

Experiences of financial advice at retirement


wise up
invest well

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Section 1: Executive summary

This report summarises feedback we gathered from 10 authorised financial advisers about advice close to or at retirement. It also includes feedback from 104 people currently receiving advice from financial advisers. The purpose of this research was to find out if financial advice helps New Zealanders manage their retirement savings. It forms part of a wider FMA project to understand the financial help and advice people receive when they retire.

Our research collected information about:

- what prompts people to seek advice
- what a typical client profile looks like
- how the advice conversation goes
- what good results look like.

We have used a mix of direct quotes and examples to illustrate respondents' views.

Our survey found that, overall, 87% of clients surveyed were confident they were financially prepared for their retirement.

Other key findings are:

- There are five common reasons people choose to speak to an adviser
 1. Want better returns or investment options
 2. Need help from an expert due to their own lack of knowledge
 3. Have received an inheritance/lump sum
 4. Close to retirement and want to be financially comfortable
 5. A change in circumstances.
- When getting advice, people value trust, and clear guidance and communication
- Getting advice builds confidence and helps people make decisions
- Advice is seen as good value for money
- Most clients had at least \$100,000 saved for retirement.

Section 2: Introduction

The purpose of this research

The purpose of our adviser research was to find out how financial advice helps New Zealanders manage their retirement savings, by examining the experience of working with an authorised financial adviser close to, or at the time of, retirement.

We wanted to understand:

- what prompts people to seek advice
- how people are making decisions when they retire
- the key things that make a difference to retirement income
- what these things enable retirees to do that they might not otherwise have been able to.

This research was designed to complement additional research we commissioned Colmar Brunton to carry out among people who are nearing retirement age, or who have recently retired. We also conducted a desk-based audit of tools or information KiwiSaver scheme providers offer to assist their members with options at retirement.

More information about the Colmar Brunton survey is available [here](#).

How this research supports our investor capability work

Encouraging New Zealanders to seek information or advice before making financial decisions is a key activity identified in our Investor Capability Strategy¹. By encouraging people (including retirees) to seek information or advice we aim to achieve a number of objectives, including improved access to advice, particularly for retirees.

Our Strategic Risk Outlook 2015² identified that people may not be getting access to quality advice when they retire. We also know from our joint 'over 50s' research³ with the Commission for Financial Capability that there is a low common standard of financial and investment decision-making quality among older New Zealanders.

We decided to research the issue of financial advice at the point of retirement further, to inform our efforts to improve access to advice for those at or approaching retirement.

¹ FMA Investor Capability Strategy 2015-2018: <https://fma.govt.nz/consumers/building-your-investment-capability/>

² FMA Strategic Risk Outlook 2015: <https://fma.govt.nz/assets/Reports/150130-FMA-Strategic-Risk-Outlook-2015.pdf>

³ FMA and CFFC survey of NZers aged 50 years plus - Attitudes to financial advice 2015: <https://fma.govt.nz/news/reports-and-papers/research-papers/fma-and-cffc-survey-of-nzers-aged-50-years-plus-2015-attitudes-to-financial-advice/>

