

Influences on consumers' KiwiSaver investment fund choices

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

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Abstract

When it launched KiwiSaver in 2007, New Zealand joined a growing international trend towards second-tier personal pension schemes. The uptake of KiwiSaver has exceeded expectations, with 1.75 million people joining by June 2011, thanks to an auto-enrolment provision and financial incentives from the government and employers.

New recruits to the scheme can choose a KiwiSaver provider and an investment fund for their savings. Funds range from low-risk conservative, to balanced, to higher-risk growth. New members who decline to choose a provider or a fund are automatically allocated to conservative schemes run by government-appointed default providers. The default schemes have been popular, as have conservative funds in general. By June 2011, 57 percent of total funds under management in KiwiSaver were invested in broadly conservative (including default) funds.

Concerns have been raised that too many KiwiSavers, particularly younger members, are in conservative funds that do not match their age and risk profile. The aim of this thesis is to identify the main factors that influence KiwiSaver members when they make – or opt out of making – the fund choice decision.

A qualitative approach was adopted for this exploratory study in the belief that in-depth discussion provided by focus group interviews would tease out the factors influencing fund choice. Three focus group meetings were supplemented by a stimulus card exercise and questionnaire. Focus group transcripts were analyzed and interpreted using thematic analysis and from there a tentative theory was developed in the form of a model of potential influencing factors.

Research into retirement financial planning is often framed in a context of two competing theoretical schools: first, the neoclassical theorists who would expect KiwiSaver recruits to be rational, informed decision makers who have the cognitive ability to maximize their long-term wealth; and second, the behavioural theorists who would expect KiwiSavers to be naïve, short on cognitive ability and willpower, nervous of risks, and prone to following their friends and the scheme defaults. Previous studies have found pension scheme members were influenced by the incentives on offer, by the enrolment regime, by the scheme's default rules, and by financial education programmes, the latter two being important factors in scheme members' fund choice.

This study found the most prevalent factors influencing KiwiSaver members are their attitude to financial risk, their age and perceived time to reaching retirement, and

advice coming from family, friends and colleagues. The study also found that while people trust the media as a source of information on KiwiSaver, there is some dissatisfaction with the quality of information and performance reporting coming from their providers.

Chapter 1 INTRODUCTION

This chapter presents the thesis topic, introduces KiwiSaver and highlights the main issues that will be explored. A summary of the background to KiwiSaver's introduction is followed by the research question at the heart of this study. A justification is then provided in the form of three reasons why the topic is important to KiwiSaver providers, policy makers and scheme members. A brief precis of the research methodology is also provided, followed by an outline of the thesis, chapter by chapter.

1.1 Aim

The aim of this thesis is to shed light on why 57% of KiwiSaver funds are invested in broadly conservative asset classes. KiwiSaver members are either actively choosing or passively defaulting into these low-risk, low-return funds, whether or not they are appropriate to their age or risk profile. This study aims to identify and rank the main factors that influence members making the fund choice decision when they join the new national pension scheme. Studies overseas have shown people investing for their retirement are influenced by their age, education and wealth; by their peers, pension providers and the design of the pension scheme, including the default rules; and by their attitude to risk.

1.2 Background to the Research

The introduction of KiwiSaver in 2007 was a response to growing concerns about New Zealand's declining household savings and its fixation with housing investment (Whitehead, 2007). At the time, only about 14 percent of working New Zealanders were in an occupational retirement saving scheme (Government Actuary, 2008). New Zealanders' reluctance to save for the future was not unique, however. Governments across the developed world have been concerned their citizens are not saving enough for their retirement, especially the baby boomer generation (Glass & Kilpatrick, 1998; Warner, 1996; Warshawsky & Ameriks, 2000).

While other developed countries have been reforming their state retirement systems (OECD, 2007), indexing them at below prevailing inflation rates and raising the age of entitlement (Whiteford & Whitehouse, 2006), reforming the state pension has been off the political agenda in New Zealand. Yet with the introduction of KiwiSaver, New Zealand is in step with a worldwide trend towards second-tier, 'defined

contribution' schemes that provide a top-up to the state pension. Under KiwiSaver, contributions from the account-holding employee, the employer and the government are invested in the capital markets, with the account holder carrying the risk and reaping the rewards of the investment return.

Before the advent of KiwiSaver, people looking for an occupational superannuation scheme would either join their employer's scheme, if one was available, or they would work through an intermediary – an investment adviser or share broker – who would recommend schemes that were appropriate to their circumstances, age and risk profile. Superannuation was a wholesale business. That changed with the introduction of KiwiSaver which brought with it a new business model, shifting superannuation investing into a retail environment. When they join KiwiSaver, new recruits are asked to choose a KiwiSaver provider from a list of more than 30 banks, insurers, brokers, asset managers and trusts. They are also asked to choose an investment fund from a range offered by their chosen provider – typically on a spectrum from conservative (cash and fixed income), through balanced to growth (shares and property). This is the fund choice decision at the heart of this thesis, and in the majority of cases KiwiSaver recruits make it without any professional financial advice. New recruits who decline to choose a provider or a fund are automatically drafted into a scheme run by one of six government-appointed default providers. A significant proportion of new recruits – 37.4 percent of total members – are being automatically enrolled (Inland Revenue Department, 2010).

When KiwiSaver was introduced in 2007 the government forecast that it would take five years to recruit 25% of the eligible population to the scheme. However, by July 2011, 1.75 million New Zealanders – or 40% of the eligible population – had been recruited. This rapid uptake is largely down to the scheme's automatic enrolment feature (O'Connell, 2009b) – sometimes referred to as “soft compulsion” – under which everyone starting a new job since July 2007 has been automatically enrolled, as well as the scheme's incentives, including a \$1000 start-up contribution from the government and matching employer contributions.

