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# 2019 REVIEW OF RETIREMENT INCOME POLICIES

Submission by Christians Against Poverty

To:

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Sent by email: [review@cffc.org.nz](mailto:review@cffc.org.nz)

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## Executive Summary

Tēnā koutou,

Thank you for the opportunity to provide feedback on 2019 Review of Retirement Income Policies.

Christians Against Poverty's (CAP) feedback attempts to provide the best possible policy guidance to government and industry to enable those in vulnerability, poverty or material hardship to save for their future and to avoid hardship. CAP adopts this perspective for two very important reasons.

Firstly, families in poverty and material hardship, burdened by unmanageable debt **just don't have the ability to save**. Over **11%** of CAP clients are **within ten years** of retirement age. Many have no savings or negative equity. Unmanageable debt has prevented them from saving and they face a retirement of uncertainty and insecurity.

Secondly, poverty and material hardship cause, and are caused by, a range of other complex factors that can make planning for the future and accessing help very difficult. Clients tell us that debt causes isolation, anxiety, depression and severe stress. Debt and poverty devastate physical health, mental health and relationships.

CAP makes the following recommendations in this submission:

- Current consumer debt law reform needs to protect vulnerable borrowers from excessively high interest rates and loan conditions that trap people into high repayments that prevents saving.
- An industry-wide governance group is needed to provide lenders and consumers guidance on what is fair and equitable affordability assessment so that families have reasonable allowances to save for future needs and for retirement.
- The income support system needs to provide low-income families adequate financial support so that they can stay out of financial hardship.
- Kiwisaver favours those in stable employment. Government contributions could be extended to those not in work so that the barrier of unaffordability is removed for those unable to participate.
- The Kiwisaver Hardship Application approval process should be centralised and carried out by an independent third-party body to remove the wide variation that exists in procedure and outcome for different providers.
- The financial advocate plays a vital link between services and those that need them by helping those in hardship and vulnerability that may not have the agency to speak for themselves, to exercise rights or to make fully-informed decisions. This role should be supported with industry funding.

**We can help families in hardship and vulnerability to get ahead financially by ensuring that policies and guidelines appropriately consider the needs of and barriers facing those in hardship, poverty and vulnerability.**

I welcome any further questions you may have and thank you for the opportunity to provide input.

Nāku noa, nā

Michael Ward  
Christians Against Poverty

# Introduction to Christians Against Poverty

## Free debt-counselling – CAP Debt Help

CAP has been operating in New Zealand for over 11 years. CAP's free **Debt Help** service has now helped thousands of New Zealanders to grow in financial capability. CAP **Debt Help** builds sustainable and liveable budgets; negotiates directly with creditors to ensure that debt repayments are affordable and fair; and supports clients long-term as they repay debt.

CAP works with its clients, on average, for two years (always free-of-charge) until they have repaid debts in full. CAP's **Debt Help** service is currently available in 48 locations across Aotearoa, from Kaitaia to Dunedin. On average, clients come to CAP with **over \$28,000 of debt**. **Most of those clients present with debts specifically related to consumer credit** such as car loans, truck shops, personal loans, credit cards and payday loans. Over 70% of CAP clients rely on a benefit as the household's main source of income. Amongst CAP clients in paid employment, many still struggle to make ends meet and to provide for families because they receive the minimum wage.

CAP visits approximately 100 households each month. As a result, CAP constantly comes face-to-face with the crushing despair and misery created by debt. **Over half of CAP clients could not provide three meals a day for their children. Anxiety and depression caused by debt caused 65% of clients to isolate themselves.** Before coming to CAP, 1 in 4 clients had contemplated or attempted taking their lives.

*"I was very stressed, depressed - I was afraid of being judged, embarrassed, agitated. My children [were] feeling and suffering with me, which caused separation with my husband of twenty plus years of marriage." - CAP Client*

In the past eleven years CAP has **helped thousands of clients to pay off over \$38 million of debts and bills**. In addition, we've **enabled the write-off of over \$30 million of debt** as result of negotiation with creditors and insolvency procedures.

**The fruits of this work mean that over 1,540 people have become debt-free. Moreover, these numbers have positively transformed the homes of over 1,700 children.**

## Money Education – CAP Money

In response to the vast need that we saw in families struggling in debt, Christians Against Poverty developed the **CAP Money** course in March 2009. Since its launch, the course has helped thousands of families avoid unmanageable debt by organising their finances. Nearly **15,000 people** have successfully completed a **CAP Money** course to learn how to take control of their finances by teaching them how to build and live on a budget, how to keep track of finances and how to rely more on cash as an effective method to manage spending.