Section 3: Findings

What prompts people to seek advice

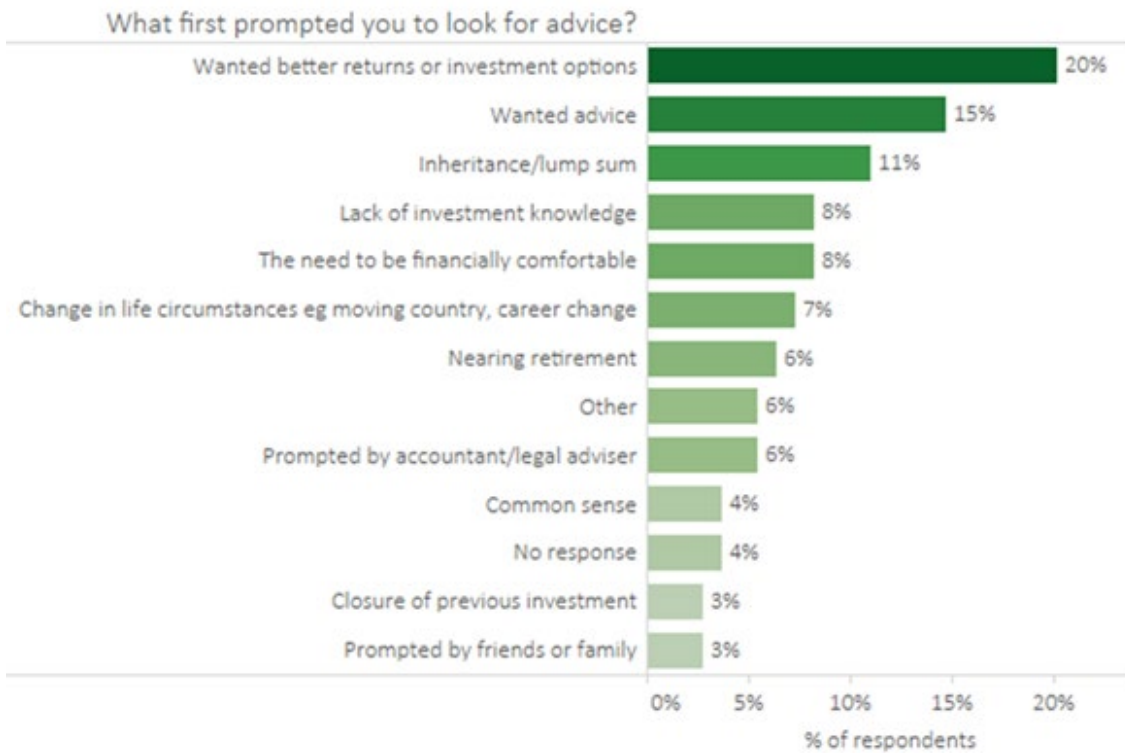
We know from our over 50s research that only a small proportion of older New Zealanders use financial advisers. We wanted to know what prompts those who do use advisers to seek their help.

Advisers told us the most common reasons people seek advice are they:

- receive a lump sum, such as an inheritance or proceeds from the sale of a business or property
- are getting close to retirement and haven't saved enough
- want higher investment returns than the bank is offering
- experience a change in circumstances, such as divorce, and need help managing cash flow
- lack financial knowledge and want advice from an expert.

The feedback we received from clients was consistent with what advisers told us:

Top 5 reasons clients got advice	Client comments
1. Wanted better returns or investment options	<i>"I wanted to have my savings work for me, and to diversify my investments"</i> <i>"Lack of return on a locked in super scheme"</i>
2. Wanted help from an expert	<i>"I needed independent professional based advice"</i> <i>"The need for more specialised knowledge"</i>
3. Had received an inheritance or other lump sum payment, such as the proceeds from the sale of a business or property	<i>"Just recently, as I am coming close to retirement, and have inherited some money, I have been more conscientious"</i> <i>"When we had money to invest after sale of farm"</i>
4. Lacked investment knowledge	<i>"My own lack of knowledge in how to invest my money"</i> <i>"We are farmers and know what we are doing there but investment outside that needs special knowledge which we do not have therefore without a good adviser was not an option and we have a very good one!"</i>
5. Wanted to be financially comfortable	<i>"To be able and ready when the day came to be financially comfortable in retirement"</i>