The architects of KiwiSaver decided that its default schemes would be based on a conservative investment approach, with 75-85 percent of their portfolios invested in assets such as cash and fixed income products, also known as ‘income assets’. This would minimize costs for both providers and investors and reduce the risk of loss for members who had declined to actively choose a scheme. However, concerns have been raised within the industry that when KiwiSavers either choose or default into

conservative funds they could find their savings growth barely matching inflation (Ministry of Economic Development, 2008). Chapter 2 explains how KiwiSaver works, provides full background on why the scheme was introduced, discusses the emerging conservative bias in how funds are being invested and provides an introduction to the influence of the scheme's default rules.

1.3 Research Question

One principal policy aim behind KiwiSaver is to promote a shift in attitudes towards a pro-savings culture, while a second is to raise net savings for individuals and the country (Cullen, 2007). Raising net savings will in part come down to whether New Zealanders make the right decisions about their KiwiSaver investment fund choice, a responsibility that has been put on their shoulders. With more than half of current KiwiSaver funds under management invested in conservative funds, this study explores the main factors influencing the fund choice decision. The research question is: What factors are influencing the investment fund choices of New Zealanders joining KiwiSaver?

1.4 Justification for the Research

There are three reasons why this research question is important. The first is that policy makers and finance industry providers will be able to continue to improve the scheme if they better understand how people are responding to the investment fund options they are given within the KiwiSaver scheme. KiwiSaver members could be responding as rational, well informed decision makers who are choosing investment funds that maximize their long-term wealth, as the neoclassical economics and marketing theorists would expect (Engel, Kollat, & Blackwell, 1968; Howard & Sheth, 1969; Markowitz, 1952; Morgenstern & Von Neumann, 1947; Nicosia, 1966; Savage, 1954). Or they could be responding in ways that behavioural economics and finance theorists would anticipate as rather naive, short on intellect and willpower, terrified of risk, and prone to following their friends, the defaults or the path of least resistance (Benartzi & Thaler, 2007; Foxall, 1993; Kahneman & Tversky, 1973; Mitchell & Utkus, 2004; Mowen, 1988; Mullainathan & Thaler, 2000; Simon, 1955). These two perspectives are explored in the literature review, Chapter 3, along with a range of decision models from the services marketing and consumer behaviour literature that seek to explain the factors influencing financial decision making.

The second reason the research question is important is because concerns are being raised among KiwiSaver providers that too many scheme members are locked into conservative funds (Gaynor, 2010; Ministry of Economic Development, 2008). At the end of June, 2011, 57 percent of the funds in KiwiSaver were invested in low-risk default, conservative, cash and fixed interest funds (Morningstar, 2011). Conservative funds may be ideal for older members of the scheme, but asset class performance data (Goetzmann & Ibbotson, 2006; Siegel, 2007) suggests a conservative investment strategy may be inappropriate for younger members of the scheme. At the end of June 2011, 32 percent (567,025) of scheme members were aged between 18 and 34, and on the face of it they appear to be stuck in a ‘slow lane’ investment strategy. To what extent are the default rules determining members’ investment strategy? Providers’ concerns are discussed in Chapter 2.

The third reason the research question is significant relates to New Zealanders’ financial literacy. Implicit in giving KiwiSaver members the responsibility of choosing an appropriate investment fund is an assumption that their financial acumen is up to the task. Several studies suggest it is not (Colmar Brunton, 2009; O’Connell, 2009). One survey shows that 40 percent of members do not even know what kind of fund they are invested in (Inland Revenue Department, 2010).

1.5 Methodology

Most of the research on retirement financial planning has been conducted in the US, and while a mix of research methods has been used, surveys have been the predominant method, typically conducted within large US corporations and universities (Choi, Laibson, Madrian, & Metrick, 2002; Benartzi & Thaler, 2007; Madrian & Shea, 2001). Other US studies have used data from national surveys such as the Retirement Confidence Survey (Joo & Grable, 2005) and the national Survey of Consumer Finances (Grable & Lytton, 1997). In their Australian studies Rickwood & White (2009) used both surveys and focus groups to explore consumer decision making processes in the context of retirement.

A qualitative approach was adopted for this exploratory study in the belief that the in-depth discussion provided by focus group interviews would tease out the factors and attitudes that are influencing people making the fund choice decision. The focus group interviews were supplemented by a stimulus card exercise and a brief questionnaire. Qualitative methods can be appropriate when the research question is

open-ended (the research question for this study is an open one), and when the aim is to identify potential variables that might later be tested quantitatively (Hoepfl, 1997). The literature review resulted in a shortlist of potential factors that could be influencing KiwiSaver members making a fund choice, and these were incorporated into a preliminary model to explain influencing factors. This preliminary model was not tested in a deductive way; it was simply a starting point to inform the focus group planning, what Cresswell (2003) calls a theoretical lens or perspective.

Having been informed and guided by the literature, the research switched from a deductive to an inductive process and the focus groups were approached in an open-minded manner (Cresswell, 2003). The aim of the field work was to see the KiwiSaver fund choice issue through the eyes of scheme members, and to understand how they perceived their influences. How did they make sense of and articulate the fund choice decision? The focus groups were followed by the interpretive process of thematic analysis and from there a tentative theory was developed in the form of a model of influencing factors.

1.6 Thesis outline

This thesis comprises seven chapters. As well as summarizing the aim, scope and methodology of the study, Chapter 1 has introduced the KiwiSaver scheme and highlighted the issues that will be explored. Chapter 2 provides more detail on the workings of KiwiSaver and the context in which it was introduced, including New Zealand's savings record and trends in pension system reform worldwide. It examines the data on how members are investing their funds, summarizes data on asset class performance and reports concerns expressed by the finance industry on two issues – the conservative bias in KiwiSaver investing and the financial literacy of New Zealanders.