Christians Against Poverty's experience at helping some of New Zealand's most vulnerable families gives us unique insight into the importance of cash to provide security to those on low incomes or those in financial hardship, and of the importance of cash to help manage and keep track of expenditure.

## Government Policy

There are positive steps that government can take to better support the financially vulnerable and low-income groups to prepare for retirement. CAP's feedback focuses on the current law reform to better protect vulnerable borrowers and on ensuring those on low incomes have an adequate income in order to be able to save.

### Credit Contracts Legislation Amendment Bill

CAP has made several recommendations<sup>1</sup> to the Select Committee to strengthen the proposed law changes in order to prevent families becoming trapped in endless cycles of consumer debt. All too often CAP meets people that are burdened with debt repayments that take an unsustainably large proportion of their income to service, robbing them of any chance of saving for the future.

*“Our family was in so much debt. We had people constantly calling. We were behind on rent, not much money for food...We were pawning off our belongings and getting out loans. So much stress.” – CAP Client*

#### *Interest rate limit*

CAP is pleased to see the inclusion of an interest rate limit, however it's worth noting 0.8% per day is still effectively an annual interest rate of 292%. At this rate a \$500 loan costs over \$28 a week in interest alone. For many of our clients, that's the difference between being able to afford school uniforms or having to take out another loan. As loans of last resort, high-cost loans are often perceived as the “only option” for families who are struggling to make ends meet. This experience is shared by many other debt counsellors in New Zealand (as demonstrated by BERL<sup>2</sup> in their 2019 report “*The harm from high cost lending*”). When families are facing a crisis and don't have enough money, they often make quick decisions such as taking out a high-cost short-term loan to immediately resolve the issue they face. A lower limit on interest rates would mean borrowers would spend less on interest payments, which would leave more money to go towards essentials such as food, housing and saving for the future.

#### *Fair Affordability Assessments*

All too often CAP reviews loans where the analysis by lenders of what is an ‘affordable’ loan has grossly underestimated the borrower's essential living costs. Vulnerable families are often given loans with insufficient consideration for true household expenses. A common example would be a lender providing an allowance for petrol, but not making an allowance for warrant, registration, maintenance and repairs, or insurance where compulsory. These are all necessary and predictable expenses that families will incur. Lenders need to make adequate and fair allowances for a borrower's future requirements.

When affordability assessments are not fairly conducted, loans are granted that are unsustainable for the long-term without families making significant sacrifices from other areas of their budget. This generates a cycle of poverty where families are unable to save for future needs and are lured into further loans to keep up with normal household bills. CAP supports a strengthening of the current

<sup>1</sup> Christians Against Poverty (2019). *Submission to the Finance and Expenditure Select Committee*. Retrieval from [www.parliament.nz](http://www.parliament.nz)

<sup>2</sup> Green, S., Robertson, N., Nana, G. (2019). *The harm from high cost lending*. BERL.

principle that lenders must make reasonable inquiries of a borrower to ensure that the payments will not cause substantial hardship.

CAP recommends the creation of a governance group that can provide guidance to the lending industry around what fair affordability looks like. **This guidance should naturally dovetail with the efforts that are made in teaching financial literacy to ensure different categories of future expenses are appropriately being accounted for.** Fair affordability assessment is essential to protect vulnerable borrowers, particularly those with low financial literacy, from being exploited and put in further hardship.

#### *Loan advertising*

CAP has submitted that advertising for high-cost loans should be banned. These products are extremely harmful and are currently advertised as desirable products. Advertising is often targeted at vulnerable communities through TV, radio, local newspapers and the internet. Advertising for high-cost loans should be regulated like other harmful products such as tobacco, pokies and alcohol sponsorship, where the social harm of the product is recognised.

#### *After-Pay / Post-pay schemes*

CAP has submitted that After Pay and equivalent Post-Pay schemes must be included in the scope of the Credit Contracts Legislation Amendment Bill. This would enable them to be regulated in the same way as other credit-related loans. This is important because we know that these products are very accessible, and it is easy to build up debt very quickly. We support the call-in power that is proposed to be included in regulations to enable the government to bring these products into the scope of the Credit Contracts and Consumer Finance Act. We also recommend that the Commerce Commission or government undertake an investigation into the use of these products to assess the harm they are causing, especially now that they have become a recognised feature of retail shopping.