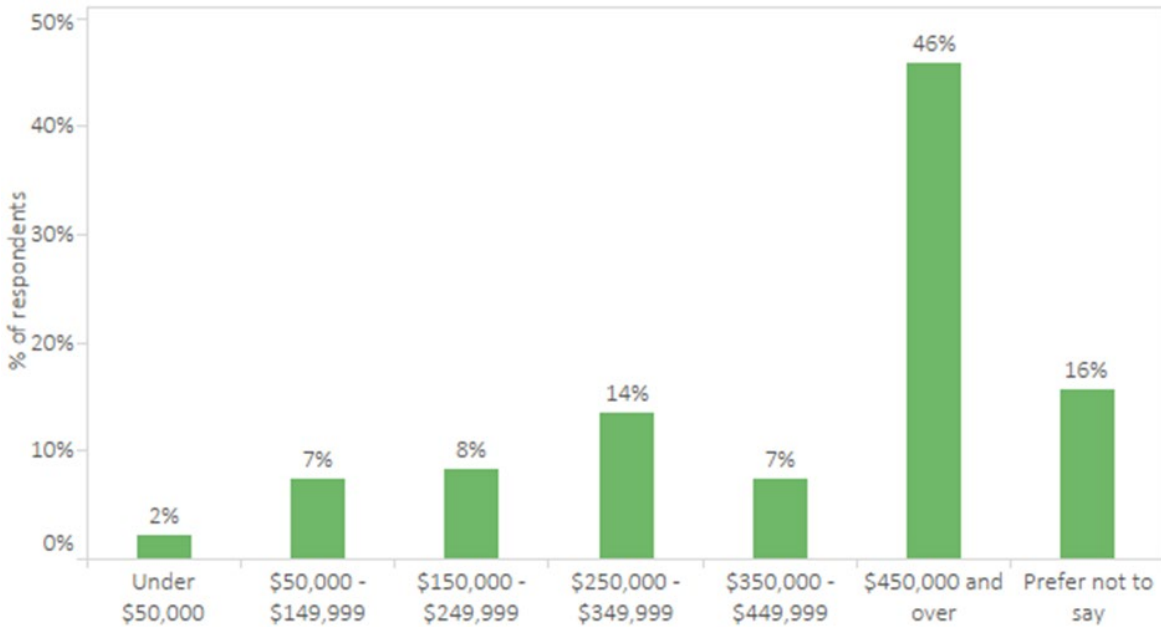
What a typical client profile looks like

The amount saved for retirement

The value of a person’s retirement savings appears to have an influence on whether or not they seek advice.

Advisers largely agreed it wasn’t financially viable to see retirees with retirement savings less than \$100,000 and our client survey findings support this. Almost half of respondents had savings of at least \$450,000. Most people had at least \$100,000.

What will be the combined value of your personal retirement savings at the point you retire, or if you have already retired what was the combined value at the time you retired?

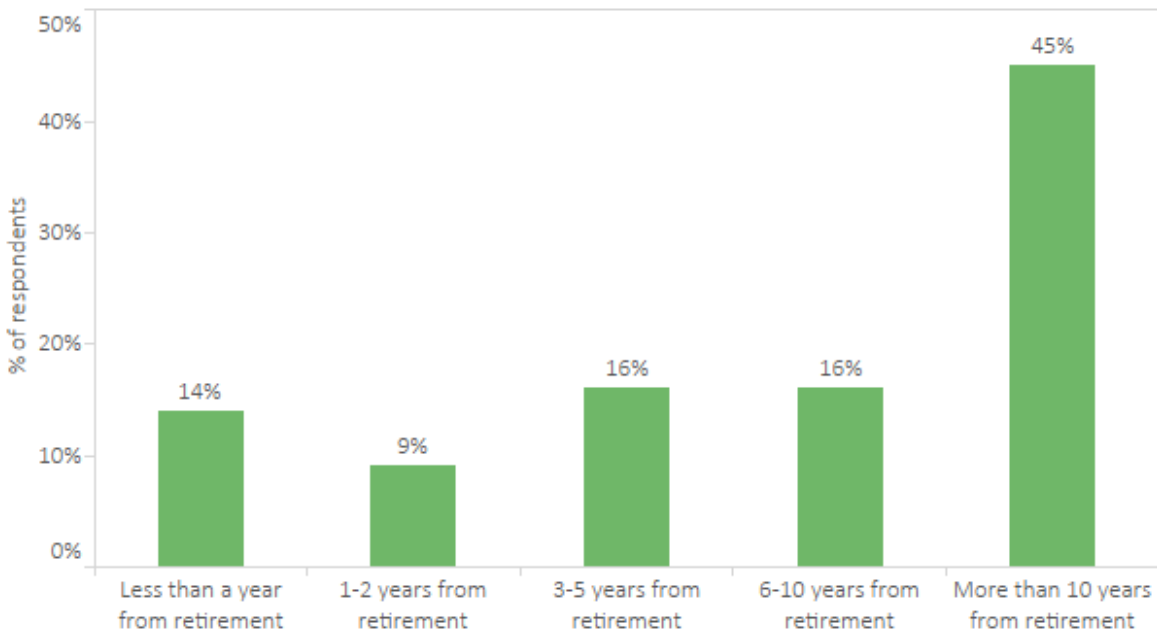


When they sought advice

Advisers told us they do have some clients who come to see them close to retirement age (18 months out for example) but agreed the majority tend to ask for help before age 65. One adviser felt the ideal time to start discussing retirement planning was age 55. This gave clients 10 years to prepare and hopefully accumulate enough by the time they are 65.