Chapter 3 reviews a range of literature from economics, finance, marketing and consumer behaviour that sheds light on the process of financial services decision making. This includes a review of information processing theories, as well as consumer and investor decision models. The review also looks at behavioural studies into financial decision making. Chapter 4 covers the methodology and methods, and explains how the thematic analysis process was conducted.

The findings of the focus group thematic analysis, stimulus card exercise and the questionnaire are reported in Chapter 5. The data from these three sources is triangulated into a model explaining the KiwiSaver fund choice decision and answering the research question. This model is discussed in Chapter 6, along with an analysis of

the findings and the implications for providers, scheme members and policy makers. The chapter also discusses KiwiSaver's default rules and their consequences, with some suggestions for changes when the default provider arrangements are next reviewed. Chapter 7 summarizes the main findings, considers what they mean for KiwiSaver stakeholders, and makes some suggestions for further research.

Chapter 2 **KIWISAVER FUND CHOICE**

This chapter begins with some background on how the introduction of KiwiSaver was a response to New Zealand's poor savings record and the decline in its private sector superannuation schemes. A brief summary of how the scheme works is then provided, with the emphasis on the investment fund options offered by KiwiSaver providers. This is followed by a summary of trends in pension reform across the OECD. The chapter then turns to three emerging concerns about KiwiSaver which all relate to the research question at the heart of this thesis: first, a high proportion of KiwiSavers accounts are invested in conservative funds, which modern portfolio theory (Markowitz, 1952) suggests are not appropriate for long-term investors; second, the scheme's enrolment and default rules are encouraging this conservative investment bias; and third, KiwiSavers are responsible for investing their retirement savings, yet many of them are weak on financial literacy.

2.1 Why KiwiSaver was Introduced

The introduction of KiwiSaver was a response to growing concerns within the Treasury, the Reserve Bank, and among politicians and policy makers about New Zealand's worsening household savings record. Since 2005, the Treasury, the government's main adviser on economic and financial matters, had been advocating for a work-based savings initiative and better financial education. In a 2007 policy paper, John Whitehead, Secretary to the Treasury, gave several reasons why a pro-savings initiative by the government was justified, including:

Our household saving appears on some measures to be very low and undiversified. Some people aren't putting enough money away for retirement, and are instead putting all their nest-eggs into the single basket of housing that can drop in value as well as increase.

(Whitehead, 2007, p. 13)

While New Zealanders' confidence in investing in the finance sector had never been particularly strong, it was undermined in 2008 and 2009 by the collapse of multiple finance companies and the onset of a global recession. A financial confidence survey conducted by Rabobank in mid-2009 showed that 60 percent of New Zealanders

were less confident in investing in the financial markets than they had been at the start of the year (Rabobank, 2009). Responding to the Rabobank survey, Retirement Commissioner Diana Crossman warned that people had to be able to trust the financial sector so they could confidently save for their retirement. “High profile investment failures have raised questions in New Zealanders’ minds about the quality of advice they are getting from financial advisers and how trustworthy it is” (Crossman, 2009). Another study measuring New Zealanders’ sentiments about their long-term savings concluded that the economic downturn had “heightened their uncertainty and left many feeling unprepared for retirement” (Mercer, 2010).

Prior to the arrival of KiwiSaver, retirement provision divided into three main sources: New Zealand Superannuation (the state pension), occupational superannuation and private saving outside of superannuation schemes. The state pension has been the single biggest source of income for New Zealanders in retirement, providing 46.4 percent of total household wealth for married households and 58.4 percent for single households (Scobie, Gibson, & Le, 2004). Membership of occupational superannuation schemes had been declining for many years before KiwiSaver was introduced, particularly in the private sector. The number of schemes on offer had also been in decline (Table 2.1). Between 1993 and 2003 the number of employees covered by a private employer superannuation plan fell from 18.5 percent to 11.4 percent of the workforce (St John, 2005, p. 5).

An Inland Revenue Department report (2009) identified several factors contributing to the decline of the superannuation sector: membership of these schemes was voluntary; they offered no effective incentives to encourage saving for retirement; and both superannuation funds and managed funds “operated at a tax disadvantage to direct investments up until 30 June 2007” (2009, p. 38). Other factors limiting demand for superannuation products included a consumer preference for other savings options such as unit trusts, bank term deposits, direct share investments and property.

The declining membership of superannuation schemes reflected a growing reluctance by New Zealanders to save and invest in financial assets, as opposed to housing assets. In 1980, New Zealanders’ household assets were almost evenly split

Table 2.1*Superannuation Schemes and Membership (Inland Revenue Department, 2009, p. 38)*

Superannuation							
industry	1990	1998	2003	2004	2005	2006	2007
Schemes	2,863	1,178	675	625	590	576	560
Members	547,353	735,952	662,016	644,443	638,123	602,744	582,035

between housing and financial assets. However, by 2004, financial assets equated to 175 percent of disposable income and housing assets were worth 435 percent of disposable income (Goh, 2005, p. 17). By 2005, housing assets accounted for 70 percent of New Zealand households' total assets. New Zealand's household savings rate had for decades been "consistently one of the lowest among OECD countries" (Goh, 2005, p. 17).

When he introduced KiwiSaver, then Finance Minister Michael Cullen said that the state pension needed to be topped up by a personal account retirement savings scheme because New Zealand's household savings had slipped into negative territory and was continuing to decline (Cullen, 2007). While Cullen's Labour-led coalition government had no plans to change the state pension, he was signaling that New Zealanders would in future be expected to take greater personal responsibility for funding their own retirement.

