

2002
annual report

www.sorted.org.nz

Retirement Commission

Whiriwhiria!

Presented to the House of Representatives pursuant to Section 14 (1) of the Retirement Income Act 1993 and Section 41 (1) of the Public Finance Act 1989


22 August 2002

Hon Steve Maharey
Minister of Social Services and Employment
Executive Wing
Parliament Buildings
Wellington

Dear Minister

Pursuant to section 14 (1) of the Retirement Income Act 1993 and section 41 (1) of the Public Finance Act 1989, I hereby present the eighth annual report of the Retirement Commissioner.

Yours sincerely

A handwritten signature in cursive script, reading "Colin Blair".

Colin Blair
Retirement Commissioner

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Mission statement

Through education, information and promotion, assist current and future generations of New Zealanders to have an adequate amount of income in retirement.



Functions

The Commissioner's statutory functions are specified in the Retirement Income Act 1993:

- (a) To develop and promote methods of improving the effectiveness of the retirement income policies from time to time implemented by the Government in New Zealand, which function shall include promoting education about retirement income issues and publishing information about such issues.
- (b) To monitor the effects of retirement income policies that are being implemented in New Zealand.
- (c) To advise the Minister of the tasks that need to be undertaken, and the information that needs to be collected, to enable the preparation of each periodic report under section 22 of this Act and to monitor the undertaking of those tasks.
- (d) To advise on retirement income issues, when requested to do so by the Minister.
- (e) To monitor the effectiveness of persons (whether referred to as ombudsman or by any other term) who have been appointed (other than under statutory authority) to consider complaints and disputes about savings and investments; and to consider any issues addressed to the Retirement Commissioner by any such person and, if appropriate, to make recommendations to any person.
- (f) To collect and publish information for the purpose of enabling the fulfilment of any of the functions referred to in this section.
- (g) To perform such other functions as are conferred on the Retirement Commissioner by this Act or any other enactment.



Commissioner's overview

Public education

How did you hear about this site? = from a friend

Did you get what you hoped from it? = yes

How would you rate this site? = fabulous

Did this site improve your knowledge? = yes

Will you visit again? = yes

"Hi, just have to say this is absolutely the best website I've ever visited. I have been surfing your website for nearly an hour and a half. all your pages are interesting, relevant, and have taught me everything I've always wanted to know. you have explained money matters very clearly and in a simple manner – something which friends and other financial planners, and investment brokers fail to do. They always try to make it more complicated than it is. you have given me the information I need to know for now and the future. I especially enjoyed the financial goal setting and the kiwi stories. I have, learnt lessons from other peoples misfortunes which will change the way I handle money in the future. best site ever. I've never been stuck on a website for so dam long in my life. Thanks again. Will spread the word."

age = 21–25

sex = female

income = \$20k and under

where did you access this site = at home



www.sorted.org.nz

The previous page is an exact copy of a message from one of the more than 300,000 visits to www.sorted.org.nz. It embodies the types of favourable comments we have received from thousands of site users.

The site has also been acknowledged by IT and communications professionals. It was:

- Judged "Best Finance Site" at the Net Guide Web Awards for 2001
- Winner of the "Excellence in the use of IT in Government" category at the Computerworld Excellence Awards 2002.
- Awarded *Internet Magazine's* website of the month for November 2001
- Winner of the Public Relations Institute 2002 Government/Quasi-Government sector award.
- Finalists in the EFFIE Awards for advertising effectiveness in two categories – Charity/ Public Service and New Product or Service.

www.sorted.org.nz is the manifestation of our new public education strategy. It is a strategy which recognises that if individuals and households make sound personal financial decisions throughout life, then they are much more likely to achieve their retirement income goals. As a web based strategy it is also one which we believe provides best value for money from our reduced budget.

The sorted strategy

In August 2000 we decided that after five years of providing public education and information with a retirement planning theme it was time to take a new direction.

We were very satisfied with what had been achieved, first in raising awareness of the importance of financial planning for retirement and, second in providing guidance to those undertaking that planning task.

However, we were aware that there would be diminishing returns from simply pushing the same messages. In addition, our research was showing that many people, and particularly younger age groups, were grappling with today's financial issues, and were not motivated by messages about retirement.

We decided that our educational material had to become more relevant to people of different age groups and with different priorities. We also decided that if we could give young New Zealanders information to improve the quality of their financial decisions in their early years, then they would generally establish a sounder financial base for later requirements, including retirement income.

Three critical decisions were made:

- We moved from emphasising financial planning for retirement, to the importance of developing financial skills which could be applied throughout life.
- We decided that a web-based programme would provide the best return from our limited budget.
- We rebranded ourselves as the people who can help you get sorted on money matters. www.sorted.org.nz became our brand for public education purposes.

Sorted was launched in October 2001. After nine months it has built up the following record (as at mid August 2002)

- 91% of users rated the site as good, very good or excellent
- 307,191 user sessions
- 1,623,302 pages accessed
- 686,789 calculations

The programme has assisted thousands of New Zealanders to improve their skills in financial planning, budgeting, debt management and making savings decisions.

The future of sorted

The ongoing success of Sorted is dependent upon having the skills and resources to continually enhance the content and attractiveness of the site. We know the interactive aspects of Sorted are the most popular. People like the ability to feed in their own information and receive responses which are personal to them.

We need to add more and better calculators and educational games. We need to provide more experiences to people about the consequences of making different financial choices. For example, we plan to develop an investment challenge where individuals can pit their decisions against those of experts. The experience will emphasise the importance of understanding issues such as investment diversification and duration, risks and rewards.