Over half of clients told us they've been working with their adviser for more than 10 years. Almost half specifically looked for advice about retirement more than 10 years from retirement

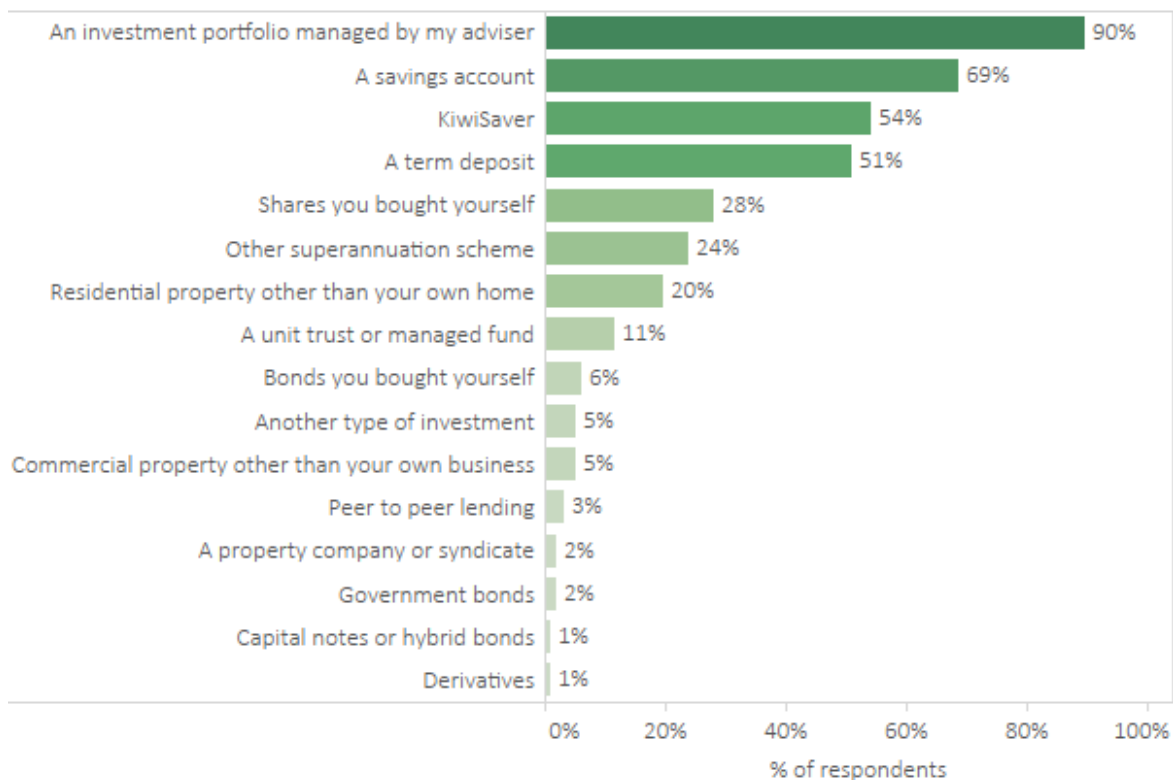
At what stage did you look for advice about your retirement options?



How their savings are invested

Our over 50s research shows older New Zealanders typically invest most of their retirement money in savings or term deposits. In contrast, almost all adviser clients had a diversified investment portfolio their adviser helped them manage.

Which of the following investments do you currently have?



How they feel about paying for advice

95% of respondents felt their adviser was either good, very good or extremely good value. Three out of 10 people rated their adviser as very good value.