2.2 How KiwiSaver Works

New Zealand Superannuation is a first-tier scheme or universal benefit which all citizens are eligible for when they reach retirement age. In contrast, KiwiSaver is a second-tier, work-based retirement savings scheme in which members have personal pension accounts. Members contribute a regular percentage of their gross pay into their accounts, typically 2, 4 or 8 percent. Their employers contribute too. Employer contributions were initially set at a minimum of 4 percent of their employees' pay, however under the National-led coalition government elected in November 2008, employer contributions were cut to 2 percent in 2009, and will rise to 3 percent in April 2013. KiwiSaver accounts are each boosted by an initial \$1000 'kick-start' contribution from the government, followed by an annual tax credit which started at \$1042 a year under Labour but has been cut to \$521 a year by National, effective from 2012. As

people change jobs, their KiwiSaver accounts go with them, and members get access to their accumulated savings and investment returns when they become eligible for New Zealand Superannuation at aged 65. The Retirement Policy & Research Centre at the University of Auckland looked at the likely future value of the scheme's tax-funded incentives and found they would vary by income, age and employer contribution (St John, Littlewood, & Meehan, 2008).

KiwiSaver is also known as a 'defined contribution' scheme under which the funds in an employee's account are invested in the capital markets, the account holder carrying the risk and reaping the rewards of the investment return. Importantly, members' funds are not guaranteed, either by the government or by their KiwiSaver provider. Defined contribution plans have become the dominant retirement savings vehicle across the developed world, replacing 'defined benefit' plans which are largely funded by employers (Benartzi & Thaler, 2002). Under a defined benefit plan, the value of a pension is based on the employee's length of service, their earnings record and their final salary; the employer guarantees the pension and carries the associated investment risks. In contrast, there is no guaranteed pension under a defined contribution plan, its final value being the sum of the accumulated contributions plus the returns that those funds make over time. The relative merits of defined benefit and defined contribution plans have been explored in a number of studies (Bodie, Marcus, & Merton, 1988; McCarthy, 2003).

While membership of KiwiSaver is voluntary, since July 2007 all employees starting a new job have been automatically enrolled into the scheme by the Inland Revenue Department, and this membership by default aspect of KiwiSaver has contributed to its rapid take-up (O'Connell, 2009b, p. 133). Membership had grown to 1.75 million by June 2011. KiwiSaver has been described as the world's first national auto-enrolment savings scheme (O'Connell, 2009b, p. 130). Automatic enrolment distinguishes KiwiSaver from all previous work-based savings plans and while there are auto-enrolment pensions schemes overseas, they are not national schemes. Australia has a national, second-tier superannuation scheme but enrolment into it is compulsory as are employer contributions.

Funds and risk levels

There are three ways to join KiwiSaver: through a KiwiSaver provider, through an employer, or via automatic enrolment when an individual starts a new job. In June 2011, a new recruit could choose from 54 schemes offered by 31 providers, including the major banks, insurance companies and investment managers, as well as boutique or specialist managers (Inland Revenue Department, 2011). Most new members aged over 18 are automatically enrolled through their employer and are recruited to their employer's chosen scheme, or in cases where the employer has no preferred scheme, they are allocated to one of the government's six default schemes (Table 2.2). At any stage members can switch to another provider, or they can opt out of KiwiSaver. At the end of June 2011, the total funds under management in KiwiSaver was \$8.53 billion, 45 percent of which was controlled by two dominant players, OnePath and ASB (Morningstar, 2011).

Table 2.2

Total Funds Invested in the Six Default Schemes (Morningstar, 2011)

KiwiSaver default schemes	Funds invested, June 2011
ASB Conservative	\$932.5m
AXA Income Plus	\$453.0m
Mercer Conservative	\$442.8m
OnePath Conservative	\$421.9m
AMP Default Fund	\$354.6m
Tower Cash Enhanced	\$324.7m

Note. These providers all offer non-default schemes as well.

(<http://www.morningstar.co.nz>)

KiwiSaver providers offer a range of investment funds within their schemes – usually described as conservative, balanced and growth – that are aimed at meeting clients' preferences and risk tolerance. Conservative funds are typically invested at least 80 percent in cash and fixed interest securities such as government and corporate bonds; balanced funds are approximately 40-60 percent in cash and fixed interest investments, with the other 40-60 percent in shares and property; and growth funds are typically invested 80 percent-plus in shares and property. The most popular fund options are at

the conservative end of the spectrum (Table 2.4). In its 2010 annual report, the Inland Revenue Department said that 82 percent of recruits who had been automatically enrolled had been allocated to default schemes, which are all conservative schemes, and 59 percent of those recruited by their employers had been allocated to their employers' nominated schemes, which are invariably conservative (Inland Revenue Department, 2010). By mid-2010, 37.4 percent of total members had been automatically enrolled (Inland Revenue Department, 2010).

The funds offered by default provider AXA New Zealand and non-default provider Gareth Morgan Investments within their KiwiSaver schemes are typical of the asset allocation options available from most KiwiSaver providers (Table 2.3).

Table 2.3

*Asset Allocation Options Offered by Two KiwiSaver Providers
(AXA New Zealand, 2010; Gareth Morgan Investments, 2011)*

AXA KiwiSaver options

Income Plus (default)	78% cash, fixed interest	22% shares, property
Conservative	70% cash, fixed interest	30% shares, property
Cash	100% cash	
Balanced	35% cash, fixed interest	65% shares, property
Growth	9% cash, fixed interest	91% shares, property

Gareth Morgan KiwiSaver options

Conservative	80% cash, fixed interest	20% shares, property
Balanced	50% cash, fixed interest	50% shares, property
Growth		100% shares, property

(<http://www.axa.co.nz/en/Retirement/Your-KiwiSaver/>;
<http://www.gmi.co.nz/KiwiSaver/>)

Providers' websites offer broad advice to those joining KiwiSaver on the trade-offs between low risk and high risk funds. The advice is that growth funds are likely to produce higher returns over the longer term and are suited to savers who can tolerate volatility (variance in year-on-year performance) and who have more than 10 years before they retire; conservative funds will suit savers with a shorter investment horizon,

for example under five years, and those who are less comfortable with volatility; and balanced funds are for those whose risk tolerance lies between these extremes. ASB's KiwiSaver web page, for example, gives this advice:

Generally, if the short-term investment return is fairly predictable, the investment is said to be of lower risk. If the short-term return has a greater potential to move up and down, the investment is said to be of higher risk. Investors may choose higher risk investments because historically the long-term returns on higher risk managed fund investments have been greater than lower risk investments.