## Ensuring adequate income support for beneficiaries

CAP is in agreement with the findings of the Welfare Expert Advisory Group<sup>3</sup> in their analysis of the adequacy of the income support system for six example family structures. WEAG compared the incomes of these families to their estimated costs and found that benefits **are not adequate** for these families to meet their essential living costs and to provide a minimal level of meaningful participation in their communities. WEAG concluded that:

*“These deficits result in people and families making unenviable spending decisions, such as purchasing cheap food, relying on food banks or going without food, avoiding doctor visits, foregoing children’s involvement in activities, living in overcrowded housing of poor quality or borrowing from high-cost ‘payday lenders’. There are undoubtedly negative consequences for broader wellbeing from social exclusion, an inability to invest sufficient resources for child development and the stress that such difficult circumstances place people under. These impacts on mental health, cognitive development, school achievement and social and behavioural development can limit opportunities and perpetuate, indeed magnify, future support needs.”*  
(page 97)

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<sup>3</sup> Welfare Expert Advisory Group (2019). *Whakamana Tāngata; Restoring Dignity to Social Security in New Zealand*.

This is most accurately reflected by Stats NZ's presentation<sup>4</sup> of the NZDep-17 material hardship measurements from the Household Economic Survey, 2018, that clearly showed that people in material hardship first reported not having \$500 to meet an unexpected expense.

These findings are mirrored by CAP's experience. Families that approach CAP for help have often struggled for a long period on very little and resort to loans that further exacerbate their day-to-day focus. Families that rely on a benefit that doesn't adequately meet living expenses cannot possibly build any surplus and are unable to grow a savings buffer to meet future needs.

## Kiwisaver

For the many low-income families that CAP works with, Kiwisaver is not working to provide them with a future source of retirement savings. Every person, regardless of how much they earn, should be making regular contributions to meet future needs. This is the cornerstone of financial resilience.

### Kiwisaver favours the employed

Very few of the unemployed families that CAP works with are making voluntary contributions to Kiwisaver. Consequently, they miss out on the benefits of employer and government contributions and on the automatic deduction that protect their savings before they can be spent. This is concerning as we see beneficiaries, students and stay-at-home parents fall further behind with no savings for the future.

### Those in hardship are excluded

For people in material hardship or on a low income that are living day-to-day, each dollar is important to get by. It just isn't possible for those in hardship to be contributing to Kiwisaver. CAP's experience echoes the findings of the CFFC Data Report on Kiwisaver<sup>5</sup> that many people do not make contributions due to insufficient incomes. People in hardship are penalised because participation and contribution to Kiwisaver is so extremely difficult. They are effectively excluded from the benefits of Kiwisaver because of their hardship and poverty.

Participation in Kiwisaver is also very difficult for those in unmanageable debt regardless of whether they are enrolled or not. Voluntary contributions are often stopped so that money can be diverted to debt repayment, in order to prevent default fees and interest charges. When clients work with CAP, the journey to becoming debt-free can take several years, during which clients may never contribute to Kiwisaver. This is consistent with CFFC's Data Report findings that suggest that being enrolled in Kiwisaver but not contributing is more correlated with financial hardship than not being enrolled at all.

### Kiwisaver Hardship withdrawals

CAP has, in circumstances where there are no further avenues for support, helped clients to make a hardship withdrawal. In our experience, we have found the policies and processes for hardship applications of different providers difficult to navigate.

<sup>4</sup> Stats NZ (2019). *Measuring child poverty: Material hardship*. Retrieved from [www.stats.govt.nz](http://www.stats.govt.nz)

<sup>5</sup> CFFC (2019). *Data report for the Review of Retirement Income Policies*. Retrieved from [www.cffc.org.nz](http://www.cffc.org.nz)

The documentation required can vary greatly between providers. Some require standard documentation, others a much larger level of evidence. The collection of documentation can be very difficult for clients that in hardship, who are often also in distress because of their circumstances. The whole process of documentation collection can be so time intensive that the funds are not made available in a timeframe that would be helpful to the applicant. For example, if a client wants to make a hardship withdrawal to prevent the sale of their house, a predictable and timely process can be of utmost importance. A more transparent and compassionate process around documentation collection would simplify and streamline a complex process.