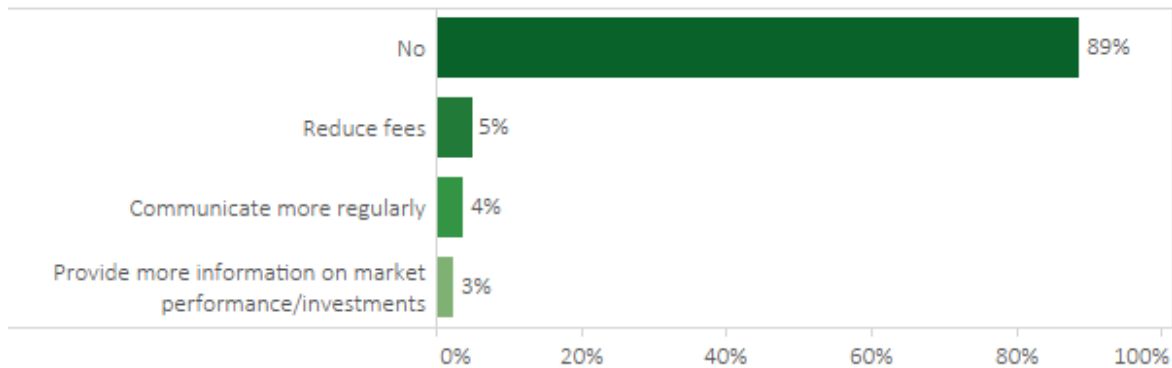
During our focus group with advisers, they acknowledged people don't like paying for advice. However in their experience their clients tell them they see the value, and they wish they had sought advice years ago. It was also agreed that once a relationship has been established, fees become less of an issue. The findings from our client survey support this view.

When asked 'Is there anything you would like your adviser to do differently and if so, what would that be?' only four respondents indicated fees were too high:

- "Review their fees as they take too much of what I put in".
- "I would like everything to be fee for service not commission based. Initial plan was fee for service which was good. But commissions don't seem to provide me with the real feeling the adviser is independent".

89% of respondents said there was nothing they would like their adviser to do differently:

Is there anything you would like your adviser to do differently and if so what would that be?



How the advice conversation goes

We were keen to understand the topics advisers typically discuss with clients who are at or close to retirement.

What advisers told us

Advisers told us that while all clients have different personal needs, their concerns are similar. The three most common concerns are:

- **Money** – how much is enough and do I have it? How much should I be withdrawing from my savings to ensure my money will last?
- **Return** – how can I get a return that's higher than the bank?
- **Risk** – how much do I have to take to achieve my objective?

Advisers told us perception of risk was a real concern. Most clients want to invest conservatively and don't understand inflation risk or that they are likely to live another 25 years.

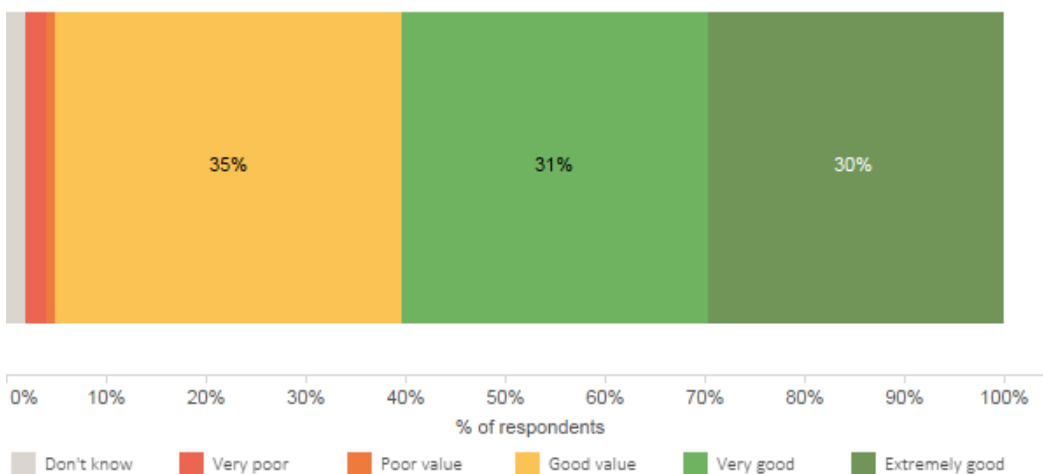
One adviser mentioned only two in 100 clients came to them with a schedule of their current spending. Almost all advisers agreed many people don't know how much NZ Superannuation provides.

What their clients said

In almost all cases, clients highly value the relationship with their adviser. Trust was important, as was clear guidance about complex issues.