Other tools will be added to help parents pass on financial skills to children, to teach children financial skills through fun experiences, to assist tertiary students and those in retirement in making financial decisions which are special to their circumstances.

www.sorted.org.nz will continue to be our flagship. It needs continuous and innovative advertising and promotion to attract more people to the site. It also needs to be supported and supplemented by other programmes and initiatives such as those outlined in this report.

There are a significant number of New Zealanders who want more guidance and impartial information to help them build their personal financial skills. They want to be informed and educated outside of a biased sales environment. The response from feedback indicates they are looking for programmes, which are interesting, relevant, informative, educational, clear, simple and enjoyable.

We aim to continue to meet those requirements.

Youth education programme

There is little doubt that the best long-term returns will come from improving the financial decision making skills of the younger generations. The compounding effect of good financial decisions early in one's life can be enormous. In addition, the basic skills and knowledge of budgeting, debt management, savings and assessing the financial consequences of different choices can improve the quality of financial management throughout life.

Our research over the past 12 months has confirmed that simply lecturing to children and young adults about these issues will turn most of them off. What is generally required is to provide them with learning experiences and activities which cover issues and opportunities relevant to them in the short term.

Our major effort to date has been to strongly support the Enterprise New Zealand Trust programme *Pathways to Financial Literacy*. This is designed for senior secondary school pupils and in the hands of innovative teachers is well regarded by the pupils and parents.

What is of concern is that only 5% of school leavers have been exposed to the financial literacy programme and many of those would have only experienced a small part of the programme. In addition recent research conducted by Lyn Morris of Enterprise New Zealand Trust, indicated that less than 50% of senior secondary school pupils were capable of passing a test of elementary knowledge of personal financial issues. Of particular interest was the fact that children from the highest income households, together with those from lowest income households, were prominent amongst those achieving low scores.

The case for ensuring that young people have the knowledge and skills to make sound financial decisions is compelling. Achieving that is not a simple task. It needs agreement on the range of essential skills at various age levels and how best to teach them, strong leadership and commitment from Government and, support from schools and teachers. It also requires support for teachers by way of appropriate training and stimulating classroom programmes. Private sector organisations have a role to play in helping to define knowledge requirements and providing resources for programme development and by way of mentoring.

A recent survey which we commissioned indicated that 90% of adults considered the teaching of personal financial skills in schools to be important or very important. It is one of those issues which has widespread support but perhaps lacks the urgency and emotive appeal to achieve priority status. The potential long-term payback from investing resources to improve the quality of financial decision-making must be huge at household and national level. We will continue to promote the need and encourage action in this area.

At the same time, within funding limitations, work is in progress to ensure that www.sorted.org.nz includes innovative financial skills programmes for children, guidance for parents and relevant information for students. The ultimate aim should be an approach which combines school based teaching with complimentary family based activities and self help programmes through vehicles such as Sorted.

Maori youth programme

While the basic financial skills required are relatively common across all ethnic groups it is acknowledged that the attitude and approach to money matters can vary. Desirably our educational programmes should take account of those differences. Funding constraints have made that difficult.

By working together with Te Puni Kokiri we are developing a pilot programme for the teaching of personal financial skills to Maori youth. The programme will draw on existing material but will be delivered through partnerships with Maori training providers.

Further developments will be dependant upon the results of this pilot programme which should be available in the current financial year.

Managing finances in retirement

To date our efforts have been concentrated on financial preparation for retirement.

People who reach retirement with financial assets and /or their own home are faced with making some significant financial decisions from time to time.

Encouraged by the Office for Senior Citizens and organisations such as Age Concern we are developing a section on www.sorted.org.nz containing information and guidance for those in or close to retirement. Issues such as "how do I decide on an investment strategy for my retirement years?" to "what do I need to consider when making an enduring power of attorney?" will be covered. As with other sections of Sorted the aim is not to

make decisions for people. Rather the site will identify matters people may wish to consider and provide information and guidance as to how they might go about arriving at a decision with which they are comfortable.

The Retirement Villages Bill

The Bill, which is currently before the Justice and Electoral Select Committee, introduces reporting and procedural requirements for the purposes of protecting the interests of residents and intending residents of retirement villages, and to enable the orderly development of retirement villages.

Under the provisions of the Bill the Retirement Commissioner is charged with monitoring and reporting on the effect of the legislation and undertaking a public education function with regard to retirement village issues.

Having suitable housing and making decisions on moving from the family home to a new form of accommodation, such as a retirement village, involve significant and sometimes complex lifestyle and financial decisions for older people. Discussions to date with those involved in the industry indicate that some good information is already available. However it is important that prospective residents have access to impartial information and guidance when contemplating such significant decisions.

Monitoring the effectiveness of this proposed Act represents an interesting new challenge for the Office.

The educational function fits well with our proposal to provide information and guidance to those in or near retirement.

The expansion of our functions will require a modest increase to our budget but is expected to provide a useful addition to the skills base of the Office.

Policy issues

Employer superannuation schemes

In most developed countries employer supported savings schemes such as superannuation schemes represent a major vehicle for employees' retirement savings. The reason for this vary from country to country. In some countries employee and /or employer contributions are mandatory, in others there are tax incentives to encourage participation and in some it is simply accepted as a normal part of the employer/employee relationship.

None of those conditions now exist in New Zealand and consequently the percentage of employees participating in such schemes is less than 12% and declining. In the late 1980's it was 25%. Some of that savings activity will have moved to other products but the general downward trend is of concern.

A well-designed workplace scheme offers simplicity of choice and ease of access. In

addition many schemes have the benefits of lower administration charges and offer access to favourably priced insurance products.

Government has recently acknowledged the importance of workplace schemes in any programme to increase voluntary savings. However it is not currently an easy environment in which to get employer support. Our 2000-2001 *Retire at Work* promotion met with only modest success.