The level of 'hardship' that is acceptable to warrant a withdrawal can also differ greatly between providers. This makes it very hard as a provider of financial help to assist clients to make informed decisions. The application process can be difficult and time-consuming and can often feel like a client's last option. It would be very helpful to have a standardised list of specific reasons and situations for which hardship will, or will not, be granted.

The amount that is returned to a client for an approved application can also vary greatly between providers. CAP has seen cases of very small values being released - \$306 in one case – that can feel like a significant waste of time and resources – for the client, for CAP as advocate, and for the provider themselves. Often such small values do very little to alleviate the very real hardship that a family can be experiencing. On the other end of the spectrum, CAP has seen cases where the whole sum of the savings – in the tens of thousands – has been deposited directly into a client's bank account. This can put clients in hardship at very great risk of making unwise decisions with such large sums or putting those in positions of vulnerability at risk of having money taken from them by other parties, where previously it had the protection of being with the provider.

#### *Improving the process*

It would be very helpful to streamline and simplify the hardship withdrawal process and to bring consistency across the providers for application process. Clients in hardship are very often very stressed and overwhelmed. This could be achieved by centralising the hardship application process to an independent third party that approves or rejects applications on behalf of providers. A centralised hardship process could:

- help Improve understanding of the likelihood of a withdrawal application being accepted and of how much will be released, so that people can make better informed choices about whether submitting a hardship application is the right course of action;
- act in the capacity of consumer advocate, softening the process and increasing the levels of engagement and completion for those for whom a hardship withdrawal would be genuinely helpful;
- act as a first point to ensure that people are exhausting other options first before making a hardship withdrawal.

### **Compulsory Savings**

While working with CAP, clients are encouraged to put aside savings each week to save for future needs, no matter how small. It is the most fundamental step towards financial security and away from hardship. Our clients are often surprised by how much they have, just by automatically putting some aside each week. Clients experience a great sense of accomplishment. The ability to save restores mana and pride.

CAP would support further research into the effect that compulsory savings towards retirement would have. We agree that this could be very helpful for vulnerable people that can't save unless it is made easy and compulsory<sup>6</sup>. This could be the equivalent of at least the government contribution of \$521 per year saved for those that on a low-income or that receive a benefit. This would effectively remove the barrier of unaffordability to receiving the government contribution for those that are unable to contribute.

## Decumulation

CAP agrees with the Auckland University study on Accumulation and Decumulation<sup>7</sup> that there needs to be alternatives in the market to a lump-sum withdrawal option, especially to protect those that may not have the financial literacy to manage their own pension fund over the course of their retirement. We also bring to the Commission's attention additional considerations that the report does not go into detail about.

### *Cultural considerations*

CAP would emphasise the importance of including cultural values and family obligations associated with money, that do differ across cultures, within the assessment of 'Section 3 – What factors may affect a retiree's decisions with regard to decumulation?' This is particularly important to consider alongside the 'key theme to explore' identified on page 74 of the Ipsos report:

*“Be mindful of the role that family and community plays in shaping retirement; there is support, but there is also a sense of obligation that is largely unspoken but assumed.”*

### *Vulnerability considerations*

CAP believes that alternative decumulation models could help protect vulnerable members of society to whom tighter restrictions to lump-sum withdrawals would be beneficial. It is sadly all too common for manipulative family members to take an eftpos or debit card from a vulnerable family member to use. Some people may have adolescent or older children that will take their card and help themselves to the vulnerable person's bank account. Some elderly people feel powerless to stop their family members or guilty about doing so. The ability for people to limit access to retirement funds could give some security back to these vulnerable people and assurance that their money is safe.

## Financial Education

Through CAP's money education and life skills courses, *CAP Money* and *CAP Life Skills*, over 15,000 people have received advice on how to manage their finances. While skills to manage a budget, to understand the difference between a want and a need and how to prioritise needs are very important, there is **as much need** to help people to overcome their own feelings of shame, embarrassment and depression that often accompanies financial hardship.

*“I was feeling down all the time, feeling lost – I didn't know what to do. I was feeling depressed, sad and lonely. I felt ashamed of myself and embarrassed.” – CAP Client*

<sup>6</sup> Ipsos (2019). *Wealthy Ageing Research*. Retrieved from [www.cffc.org.nz](http://www.cffc.org.nz).