What clients value from the advice conversation	Client comments
Trust and a good personal relationship	<p>“A comfortable personal relationship, professionalism, and trust is important to me”.</p> <p>“As long as you trust your adviser they are worth their weight in gold”.</p> <p>“Whilst a professional contract [our adviser] has a caring interest in me as a person and obviously shares my family values which naturally underpins our discussion and his guidance”.</p>
Clear guidance and recommendations	<p>“Gave sound advice and explained financial concepts and investment tools that I had some limited understanding about”.</p> <p>“He is very friendly and puts no pressure on us. We always feel we are making our own decisions with his helpful guidance”.</p>
Clear communications	<p>“He keeps me well informed by monthly newsletters and quarterly investment update reports. Most people want to keep information simple and easily understood, and he does”.</p> <p>“XYZ is, for me, an excellent financial adviser as she explains things in a way I can understand - and I want to understand as financial autonomy is important for me. She is not pushy and makes sure I understand. I often contact her for advice between our meetings.”</p>

How would you rate your adviser's value for money?



What good results look like

We wanted to understand what New Zealanders can expect if they see an authorised financial adviser. Are there key things that make a difference? What does 'good' look like?

What advisers told us

There was strong agreement amongst advisers that a good result is achieved if they can prevent clients from making bad decisions. They do this by getting clients to think about:

Their personal situation

- Helping clients understand whether they can afford to retire now or need to contribute more
 - One adviser pointed out they are not magicians but they can help educate their clients and provide a degree of confidence
- Providing a holistic approach to retirement.
 - One example given was how an adviser was able to help her client with estate planning (by referring her to the right person) as well as with investment and budgeting advice.

Where their money goes

- Helping clients understand the need to focus on cash flow and expenses rather than return or fees
 - *"We do annual reviews. Your expenses are the most critical thing. That's the one thing I tell them."*
- Helping clients understand their worth and how much they can or cannot afford to spend
 - *"I visually show people. Words don't work. A chart that shows the capital base, how much they're drawing and legacy target helps. They can make a decision if they can see the outcome."*
 - *"I've got lots of female clients 80 plus in rest homes. They have lots of money and they're worried it won't last and don't want to spend it".*

How their money is invested

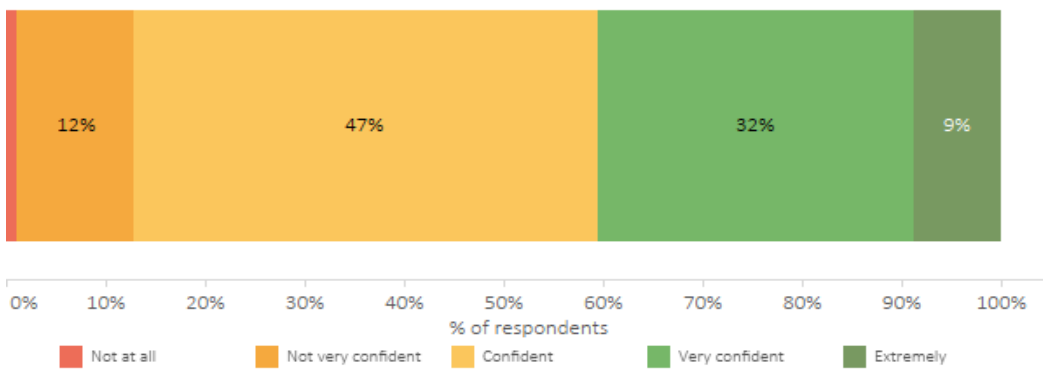
- Convincing clients to choose a broader range of investments
- Convincing clients to be less conservative – and worry less about volatility
- Dispelling the myths of retirement. The main ones being that you need to live off the interest you make on your savings and you should invest conservatively.

What clients said

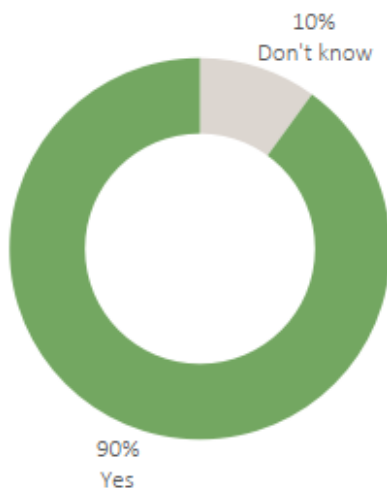
We asked clients if they felt financially prepared for their retirement and whether their adviser had helped them make better financial decisions. The results were very positive:

- 87% of respondents expressed confidence they were or will be financially prepared at the point of retirement.
- 90% of respondents felt they had made better decisions as a result of getting advice.