(<http://www.asb.co.nz/kiwisaver/>)

The architects of KiwiSaver decided that its default schemes would be based on a conservative investment approach, a decision taken to keep the costs down for both providers and investors, and also to reduce the risk of loss for members who had declined to actively choose a scheme. While picking a winning provider may seem something of a lottery to people joining KiwiSaver, picking a fund appropriate to their age, financial circumstances and risk tolerance could be the most important decision. "How you invest is the most important decision you will make around KiwiSaver – considerably more important than which provider to choose," says personal finance author Mary Holm (Holm, 2009a p. 147).

2.3 Pension reform across the OECD

The introduction of a second-tier scheme in New Zealand reflects trends in pension reform across the developed world. For the last 20 years, OECD governments have been reforming their first-tier state pensions and introducing second-tier schemes. Faced with ageing populations, governments have been searching for ways to make their state-funded pension systems more sustainable (Disney, 1999; Hedesstrom, Svedsater, & Garling, 2007). By international standards, New Zealand Superannuation is generous (currently \$310 for singles and \$239 for a married person): at around 65 percent of the net average weekly wage, it compares with an OECD average for first-tier pensions of 29 percent of average earnings (Whiteford & Whitehouse, 2006). Second-tier pension provision across the OECD includes a raft of insurance and savings schemes, in a mix of public and private provision, some of them compulsory, others voluntary.

In common with all OECD countries, New Zealand has a rapidly-expanding population of pensioners. In 2004, 12 percent of New Zealand's population were 65 or over and the median age was 35.2; by 2051 the proportion of the population aged 65 and over is forecast to more than double to 26 percent, and the median age projected to rise to 45.9 (Department of Labour, 2007). An ageing population translates into proportionally fewer people in the workforce paying to support the growing numbers in retirement. According to Statistics New Zealand (2010), in 2000 there were 18 people in the 65+ retirement age bracket for every 100 people in the 15-64 working age bracket. By 2050 the country is forecast to have 38 people at retirement age for every 100 working age New Zealanders.

In response to these trends, 30 OECD countries have made changes to their state pension systems since the mid-1990s, 16 of them announcing major reforms that significantly affect future benefits (OECD, 2007). In 2005, public pensions were costing OECD countries an average of 7.2 percent of their GDP, with some countries – Austria, France, Germany, Greece, Italy and Switzerland – spending in excess of 10 percent of their national income on retirement funding (Whitehouse, 2009). A common myth is that state pensions are funded through member contributions over a working lifetime. However, the reality is that almost all state pension schemes are paid for by governments out of current income, hence they are known as pay-as-you-go (PAYG) pensions (Barr, 2006). To help fund the cost of New Zealand's state pension, in 2003 the Labour government established a dedicated investment fund, known as the New Zealand Superannuation Fund, which had grown to \$19.2 billion by May 2011 (New Zealand Superannuation Fund, 2011).

Reforms introduced by OECD governments include: increasing the eligibility age; reducing the real value of pensions by, for instance, indexing them at below prevailing inflation rates; penalizing those seeking early retirement; and introducing mandatory or voluntary defined contribution schemes (Whiteford & Whitehouse, 2006). Austria, France, Germany, Italy, Sweden and Finland have announced cut-backs in retirement pension benefits. While the pension age is typically 65 across the OECD, the age of entitlement is being raised to at least 67 in Australia, Denmark, Germany, Iceland, Norway, the UK and the US (OECD, 2007).

Another worldwide trend in retirement funding since the early 1990s has been the move from direct benefit to direct contribution work-based plans. In the US, for example, total funds invested in direct contribution plans rose threefold from US\$1.4 trillion in 1994 to US\$4.5 trillion in 2007. In the same period, assets invested in direct

benefit plans increased more slowly, from US\$1.3 trillion to \$2.4 trillion (Brown & Harlow, 2010). A similar shift to direct contribution pension schemes has happened in Australia, with most Australian direct benefit pension funds closing to new members over the last 20 years (Bateman, 2009).

The growth of defined contribution pension schemes has been based on either compulsory membership or auto-enrolment. Australia is one of seven OECD countries that have brought in mandatory defined contribution-type pensions plans, the others being Denmark, Hungary, Mexico, Poland, the Slovak Republic and Sweden. Under Australia's Superannuation Guarantee scheme introduced in 1992, employers must contribute 9 percent of employee earnings into accounts in each employee's name. Employees can top up their accounts with voluntary contributions and, since 2005, they have been able to choose which pension fund and what kind of portfolio their contributions are invested in. More than 90 percent of the Australian workforce is now covered by a workplace pension plan, compared with 51 percent of workers in 1988 (Fear & Pace, 2009).

Another trend in pension fund investing has been the introduction of socially responsible investing (SRI), or ethical investment funds, particularly in the US. The popularity of these funds has grown rapidly in the last decade, and particularly since the 2008 financial crisis. Total SRI funds under management worldwide amount to an estimated \$US22 trillion (United Nations, 2010). Pension funds are coming under pressure to include in their fiduciary responsibility criteria beyond the maximizing of profits; they are adding criteria based on socially responsible investing such as environmental protection, sustainability and community welfare (Sethi, 2005).