Employers tend to fall into one of two main categories. Those who believe that encouraging and assisting employees with retirement planning is a proper and valuable part of employer/employee relations, and are already doing something about that, and those who say it is probably a nice thing to do but it is too costly, too time consuming or not high priority in terms of their business plans and circumstances. There is a smaller group of employers who simply say that it is none of their business.

We encourage Government to examine ways of reversing the decline in workplace schemes and participation therein. The matter requires a thorough analysis of the current constraints and steps which could be taken to make the introduction of some form of scheme a simple and inexpensive exercise for businesses of all sizes. Matters which need to be addressed, include compliance and disclosure requirements and costs, taxation treatment of contributions and scheme earnings, and options such as the introduction of a standard form of workplace scheme which could be made available with limited sales and administration costs. The concept of simplifying the decision of where to save and reducing the administration costs for low level savers is currently under investigation in the UK and has also been identified as an issue in US research.

During the year the Office has continued to work with a group comprising of representatives from Business New Zealand, the Council of Trade Unions, the Association of Superannuation Funds of New Zealand, and the Investment Savings and Insurance Association. The group has had discussions with Ministers about compliance and taxation issues relating to employer schemes and is pleased with plans to address one significant area of compliance cost – the requirement to produce a prospectus.

Periodic report group

The Retirement Income Act 1993 requires that every six years a group will be established for the general purpose of reviewing the trends and issues relating to retirement income policy and activity and making suggestions for what the group considers to be desirable adjustments. The review can cover both public and private provision for retirement. One of the reasons for this six yearly review provision was to reduce the prospects of continuous ad hoc changes to policy and have significant issues periodically examined by an impartial reporting group

This provision arose out of the 1993 Accord on Retirement Income Policies. Although the Accord has been inoperative for several years the Minister responsible for the Act, the Minister of Social Services and Employment, has indicated that he sees merit in continuing with the six yearly reviews.

Responsibility for setting the terms of reference for the Report Group rests with the Minister, after consultation with other parties. To assist the Minister, the Office has been working with Officials from the Ministry of Social Development and Treasury identifying matters that warrant attention, and establishing a list of tasks to be undertaken to ensure the Report Group has access to appropriate information.

Progress on this has been delayed as a result of the general election but the Minister has until 31 December 2002 to determine the detailed terms of reference and the membership of the Report Group.

The process provides an opportunity for important issues to be examined in a non-political environment and warrants the support of all parties.

Household savings survey

In August 2002 the initial results of this major survey were announced. It could more correctly be described as a survey of household assets, liabilities and accumulated savings.

The real value of the survey will emerge as the results of further research, using the survey database, become available. Projects on *The Determinants of Household Wealth* and *Are Households Saving Adequately for Retirement?* are to be undertaken with the support of Treasury.

These results will be available to the 2003 Periodic Report Group, filling a significant information gap which was highlighted by the 1997 Periodic Report Group.

During the past three years the Office has worked closely with Statistics New Zealand on completion of the design and development of the survey. The valuable assistance of an enthusiastic advisory group is acknowledged. The survey itself was conducted under the confidentiality provisions of the Statistics Act and the Office therefore had no part in the collection and collation of individual household data.

Maximum advantage from a "point in time" survey of this type will only be gained if the survey is repeated periodically. That will provide an indication of trends and emerging differences between generations. No doubt the need for repeat surveys will be considered by the 2003 Periodic Report Group.

The policy environment

In the years 1994 -1996 the Retirement Commissioner had input into policy discussions through regular meetings of the Accord Parties. In addition the Commissioner has an opportunity to influence policy through participation in the six yearly Periodic Report process. Unfortunately with the demise of the Accord Agreement those multi-party meetings ceased and the suggestions of the 1997 Report Group have never received appropriate consideration.

The Office does on occasions make observations to Ministers about matters which come to our attention and as noted above we draw attention to constraints on saving such as the compliance costs of employer superannuation schemes and taxation anomalies.

Other than that our position has been one of political and policy neutrality. Our objective has been to provide information to the public which will enable them to make sound individual decisions about retirement planning, taking into account the policies of the Government of the day.

There are some policy and public opinion areas where I have made public comments from time to time. However they are general issues and do not indicate support for, or criticism of, the policies or approach of any one political party. I refer below to some of these areas.

Political consensus

A disappointment is the continuing lack of any consensus amongst the political parties as to the longer-term development of retirement income policy.

It is pleasing to note that those in or near retirement can now have greater confidence that the New Zealand Superannuation universal pension will continue in something close to its present form during their retirement years.

The majority of parliamentary parties support the continuation of New Zealand Superannuation and major short-term change appears unlikely.

However there remains an undesirable level of public uncertainty and scepticism relating to the longer-term shape of public provision. I believe that most members of the public recognise that there will always be scope for future governments to introduce changes which are considered desirable or necessary as a result of changes in our economy and society. No one can accurately predict the nature of changes which may be economically desirable and which would receive public and political support in say 30 years time.

Currently we have a situation where at one extreme the the political environment tends to discourage political leaders from openly discussing possible long term change to New Zealand Superannuation. At the other extreme, some commentators, including some with vested interests, are suggesting that no individual should place any reliance on the long-term continuation of New Zealand Superannuation.

A more desirable position would involve open acknowledgement that change will be necessary or desirable from time to time. From that position it could be possible to develop some form of consensus as to the processes which could be used to identify the need for longer-term change. An example would be support for the continuation of the Periodic Report process.

Providing assurances that the process by which change will be introduced will take account of the ability of different groups to adapt to such change, is also an important issue.