How confident are you that you are financially prepared for the time you will retire, or if you have already retired how confident were you that you were financially prepared at the time you retired?



Has the retirement information or advice you've received from your adviser helped you make better financial decisions?



When asked how their adviser had helped them most, and what they would have done differently if they hadn't received advice, three common themes came up:

3 ways clients found advice has helped	Client comments
<p>1. Setting clear goals and plans</p>	<p><i>"Setting goals and peace of mind that targets will most likely be achieved."</i></p> <p><i>"Initially the completion of a 12 month spending plan to determine what income was required to continue with the same level of lifestyle and then comparing that to our retirement income, to gauge the gap & options available to plug the gap."</i></p> <p><i>"With the help of our adviser we were able to see the best way forward and strike the right balance between business, retirement and personal spending and made us very secure what to do."</i></p>
<p>2. Giving confidence about future finances</p>	<p><i>"It has helped by when the time came to retire it was affordable to do so thanks to our adviser working with us on a regular ongoing basis"</i></p> <p><i>"I now have confidence that I will have sufficient money to live on comfortably when I do retire."</i></p> <p><i>"Feeling of having a large portion of my life savings under competent management and therefore able to rest assured and enjoy being retired."</i></p>
<p>3. Providing guidance to make decisions</p>	<p><i>"We would have struggled making the correct decisions with our investments. We would have withdrawn and invested by making emotional decisions whereas those decisions are made by professional people who make rational decisions. "</i></p> <p><i>"Knowing that term deposits were not going to provide the return we needed, we were always going to look seriously at alternatives, such as the plan that [our adviser] offered. The pre planning & structured nature of the plan made the decision making that much easier in terms that we were doing the right thing."</i></p> <p><i>"Sought advice after selling farm and retiring. Gained financial knowledge to make relevant decisions as needed and being aware of the consequences of each channel of action."</i></p>

Section 4: Methodology

We conducted our research in two parts: a focus group with advisers and a survey with adviser clients.

Focus group with advisers

In August 2016 we ran a two-hour focus group with 10 financial advisers recommended to us by the Institute of Financial Advisers. There were six men in the group and four women. All advisers were 'authorised' and seven were also Certified Financial Planners. There was a mix of bank and non-bank advisers.

To guide the discussion we used a semi-structured approach exploring:

- What prompts people to seek advice
 - What drives most people to seek advice about their retirement
 - Is there a typical client profile
- How the advice conversation goes
 - What are the common questions people ask as they approach retirement
 - How advisers help their clients understand their own risk profile and how they should invest their money so it lasts
- What good results look like
 - Are there any things people can do to improve their chances of getting a positive result from financial advice about retirement
 - Are there any specific tools or information that help.

Survey of adviser clients

In February 2017 we distributed an online survey to clients of the 10 advisers we had already spoken to. It included closed and open-ended questions, exploring how financial advice has helped people manage their retirement savings, particularly at the time they retire.

We worked closely with the Institute of Financial Advisers both in ensuring the questions were appropriate for their clients and to distribute the survey.

The Institute of Financial Advisers emailed the survey link to 296 of their practitioner members (mostly independent authorised financial advisers) encouraging them to forward it on to clients who were at or close to retirement age.

104 people responded to the survey.

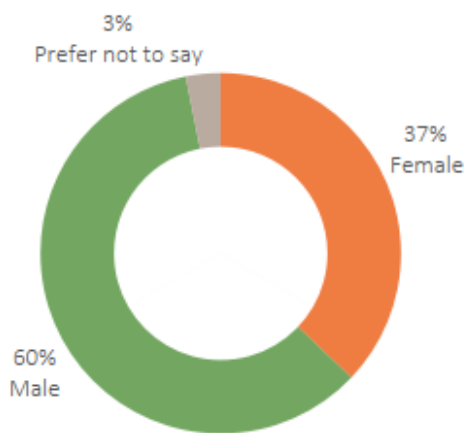
For further details of who participated in the survey, please see Appendix One.