2.4 Concerns about KiwiSaver's design

While KiwiSaver has exceeded expectations in terms of its uptake, there are nevertheless concerns emerging about aspects of the pension scheme's design. First, a high proportion of KiwiSavers, including many younger members, are in conservative investment funds which modern portfolio theory (Markowitz, 1952) suggests are not appropriate for long-term investors; second, the scheme's rules on enrolment and its default arrangements are encouraging this conservative investment bias; and third, consumers are now responsible for investment decisions on their retirement savings, despite many of them being weak on financial literacy. This section summarizes these

three concerns, which all relate to the thesis research question: What factors are influencing the investment fund choices of New Zealanders joining KiwiSaver?

Conservative bias: low risk, low return

A clear picture of the conservative bias in where KiwiSaver funds are invested is provided in Table 2.4. A total of 57 percent of the funds invested at the end of June, 2011 are in conservative (including default) or conservative/moderate schemes (Morningstar, 2011). This compares with 18.5 percent in balanced funds, 16.6 percent in growth, and 8 percent in aggressive.

Table 2.4

Total Funds Broken Into Asset Classes (Morningstar, 2011)

Asset class	Total funds, June 2011	% of total funds
Conservative/default	\$3,452.3m	43.5%
Conservative/moderate	\$1,065.3m	13.4%
Balanced	\$1,470.8m	18.5%
Growth	\$1,320.2m	16.6%
Aggressive	\$637.0m	8%

This conservative bias has been apparent since KiwiSaver was launched. Most of the \$800 million dispensed into Kiwisaver in its first year was directed into low-risk funds (Unlimited, 2008). Reporting on the status of three default providers, *Unlimited* magazine said that 65 percent of KiwiSaver investors with ASB, one of the biggest providers with around 130,000 members, had made no active choice and had been placed in its low-risk conservative fund; 75 percent of KiwiSavers with Tower had opted for a low-risk fund; and around half of AMP's 85,000 members were put into low-risk funds after they had not expressed a preference (Unlimited, 2008).

Modern portfolio theory and empirical evidence from capital markets would suggest that an investment strategy heavy on cash and fixed interest investments does not amount to a prudent strategy for long-term investors. While conservative funds may be suitable for older KiwiSavers, they are inappropriate for people with a medium-to-long term horizon before they reach retirement age. Of the 1.75 million people registered as KiwiSaver members at the end of June 2011, 32 percent of them (567,025)

were aged between 18 and 34. On the face of it, half a million younger New Zealanders appear to be stuck in a 'slow lane' investment strategy.

In a paper given at a finance conference in Auckland in 2008, economist and former chief executive of BT Funds Management Craig Stobo argued that it was uneconomic for KiwiSaver providers to offer individual advice to clients on which fund best suited their circumstances (Stobo, 2008). With most recruits signing up for the default schemes which had 75-85 percent of their funds in cash and bonds, KiwiSaver did not look like a wealth creation strategy.

It is possible that they have had no advice, and have made an irrational inter-temporal choice in an environment of incomplete information and an aversion to regret. Yet this is a long-term superannuation scheme which should encourage members who need to build their wealth to invest in growth assets such as shares.

(Stobo, 2008)

Stobo illustrated his point with an example: if these default conservative funds generate nominal returns of 7 percent a year, less provider fees of 0.5 percent, less tax at 30 percent, less inflation at 3 percent, then the real return would be 1.55 percent. He saw two choices for the future: either pushing KiwiSaver members into mandatory investment categories based on their age; or New Zealanders had to be given financial education on the benefits of portfolio diversification and the power of compounding.

The head of default provider OnePath's KiwiSaver business, David Boyle, was quoted in the *New Zealand Herald* encouraging younger investors to avoid conservative funds. "Over the average duration of lifetime savings of 20 years, conservative funds have not historically delivered the best returns available. Ultimately, conservative funds may not provide the level of savings people would require to live well in retirement" (Holm, 2009b). In a book on Kiwisaver, Holm (2009a) warns people joining the scheme that choosing a fund with lower returns is likely to make a huge difference over the longer term. She compares an employee on \$50,000 opting for a safe fund returning 2 percent a year (result is \$496,000 after 40 years) with choosing a higher risk fund returning 5 percent a year (result is nearly double the return at \$920,00). Holm argues that conservative funds are suited to those close to retirement, while those likely to be in the scheme for more than 10 years should opt for riskier funds with higher returns. Research in the US by Ellement & Lucas (2007) suggests that retirement plans invested

in conservative/low risk assets would not even preserve their capital value for their owners' retirement, and they argue that even so-called balanced funds are "too conservative for young investors" (2007, p. 37).

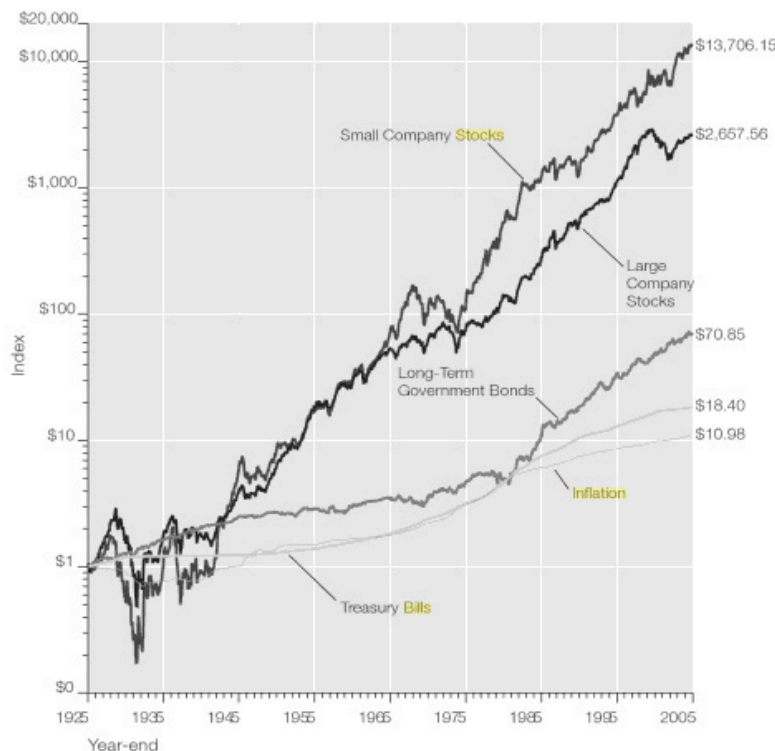
Performance comparisons between shares and various fixed income assets over longer time periods have consistently shown that shares provide superior returns. In the 204 years to 2006, US stocks yielded an average of between 6.6 percent and 7 percent a year after inflation across three major time periods: 1802-1871, 1871-1926, 1926-2006 (Siegel, 2007). There have been periods of volatility: the 1982-1999 bull market gave stock investors an average return of 13.6 percent a year after inflation; while returns in the 1966-1981 period averaged -0.4 percent. However, since 1926 the average post-inflation return on US stocks has been 6.8 percent (Siegel, 2007).