For example there will inevitably come a day when the age of eligibility for New Zealand Superannuation will need to be reviewed. We do not know when that will be or what the nature of any change could be. It could involve introducing some flexibility into the age of eligibility or an increase in the age of eligibility to recognise longer life expectancy. That will depend on a number of factors including demographic change, economic growth

and employment trends. It could be possible for political parties to accept that the age of eligibility should be subject to review say every twelve years with an agreed lead time for the introduction of changes, if any.

Other aspects of New Zealand Superannuation, including those mentioned later in this report, should be reviewed from time to time. An agreed process for reviewing and where necessary modifying New Zealand Superannuation would go some way towards reducing public anxiety and confusion. It would also reduce the opportunities for political points scoring by those who may otherwise be very liberal with regard to future undertakings.

The New Zealand approach

I have expressed the view that the New Zealand approach of a universal flat rate pension funded from taxation, coupled with voluntary private savings, presents one of the most simple and administratively efficient retirement income policies.

That comment does not imply that the approach adequately covers all retirement income requirements. For example in many countries a combination of a state pension and mandatory or state subsidised workplace schemes tend to deliver retirement incomes which have some relativity to an individual's pre-retirement income. In New Zealand we have a more egalitarian approach and the need for income replacement over and above New Zealand Superannuation, is very much an individual decision. It is possible that, relative to many other developed countries, we may have an increasing number of people who, as a result of their own decisions or lack of decisions, face a decline in their accustomed living standards in retirement. Some of the planned research, using the Household Savings Survey results and coupled with information from the earlier *Standard of Living of Older Persons* survey will throw some light on that issue. The long term social and economic consequences of any such trend can then be considered from a better informed base.

Nor does our comment about the simplicity and efficiency of the New Zealand approach imply that this is a policy area that does not require regular review. What it does imply is that those who advocate significant change or the adoption of policies used in countries such as Australia, Chile or Singapore need to acknowledge not only the apparent advantages of such regimes, but also their complexity and compliance costs and the unique political and economic environments which gave rise to their introduction. In addition the significant political and transitional barriers to major change need to be put alongside the sometimes unproven benefits of some of the alternatives promoted.

Our flat rate, universal, tax funded approach incorporates some important social insurance elements. With regard to the basic level of retirement income we collectively share the risks of inflation, investment markets, economic fluctuations and longevity. Protection against longevity is of particular importance to lower income workers and women. A significant number of lower to average income people cannot be expected to save sufficient in a forty year working life to finance themselves and possibly a partner for the duration of a twenty-five or thirty year retirement.

Alternative approaches such as individual savings accounts with investor choice expose individuals to those risks, require heavy regulation, and still leave the Crown as a final guarantor of some form of minimum retirement income.

Making individuals more responsible for providing for their own retirement is in theory an approach which understandably receives widespread support. In developed countries most people also subscribe to the view that the community should ensure that older people can live with dignity and enjoy a reasonable level of participation in the community. The design of a “self help” system which also accommodates the latter view generally involves such a high level of government regulation, intervention and support that the contributions take on many of the characteristics of a tax or levy. Compulsory individual accounts do perhaps have the advantage of introducing people to savings issues but at a relatively high cost of compliance and intervention. Beneficiaries of such approaches include those involved in the savings and investment industries. The major losers are often the taxpayers who underwrite the losses of those who have invested inappropriately.

My point is that those who advocate major change should clearly demonstrate that on balance what they propose provides significant economic and social advantages over what we have. They also need to explain the transition process and how their proposal will pass the test of informed public support. The 1997 Retirement Savings Scheme, an attempt to bring together individual savings and community underwriting, was designed by a team of very capable people but finally failed the test of public support.

Retirement income and household savings

The two matters are obviously related but are not, as many commentators suggest, one and the same. There are many who claim New Zealand’s economic growth is hampered by a lack of private savings. They therefore promote tax incentives to encourage retirement savings, or the introduction of compulsory retirement savings. However, they often fail to demonstrate how those arguments interface with New Zealand Superannuation.

Under the New Zealand approach to retirement income, Government has taken on the obligation to fund from taxes a universal flat rate pension with some extra benefits to meet special needs. If individuals want more than that in retirement then that is a personal decision, and it is over to those individuals to take appropriate action. Putting money into long-term savings vehicles is not the only option. Our education programmes are designed to encourage and assist people in managing their personal affairs in a way, which will enable them to meet their retirement income targets and which suits their circumstances and aspirations.

Given New Zealand’s particular tax funded universal approach to retirement income policy it is difficult to see the logic of an argument for additional tax revenue to be used to subsidise private savings. Incentives would need to be significant to have any material effect and the cost relative to the potential benefit would be high. Much of the incentive would accrue to the benefit of those already saving or those who are best placed to save

and many would actually decrease the amounts they save from their own funds because of the taxpayer subsidy. The point is that many people will certainly put money into approved savings schemes to take advantage of a tax incentive or savings subsidy. It makes sense to do so. What is not so readily recognised is that many of those people adjust debt repayment or other forms of saving to ensure that they can maintain current levels of consumption.

Tax incentives may perhaps have a place in a system where private retirement savings relieve the State of some fiscal obligation. Even the effectiveness of that is debatable. To spend tax revenue on incentives which generally assist those in least need of assistance may not be the panacea many suggest it is.

More is required to be done to remove tax anomalies, and reduce the costs and the complexities of basic long-term savings products. For most people saving should be a simple, low cost and relatively low risk activity. For too many people it currently can be complicated, and through lack of knowledge they can find themselves either in high cost and inappropriate products or reluctant to do anything.

