Parable of the Debt Banana is an analogy between the accumulation of excess personal debt and the accumulation of excess body weight. We created this parable to grab student attention and to then serve as a springboard for discussion of personal debt, time value of money mathematics, the mechanics of credit cards, personal bankruptcy, moral hazard, ethics, and credit card reform. A follow up survey in a large class (453 students; 84% response rate) showed that 92% of students seeing the parable alongside the underlying finance principles said that it grabbed their attention more than if the underlying finance principles alone were presented, and 87% of students seeing the parable said it made an impression upon them that will make them more careful in their future credit card spending habits. An accompanying spread sheet allows readers to explore our worked examples and perform sensitivity analysis.

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Afternoon Session

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Peter Neilson – *What are the practical financial literacy needs of New Zealanders to achieve a comfortable retirement?*

What are the practical financial literacy needs of New Zealanders to achieve a comfortable retirement?

Peter Neilson (Financial Services Council)

I will talk about how New Zealanders build their wealth, how they need to understand what they will need to save to achieve their desired retirement income (how much they will need and their likely longevity after retirement), how compounding returns work, and the impact that tax, debt, investment style and fees will have on achieving retirement security comfort and the need for objective advice at teachable moments on these issues.

15.40 - 15.45 Closing remarks by **Dr Pushpa Wood**

15.45 - 16.00 Afternoon Tea



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