Another long-term analysis of the returns generated by equity and debt markets between 1926 and 2005 confirmed not only that shares had hugely outperformed fixed assets, but that the performance of small company shares was positively stellar (Goetzmann & Ibbotson, 2006). As Figure 2.1 shows, a dollar invested in large company shares in December 1926 would have grown to \$2,657 by December 2005. Over the same 80-year period, a dollar invested in small company shares would have grown to \$13,706. In comparison, the same dollar invested Treasury bills in 1926 would have grown to \$18, while a similar investment in Government bonds would have been worth \$70 in 2005. These comparisons are sometimes expressed as an 'equity risk premium', with the premium being the extra return you should expect from investing in shares because in the short run their values can be volatile.

In contrast to the exhaustive research on the performance of asset classes across capital markets, the academic literature is just starting to address investment strategies for optimizing individual retirement accounts. Among the complicating factors for retirement accounts, as opposed to lump-sum investing, is that monthly contributions and returns are usually unpredictable. Malliaris & Malliaris (2008) conducted an extensive review of research on the risk and returns from different asset classes with the

Figure 2.1

Long-Term Performance of US Capital Markets (Goetzmann & Ibbotson, 2006)



aim of identifying some broad principles or guidelines for long-run retirement savings investing. Among their guiding principles is:

Investing in equities (shares) remains the favourite vehicle for highest returns. For horizons of 20–40 years, the overwhelming majority of generations accumulate the largest sums by investing in small company stocks vs large company stocks vs. bonds or bills. This superior performance of stocks is also associated with relatively higher risk.

(Malliaris & Malliaris, 2008, p. 403)

Approaches such as modern portfolio theory (Markowitz, 1952) have been developed to guide investment decision making. Modern portfolio theory looks at all investment options and asset classes in terms of both their likely returns and their likely volatility or variance, giving rise to the term ‘mean-variance’ investing. As a framework it helps rational investors determine the right balance for them between risk and return, and it highlights the need for portfolios to be diversified.

Default rules and auto-enrolment

When the government established KiwiSaver it specified that the default funds should be 75-85 percent invested in conservative assets such as cash and fixed income products, also known as income assets. The rules applying to the default funds would be important because a significant proportion of KiwiSaver members were going to be enrolled into – and would remain in – a default fund. By June 2010, 39 percent of the scheme's total membership had been allocated to default schemes, either by their employer or by the Inland Revenue Department (Inland Revenue Department, 2010). While almost all of the members who had joined KiwiSaver via a provider had made an active choice of investment fund, less than one-fifth of automatic enrollees had actively chosen a fund. IRD says that 82 percent of those who were automatically enrolled when they started a new job, and 59 percent of those who opted in via their employer were invested in conservative default funds (Inland Revenue Department, 2010, p. 15).

Research has shown that the default rules designed into a retirement saving scheme will have a strong influence on savers' behaviour, in terms of participation rates, contribution levels and choice of investment fund or asset portfolio option (Choi et al., 2002; Ellement & Lucas, 2007; Gallery, Gallery, & Brown, 2004; Madrian & Shea, 2001). The rapid uptake of KiwiSaver, for example, can in part be attributed to its default auto-enrolment feature. The literature is less certain on whether schemes like KiwiSaver are likely to result in an increase in net private savings or national wealth, which is one of the scheme's objectives (Goh, 2005; Thaler & Benartzi, 2004). Making a saving option more attractive by offering an incentive such as a small government contribution can encourage people to simply transfer funds from other accounts, with no net increase in savings. US research has shown mixed results on whether retirement saving schemes offering subsidies and tax breaks actually result in higher national savings (Beshears, Choi, Laibson, & Madrian, 2009). It will be important to determine whether the rapid take-up of KiwiSaver is relying more heavily on the power of the default position to influence behaviour than on incentives. "KiwiSaver will be the first large-scale attempt to test whether a saving program that relies more on a change in the default rule than on financial incentives can be more effective in increasing retirement saving" (Toder & Khitatrakun, 2006).

The power of the default rules in retirement savings decisions was confirmed in an extensive literature review (Beshears et al., 2009) which reported that participation rates in US 401(k) pension schemes increased substantially when participation was the default. The policy makers designing an incoming UK personal account scheme

anticipate that employee inertia – ie accepting the default rules – will keep participation rates high (John & Levine, 2009). A fuller discussion of the power of the default rules in retirement saving schemes is provided in the literature review, Chapter 3.

While KiwiSaver has a one-size-fits-all conservative default scheme design, other countries that run broadly similar direct contribution pension schemes do not necessarily follow suit with their default fund rules. Several countries base their default funds on the age of individual scheme members, offering different asset mixes depending on the investor's time horizon. Jurisdictions basing their default fund rules on age-based allocation strategies include Chile, Mexico, Peru, Estonia, Hungary, Latvia and the Slovak Republic (Rajkumar & Dorfman, 2010). Table 2.5 provides the asset mix rules applying to the direct contribution pension scheme running in Chile. It remains an option to change KiwiSaver's design so that default funds would have a different mix of assets based on the life stage of individual members.