The New Zealand approach to retirement income policy will probably not produce the levels of long-term household savings accumulated in countries where private saving is compulsory or heavily subsidised. That raises the issue as to whether a lower level of household saving is stifling our economic growth. That is not a question the Retirement Commissioner has to address. However, to me the evidence is inconclusive. Look at the contrasting economic results from Japan (a high savings country) and USA (relatively low private savings). Over many years Singapore and Hong Kong both enjoyed very high growth. Singapore had a high level of compulsory saving but Hong Kong had neither compulsion or specific tax incentives.

I strongly advocate that individuals should be provided with education, information and encouragement to improve their personal financial circumstances. That is good for the households concerned and for our society. Whether the best way to do that is with programmes, which, through compulsion or monetary incentives, direct savings into a narrow range of investment products, is certainly not clear to me.

Economic fundamentals

Private saving is an important issue for individuals to the extent that it may be necessary to enable them to maintain their living standards in retirement. But the future average living standards of all New Zealanders will be substantially determined by our rate of economic growth and productivity. That is indisputable. Without real economic growth, many will continue to have limited ability or motivation to save and many who diligently save are likely to be dissatisfied with what they can achieve with those savings. At the extreme, if a growing number of retired have more money saved, and the country does not enjoy economic growth, the relative standard of living of those in the workforce will decline. Japan is suffering from these symptoms. High savings but poor quality investment leading to a decline in standard of living.

Those who advocate significant changes to our approach to retirement income policy should be prepared to demonstrate just how their proposals will lead to higher economic growth as well as stimulate national savings.

The likely future trends in the proportion of our national goods and services which will be required to support those in retirement is another matter which requires regular review. This extends beyond retirement income into health and other costs. Coupled with that is the need to identify and use, in an equitable and responsible way, policy mechanisms which can help ensure that the proportion is held within an acceptable range. These are issues which are obviously politically sensitive and add further weight for the need for a periodic report process and an agreed process for considering and introducing required changes. They were amongst the issues addressed by the 1997 Periodic Report Group.

Funding

As can be seen from our financial statements we have been able to develop and launch our www.sorted.org.nz programme by using funds held back from earlier years. We still have some surplus funds to cover further development and promotion of the site and other educational activities in the current year. Beyond that our activities will become very limited unless our income available for public education is increased beyond the current level of \$1.5 million.

Government has asked that we look for ways to supplement our income from sponsorship or programme funding from private sector sources. One of the greatest strengths of our education programmes is that they are independent.

If the public perceive that we are no longer independent then the impact of our programmes will be substantially reduced. We are looking for ways to attract funding while protecting independence. That is not easy but we will continue to examine all options. My view at this point is that an increase in Government funding will be required if the educational activities of the Retirement Commissioner are to continue to make a worthwhile contribution to the effectiveness of retirement income policy in New Zealand.

Acknowledgement

Throughout my term the Office has benefited greatly from the enthusiasm, dedication and talents of a very small group of staff and advisers. They have made my task rewarding and enjoyable.

In addition, I am grateful for the support received from successive Ministers of the Crown with whom I have worked. They have placed confidence in our team. They have always supported and provided useful comment on our various programmes, without ever trying to influence their content and unique style.



Financial statements

Statement of responsibility

We acknowledge responsibility for the preparation of these financial statements and for the judgements used herein.

We acknowledge responsibility for establishing and maintaining a system of internal control designed to provide a reasonable assurance as to the integrity and reliability of the Commissioner's financial reporting.

In our opinion these financial statements fairly reflect the financial position and operations of the Office of the Retirement Commissioner for the period ended 30 June 2002.



C G Blair

Retirement Commissioner



D Feslier

Executive Director



Statement of service performance

Funding

Funding from the Crown for the 2001/2002 year has been set at \$2,956,444 (GST Exclusive).

As well as this, some private sector organisations in the financial services industry may provide additional funding in relation to education and information.

Crown revenue	Expenditure
\$2,956,444 (excluding GST)	\$4,463,964 (excluding GST)

This amount is allocated as follows:

Public education and information programme	\$1,500,444
Research, monitoring, office costs	\$755,556
Survey of Net Worth and Saving	\$700,444

Advice

Description

The advice part of the output class includes advising and reporting to the Minister on retirement income and related issues.

Quantity

Quantity will be determined by requests made by the Minister during the year, and by other reports the Commissioner delivers to the Minister.

The Commissioner provided advice on requirements for the establishment of 2003 Periodic Report Group; the Retirement Villages Bill; and the Securities Act insofar as it relates to the requirement for employment-related superannuation schemes to produce a prospectus.

4 quarterly reports were provided to the Minister.



Quality		
Measure	Target	Actual
The Minister will be asked annually to provide an assessment of the quality, timeliness and appropriateness of advice provided by the Commissioner.	Satisfactory or better.	The Minister's assessment was that good quality advice and support was provided. Reports were timely.

Timeliness		
Measure	Target	Actual
Key dates will be met and will reflect agreed priorities.		Key dates were met.

Research and monitoring

Description

The research and monitoring part of the output class includes consulting widely on the tasks that need to be undertaken, to enable the preparation of each six yearly Periodic Report, and to monitor the undertaking of those tasks. This will include monitoring the effects of retirement income policies that are being implemented in New Zealand; establishing benchmarks, and monitoring trends in levels of awareness, knowledge, attitudes and behaviours relating to retirement planning. It also includes monitoring the effectiveness of private sector financial ombudsmen.

Quantity		
Measure	Target	Actual
Number of research/ monitoring projects.	5	6

Research and monitoring activities included:

Survey of net worth and saving

- This is a major project spanning 3 financial years. Data collection and most processing was completed this financial year. The first report is due out in August 2002. The aim of the project is to improve understanding of levels of savings and net worth of New Zealanders, at a household level. The results will be used by policy makers and the 2003 periodic reporting group.