<sup>7</sup> Huang, Y. and Curtin, J. (2019). *International trends and reforms in pension policy and delivery: comparative models for accumulation and decumulation*. Retrieved from [www.cffc.org.nz](http://www.cffc.org.nz)



Financial education needs to teach people in hardship and vulnerability holistically how to have a healthy self-value, how to build healthy relationships, how to forgive and to celebrate and be thankful.

Financial education that is aimed at people in hardship and vulnerability needs to approach the issue holistically. The impact of money is often shared far more widely than just with the individual, affecting health and relationships within a whole family. Here are some thoughts for consideration in relation to development of financial education programmes.

## Capable and Resilient

There is a temptation to rush to a lack of skills or education as the reason that many people in vulnerability face hardship. In CAP's experience, this is typically not the case at all. In reality, clients that come to CAP for help are often very capable people and incredibly resilient, consistent with the findings of the Ipsos report in interviews with vulnerable people.

They have a strong understanding of how to make their small resources stretch as far as possible. The biggest challenge that faces CAP clients in hardship and in vulnerability is that they often just don't have enough to meet the needs of their family or to save for retirement.

## Cultural relevance

There is a need to ensure that the strong values around family and generosity that we greatly admire within our māori and pasifika communities are not excluded from the way that we, as a New Zealand society, approach the subject of money management and financial literacy. There is a great opportunity for a conversation about incorporating these values into financial literacy materials and frameworks. We should not expect people to let go of important cultural expectations, but this is, in effect, what happens when affordability assessments, savings plans, and financial literacy materials are produced that have not appropriately considered the audience that is expected to adopt them.

## The role of the advocate

People experiencing vulnerability and hardship are often in such a difficult mind-space that making complex decisions about finances or planning for the future can be very difficult<sup>8</sup>. Finding information and making the best choices can be a real challenge, particularly if there is any mistrust towards the institutions that are there to help. Some CAP clients, for example, find it difficult to engage with their banks (whom they might owe money to), or with Work & Income (who are in a position of power as administrators of their income support).

The role of the consumer or community advocate in these situations can be incredibly helpful. CAP encourages the Commission to recognise the importance of the advocate who can often take the time to meet people in vulnerability and hardship face-to-face, take the time to listen and consider the complicating circumstances in life, who can translate and simplify complex decisions. The advocate can also play a supporter role to stand alongside those in vulnerability and hardship to ask more questions and ensure entitlements and rights are protected.

Financial counselling and advocacy play an important role in supporting the financial wellbeing of New Zealanders and the industry faces significant demand pressures. The ability of financial counsellors and advocates to meet the demand for their services is limited by the pool of available funding. CAP

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<sup>8</sup> MSD (2017). *The voices of those to reach in hard-to-reach communities*. Retrieved from [www.msd.govt.nz](http://www.msd.govt.nz)

points to the recent report<sup>9</sup> to Australia’s Minister for Families and Social Services which recommends that it is appropriate for industry to participate and contribute to the increase of availability and access to financial counsellors, noting the economic and social value which businesses derive from the services of financial counsellors. CAP recommends that similar considerations to improve the availability of funding be made within New Zealand industry.

## Conclusion

In order to ensure that people in vulnerability, poverty or material hardship have the same opportunity to get ahead financially, there needs to be adequate support from multiple angles.

Government needs to provide legislative protection that prevents lenders charging excessive interest that takes advantage of those in severe hardship and need. This protection needs to include appropriate industry governance and guidance on affordability that supports people in poverty and on low incomes to meet their essential living costs, but that also allows them a level of savings for future needs, for retirement and for social inclusion.

The income support system needs to ensure those that require support have enough money to meet the costs of living without falling into further hardship.

Kiwisaver works well for those in stable employment but isn’t working for the unemployed who often cannot afford to make contributions. Kiwisaver needs to support all people without penalising those on low incomes that cannot afford to contribute. This will ensure that everyone is saving towards their retirement.

Financial education is essential to ensure everyone can improve their financial position, but we need to ensure that education frameworks also support those in hardship and vulnerability by being both culturally relevant and sensitive to the holistic support that is often also necessary. The role of the advocate is one of great support to people in hardship and vulnerability. People in vulnerability and hardship can be supported to get ahead financially by increasing the funding and support for financial advocacy and counselling services.

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<sup>9</sup> Sylvan, L. (2019). The countervailing power: Review of the coordination and funding for financial counselling services across Australia. Retrieved from [www.dss.gov.au](http://www.dss.gov.au)