Section 5: References

- Colmar Brunton, (2016) *Point of retirement research*. Available at:[TO BE ADDED ONCE ONLINE]
- Financial Markets Authority, (2015-2018) *Investor Capability Strategy*. Available at: <https://fma.govt.nz/consumers/building-your-investment-capability/>
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- New Zealand Society of Actuaries (Inc), (2015) *Income Streaming in Retirement: Options for New Zealand* available at: <https://actuaries.org.nz/resources-and-publications/reports/>

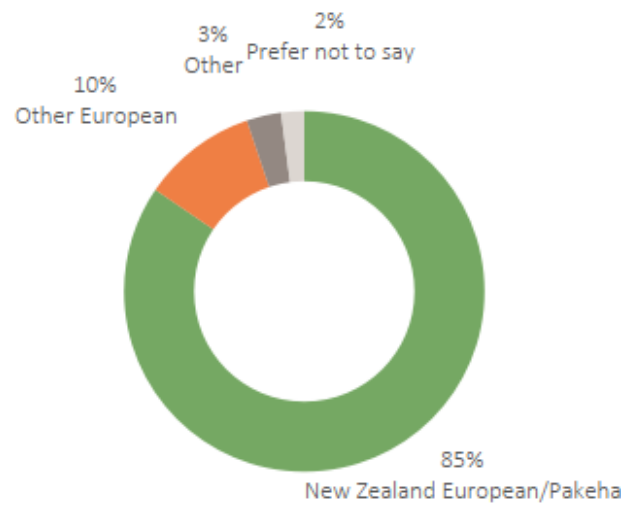
Appendix One: Online client survey, respondent demographics

6 out of 10 were male

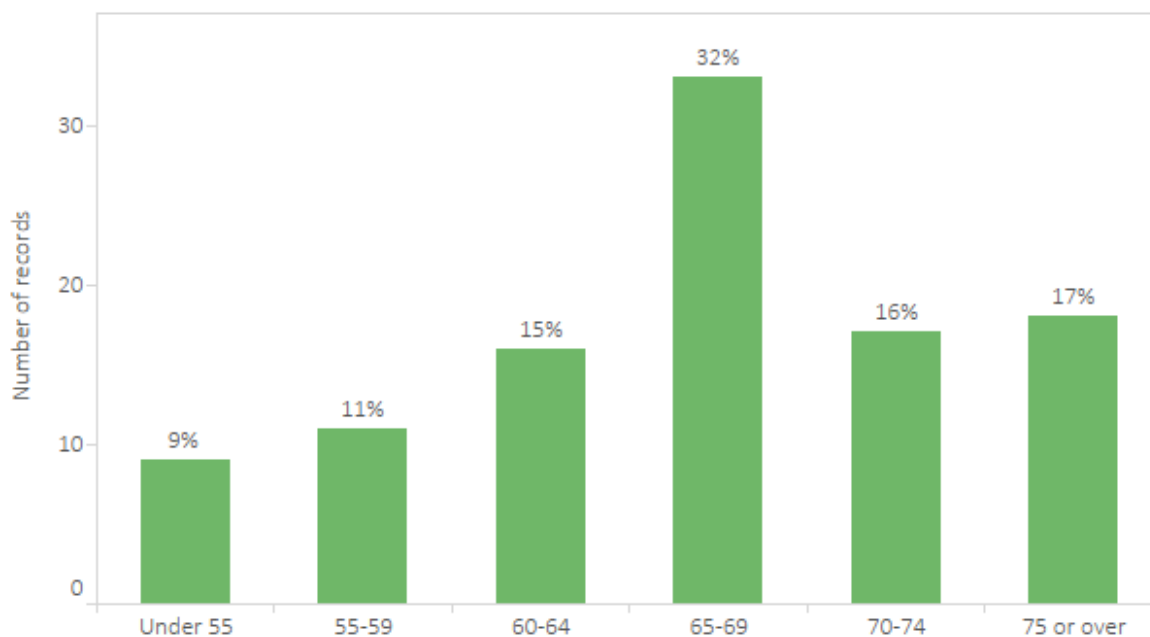


9 out of 10 were NZ European/Pakeha

Other European includes Australian, English or South African



7 out of 10 were aged over 65 years



3 out of 10 resided in Wellington