International trends

- The Office monitored activities and research of other countries in the retirement income area. Specific countries monitored include Australia, the United States, the United Kingdom, and other OECD countries.



Evaluation of communications programme

- We monitored the effect our education and information programme is having on the awareness, knowledge, attitudes and behaviours of New Zealanders. Projects carried out include: '*Visitor Perceptions of Sorted Website*' and '*The Effectiveness of the Sorted Campaign*.'

Monitoring others' research

- We maintained networks to ensure we know of and can use research material on retirement income that others undertake, including academics, the financial services industry, government agencies, and overseas organisations.

Attitudinal research

- Research was conducted into '*New Zealanders' Attitudes and Values towards Money*.'

Quality

Measure	Actual
Quality over each project is assured by obtaining independent review as considered appropriate for each project. These reviews will be sought both prior to the implementation of the project, and upon completion to ensure a satisfactory level of quality is maintained. Terms of reference for assessing quality will include appropriateness, timeliness and management.	Quality checks included project teams to advise on major projects, including a Scoping Team to assist with the Household Savings Survey; testing of survey instruments including field tests; expert advice on specific issues and internal review before being finalised.

Timeliness

Measure	Actual
Key dates will be met and will reflect agreed priorities.	Most key dates were met. The scope of reporting for the Household Savings Survey was extended. Consequently the timetable was adjusted slightly.

Education and information

Description

The education and information part of the output class includes developing education and information programmes that improve the public's understanding of lifetime financial management; improve the public's knowledge of how to go about financial planning; and encourage the public to make voluntary savings. These programmes will be developed and implemented in partnership with the various stakeholders, including employers, and the savings industry.

Quantity	Actual
Measure	
<p>Education and Information Programme developed, implemented and maintained, consisting of the components below.</p>	1
<ul style="list-style-type: none"> • Workplace programme: aimed at encouraging employers to establish a suitable programme for employees in the workplace, and at encouraging employees to consider participating in the programme; 	<p>The Retire at Work programme is available to employers through the Commission's web site.</p>
<ul style="list-style-type: none"> • Promotional component: television (and other media) is the way the Office draws attention to its education programme. The aim is to provide a way for the public to obtain the educational information. This may be through an 0800 number or website address 	<p>Television, online and bus advertising supported the launch of the Commission's new web site www.sorted.org.nz in October 2001. Advertising has been successful in attracting over 300,000 visitors (Aug 02).</p>
<ul style="list-style-type: none"> • Schools programme: provides participating schools with a resources aimed at improving the financial literacy of senior secondary school students; 	<p>The Pathways to Financial Literacy Programme is being run in over 100 secondary schools.</p>
<ul style="list-style-type: none"> • Booklet: the <i>Your Retirement Action Planner</i> booklet will be maintained and updated, and distributed through 0800 number and other channels. The booklet provides information to assist readers understand retirement income issues, and to work out their own retirement plan; 	<p>The <i>Your Retirement Action Planner</i> (RAP) booklets have been distributed on request. The RAP has now been replaced by <i>Sorted Offline</i>.</p>
<ul style="list-style-type: none"> • Pamphlets: pamphlets on a variety of topics will be maintained and updated, and distributed through appropriate channels. Other pamphlets will be developed as required; 	<p><i>Sorted Offline</i> has been distributed through libraries, Citizens Advice Bureaux, and to individuals on request. <i>Sorted Offline</i> is a five-pamphlet pack covering personal financial management information – financial goal setting & budgeting, saving, managing debt, investing and retirement planning.</p>

Quantity continued

Measure	Actual
<ul style="list-style-type: none"> • Interview programme: interviews with media will be sought as appropriate, in order to explain the Office's activities, or encourage private provision for retirement; 	Ongoing interviews with media maintained.
<ul style="list-style-type: none"> • Article programme: articles will be written and provided to various media, in order to explain the Office's activities, or encourage private provision for retirement; 	Regular articles provided to media.
<ul style="list-style-type: none"> • Speeches programme: speeches will be made to a variety of audiences in order to explain the Office's activities, or encourage private provision for retirement; 	Ongoing programme of speeches maintained.
<ul style="list-style-type: none"> • Website: the website will be revised to reflect the changing emphasis of the education programme towards lifetime financial management. Different sections will be developed for different audiences e.g. youth, workers, employers, and possibly retired people. 	A new web site www.sorted.org.nz was developed to provide New Zealanders with interactive tools and information to assist with personal financial management and planning for retirement.

Quality

Measure	Actual
<p>Quality of the Education and Information Programme is assured by obtaining independent review, or piloting or pre-testing as considered appropriate for each project.</p>	<p>Quality checks included:</p> <ul style="list-style-type: none"> • Expert review undertaken by consumers, financial experts, communications experts, a clinical psychologist, and appropriate interest groups. • Research was undertaken which measured consumers' views on the education programme. • Monitoring of various programmes was undertaken. • Results indicate that the education programme has been well received (see Visitor Perceptions of the Sorted Website).

Timeliness

Measure

Actual

Key dates will be met and will reflect agreed priorities.

Key dates were met.



Statement of accounting policies

For the year 30 June 2002

Reporting entity

The Retirement Commissioner was appointed in September 1994 under the Retirement Income Act 1993. The Office of the Retirement Commissioner is a Crown Entity under the Public Finance Act 1989. These financial statements have been prepared in accordance with requirements of the Retirement Income Act 1993 and section 41 of the Public Finance Act 1989.

Measurement base

The financial statements have been prepared on a historical cost basis.

Accounting policies

The following accounting policies which materially affect the measurement of financial performance and financial position have been applied.

Budget figures

The budget figures are those approved by the Commissioner at the beginning of the financial year.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by the Commissioner for the preparation of the financial statements.

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.

Revenue

The Office derives revenue through the provision of outputs to the Crown, for services to third parties and interest on its investments. Such revenue is recognised when earned and is reported in the financial period to which it relates.

Goods and services taxation

These financial statements have been prepared on a GST exclusive basis except for accounts receivable and accounts payable which are stated inclusive of GST.

Fixed assets

The initial cost of a fixed asset is the value of the consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

Depreciation

Depreciation is provided on a straight line basis on all fixed assets at a rate which will write off the cost of the assets to their estimated residual value over their useful lives.

The useful lives and associated depreciation rates of major classes of assets have been estimated as follows:

Office equipment	2 – 13 years	7.8% – 48%
Furniture and fittings	5 – 15 years	6.5% – 18.6%
Computer equipment	3 – 6 years	15.5% – 36.0%

Commitments

Future payments are disclosed as commitments at the point a contractual obligation arises.

Leases

The Office leases office premises and a car park. As all the risks and ownership are retained by the lessor these leases are classified as operating leases. Operating lease expenses are recognised on a systematic basis over the period of the lease.

Financial instruments

The Commission is party to financial instruments in the form of bank accounts, short term deposits, accounts receivable and accounts payable as part of its operations. These are recognised in the statement of financial position and all revenue and expenses in relation to the financial instruments are recognised in the statement of financial performance.

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.

Investments

Investments are stated at the lower cost and net realisable value. Any write-downs are recognised in the statement of financial performance.

Taxation

The Office of the Retirement Commissioner is exempt from income tax under Section 9 of the Second Schedule of the Retirement Income Act 1993.

Employment entitlements

Provision is made in respect of liability for annual leave. Annual leave is expected to be settled within 12 months (or approval gained to carry forward leave) of reporting date. It is measured at nominal values on an actual entitlement basis at current rate of pay.

The Commission does not provide long service leave or retirement leave.

Accounts receivable

Accounts receivable are stated at net realisable value.

Statement of cash flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

Definitions of the terms used in the statement of cash flows are:

“Cash” includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the entity as part of its day to day cash management.

“Investing activities” are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

“Financing activities” are those activities relating to changes in equity of the entity.

“Operating activities” include all transactions and other events that are not investing or financing activities.

Changes in accounting policies

There have been no changes in accounting policies since the date of the last audited financial statements.



Statement of financial performance

For the year 30 June 2002

2001		Notes	2002	2002
Actual			Actual	Budget
\$			\$	\$
REVENUE				
4,251,556	Crown Revenue		2,956,444	2,954,664
129,948	Interest Income		120,392	111,561
–	Gain on Sale of Fixed Assets		667	–
13,016	Sundry Income	1	81,935	–
4,394,520	TOTAL REVENUE		3,159,438	3,066,225
EXPENDITURE				
662,007	Advice and research		1,117,373	1,484,000
6,944	Audit fees		7,900	7,300
6,835	Depreciation – office equipment		6,090	5,283
25,407	Depreciation – computer equipment		20,113	19,639
9,001	Depreciation – furniture & fittings		8,963	6,957
833,037	Education and information programme	2	2,696,266	3,162,761
48,956	Rent		50,967	48,960
488,888	Salaries		414,010	430,736
245,450	Other operating costs		142,282	190,154
2,326,525	TOTAL EXPENDITURE		4,463,964	5,355,790
2,067,995	NET SURPLUS/(DEFICIT) FOR THE YEAR		(1,304,526)	(2,289,565)

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.



Statement of movements in equity

For the year 30 June 2002

2001	Notes	2002	2002
Actual		Actual	Budget
\$		\$	\$
1,066,470	PUBLIC EQUITY AT THE START OF THE YEAR	3,134,465	3,134,465
2,067,995	Net surplus/(deficit) for the year	(1,304,526)	(2,289,565)
2,067,995	Total recognised revenue and expenses for the period	(1,304,526)	(2,289,565)
3,134,465	PUBLIC EQUITY AT THE END OF THE YEAR	1,829,939	844,900

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.



Statement of financial position

For the year 30 June 2002

2001 Actual \$	Notes	2002 Actual \$	2002 Budget \$
CURRENT ASSETS			
77,631		249,822	77,631
3,114,532		1,647,752	1,276,951
24,327		8,781	24,327
2,328		574	–
–		–	32,549
618		795	618
3,219,436		1,907,724	1,412,076
NON-CURRENT ASSETS			
78,736	3	62,605	46,857
3,298,172		1,970,329	1,458,933
CURRENT LIABILITIES			
103,388		111,221	584,621
30,907		7,011	–
29,412		22,158	29,412
163,707		140,390	614,033
PUBLIC EQUITY			
200,000		200,000	200,000
2,934,465	4	1,629,939	644,900
3,134,465		1,829,939	844,900
3,298,172		1,970,329	1,458,933

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.



Statement of cashflows

For the year 30 June 2002

2001 Actual \$	Notes	2002 Actual \$	2002 Budget \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
4,251,556	Crown revenue	2,956,444	2,954,664
109,910	Interest received	135,938	111,561
16,135	Sundry Income	83,884	2,328
4,377,601		3,176,266	3,068,553
Cash was applied to:			
4,401	Net GST paid	(22,270)	(6,664)
(2,674,575)	Payments to suppliers and employees	(4,430,217)	(4,899,470)
(2,670,174)		(4,452,487)	(4,906,134)
1,707,427	Net cashflows from operating activities	5 (1,276,221)	(1,837,581)
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from:			
-	Sale of fixed assets	667	-
Cash was applied to:			
(4,565)	Purchase of fixed assets	(19,035)	-
(4,565)	Net cashflows from investing activities	(18,368)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from:			
-	Taxpayer contribution	-	-
1,702,862	Net increase in cash held	(1,294,589)	(1,837,581)
1,489,301	Plus cash at the start of the year	3,192,163	3,192,163
3,192,163	Cash held at the end of the year	1,897,574	1,354,582
Represented by:			
77,631	Cheque account	249,822	77,631
3,114,532	Short term investments	1,647,752	1,276,951
3,192,163	Cash held at the end of the year	1,897,574	1,354,582

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.



Notes to the financial statements

For the year 30 June 2002

1. Sundry income

Sundry Income includes \$80,000 from Te Puni Kokiri to be used for piloting programmes for the delivery of financial skills to young Maori.

2. Education and information

2001		2002
Actual		Actual
\$		\$
183,711	Consultant fees	86,215
649,326	Education, research and advertising	2,610,051
833,037	Total education and information	2,696,266

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.

3. Fixed assets

2001		2002
Actual		Actual
\$		\$
	Office equipment	
48,358	At cost	48,588
(33,375)	Accumulated depreciation	(39,465)
14,983	Office equipment – net book value	9,123
	Furniture and fittings	
87,925	At cost	87,925
(46,096)	Accumulated depreciation	(55,059)
41,829	Furniture and fittings – net book value	32,866
	Computer equipment	
146,649	At cost	162,430
(124,725)	Accumulated depreciation	(141,814)
21,924	Computer equipment – net book value	20,616
	Total fixed assets	
282,932	At cost	298,943
(204,196)	Accumulated depreciation	(236,338)
78,736	Total carrying amount of fixed assets	62,605

4. Accumulated surplus

Approval was gained to spread education activities and expenditure over both the 2001/02 and 2002/03 financial years. This is reflected in the accumulated surplus which has been carried forward.

5. Reconciliation of net surplus to net cash flow from operating activities for the year ended 30 June 2002

2001 Actual \$		2002 Actual \$	2002 Budget \$
2,067,995	Net surplus/(deficit) for year	(1,304,526)	(2,289,565)
	Plus non-cash items:		
41,243	Depreciation	35,166	31,879
2,109,238		(1,269,360)	(2,257,686)
	Add/(less) movements in other working capital items:		
(20,038)	(Increase)/decrease in accrued interest	15,546	0
(90)	(Increase)/decrease in prepayments	(177)	0
(446,797)	Increase/(decrease) in accounts payable	7,833	481,233
2,807	(Increase)/decrease in accounts receivable	1,754	2,328
54,382	Increase/(decrease) in GST payable	(23,896)	(63,456)
7,925	Increase/(decrease) in holiday pay accrual	(7,254)	0
1,707,427		(1,275,554)	1,837,581
	Add/(less) items classified as investing activities		
0	Net (gain) on sale of assets	(667)	0
1,707,427	Net cashflow from operating activities	(1,276,221)	1,837,581

6. Financial instruments

Financial instruments which potentially subject the entity to credit risk principally consist of bank balances and short term money market deposits. The Office of the Retirement Commissioner does not extend credit and places its cash with high credit-rated quality financial institutions.

Maximum exposures to credit risk at balance date are:

	2002	2001
	\$	\$
Bank balances	249,822	77,631
Short term investments	1,647,752	3,114,532

No collateral is held on the above amounts.

The fair value of the above financial assets and liabilities is equivalent to the carrying amounts in the Statement of Financial Position.

There is no currency risk.

The Office manages its interest risk by investing in short term deposits with high credit-rated financial institutions.

7. Employee remuneration

Remuneration and other benefits of \$100,000 per annum or more received by employees in their capacity as employees were:

	2002	2001
\$110,000 – \$119,999	2	1

8. Related party transactions

There were no related party transactions.



Statement of contingent liabilities

As at 30 June 2002

There are no contingent liabilities at balance date (2001 nil).

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.



Statement of commitments

As at 30 June 2002

There are no capital commitments at balance date (2001 nil).

Commitments existed for non-cancellable operating leases as follows:

2001		2002
\$		\$
45,385	Less than one year	25,343
25,083	Between one and two years	0
0	Between two and five years	0
0	Later than five years	0

The Statement of Accounting Policies and Notes form part of and are to be read in conjunction with these financial statements.



Report of the Auditor-General

To the readers of the financial statements of the Office of the Retirement Commissioner for the year ended 30 June 2002.

We have audited the financial statements on pages 20 to 39. The financial statements provide information about the past financial and service performance of Office of the Retirement Commissioner and its financial position as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 27 to 29.

Responsibilities of the Retirement Commissioner

The Public Finance Act 1989 requires the Retirement Commissioner to prepare financial statements in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of Office of the Retirement Commissioner as at 30 June 2002, the results of its operations and cash flows and service performance achievements for the year ended on that date.

Auditor's responsibilities

Section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989 require the Auditor-General to audit the financial statements presented by the Retirement Commissioner. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed S J Lewis, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Retirement Commissioner in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Office of the Retirement Commissioner's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards issued by the Institute of Chartered Accountants of New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Office of the Retirement Commissioner.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of the Office of the Retirement Commissioner on pages 20 to 39:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Office of the Retirement Commissioner's financial position as at 30 June 2002;
 - the results of its operations and cash flows for the year ended on that date; and
 - its service performance achievements in relation to the performance targets and other measures adopted for the year ended on that date.

Our audit was completed on 22nd of August 2002 and our unqualified opinion is expressed as at that date.



S J Lewis
 Audit New Zealand
 On behalf of the Controller and Auditor-General
 Wellington, New Zealand



Retirement Commission

Whiriwhiria!

www.sorted.org.nz