Table 2.5

Limits on Equity Investment in Chile's Individual Capitalization Pension System (Rajkumar & Dorfman, 2010)

Gender/Age	Minimum	Maximum
Men, women under 35	25%	60%
Men 36-55, women 36-50	15%	40%
Men 56+, women 51+	5%	20%

A Ministry of Economic Development-sponsored report on the impact of KiwiSaver on the superannuation industry – *KiwiSaver: Evaluation of Supply Side Impacts* – suggests that apathy, confidence in the government's default option, or poor financial literacy could all be factors behind the high proportion of KiwiSavers either passively defaulting into or actively choosing conservative funds.

They may be conservative or uncertain in their decision making and elect for a government-nominated scheme on this basis. The data to date indicates that many employees leave the choice of provider to their employer, who tends to nominate a conservative investment approach.

(Ministry of Economic Development, 2008, p. 60)

Similar conclusions about most KiwiSaver members being locked into conservative funds were reached by another study, the *Capital Markets Matter* report, produced by the Capital Market Development Taskforce (CMDT) which was established in 2008 following the financial markets crisis. Its 2009 report to the National government acknowledged that KiwiSaver's conservative default setting has two positive aspects: it helps minimize the risk of loss for members who have not actively selected a fund, and it helps to keep costs down for providers. The CMDT report argued, however, that these conservative funds were inappropriate for investors with a longer investment horizon ahead of them (Ministry of Economic Development, 2009, p. 46).

The CMDT report said that high growth investment strategies tended to produce higher returns for longer-term investors, and younger investors were better able to cope with volatility, including negative returns in some years. Yet KiwiSaver members aged 18-24 were *more likely* to have been auto-enrolled into a conservative default scheme than any other age group. “This is concerning because it indicates that many KiwiSaver members are missing out on higher returns, which threatens their ability to save enough for retirement” (Ministry of Economic Development, 2009, p. 46). The taskforce’s view aligns with investment theory on the trade-off between risk and return: investing in riskier asset classes is likely to produce more volatile year-on-year returns, but over the longer run there is greater potential for higher returns.

Providers interviewed in the MED's *Supply Side Impacts* study were also concerned about the high proportion of KiwiSavers defaulting into conservative funds. Providers felt that enrolling new recruits into conservative funds would potentially reduce the returns from KiwiSaver over time.

In particular, those default providers who have traditionally sold business through advisers, who take the time to sit with a client and determine an appropriate risk profile, wondered whether KiwiSavers will receive the long term return they should if the default funds are chosen because of their conservative investment approach without consideration of the risk profile of individual members with different investment time horizons.

(Ministry of Economic Development, 2008, p. 51)

Providers expressed concern that many KiwiSavers were making investment decisions without seeking any professional advice. “As a result they are ending up in the

conservative default funds that do not match their risk profile. Providers suggested that many of these people should be in other funds” (Ministry of Economic Development, 2008, p. viii).

Financial literacy and investment decision making

With the responsibility for the security and growth of direct contribution schemes resting on the shoulders of employees, concerns have been raised over whether ordinary citizens have the necessary financial knowledge and acumen to carry that responsibility. As one US study put it:

Perhaps the most strident criticisms focus on the risk surrounding DC plan benefits; specifically, the uncertainty in rates of return. Employees may be uninformed about their investment choices, lack the confidence to manage their own retirement money, or suffer from poor stock market and bond returns.

(Samwick & Skinner, 1998)

The CMDT survey concluded that too much was expected of KiwiSaver investors: “It is difficult for relatively unsophisticated investors to find and understand the key information they need, let alone compare products in order to make a discerning choice” (Ministry of Economic Development, 2009, p. 11). The taskforce said that KiwiSavers often worked with poor-quality information provided by the market. The difficulty of comparing KiwiSaver schemes for those not gifted in accountancy is in part because of the varying ways that providers report their returns: some report before-tax, before-fees returns; some before-tax and after fees; while other providers will quote performance after both tax and fees. Michael Littlewood, the co-director of the Retirement Policy & Research Centre at the University of Auckland, says KiwiSavers should pay no attention to comparisons based on before-tax or “gross” returns.

Comparing so-called gross returns will turn an already complicated subject into a misleading mess. Some providers will make (gross returns) up; others may refuse to provide them because they are either artificial or uncomparable. None of the numbers will be useful.

(Littlewood, 2008, p. 3)

Consultant Alison O'Connell, a former director of the UK Pensions Policy Unit,

compared New Zealand's financial literacy levels with those in Australia, Canada, Ireland, the UK and the US. She concluded that New Zealand compared well internationally and that New Zealanders understood basic concepts of risk, return and diversification, though other countries were putting greater resources into teaching financial literacy in schools. However she also reported that financial education initiatives here and overseas were mostly aimed at those with limited financial means. "This means that there is generally more information on budgeting and managing debt than on investing in stocks or managed funds" (O'Connell, 2009a, p. 3).

Many providers told the *Supply Side Impacts* survey researchers that KiwiSaver's profit margins were insufficient to allow them to spend time and money advising clients on the appropriate investments for their risk profile.

Historically a large proportion of personal superannuation plans have been distributed through trained financial advisers, who assess the client's circumstances and recommend a suitable investment profile. KiwiSaver has commoditised superannuation into a retail product that can be obtained without any professional financial advice. The success of KiwiSaver, however, will be influenced by financial literacy.

(Ministry of Economic Development, 2008, p. viii)

Providers have suggested that one indication of improving financial literacy in New Zealand will be when a growing number of people move out of default schemes and into less conservative asset classes. One recommendation in the *Supply Side Impacts* report is that the government should change the conditions attached to awarding default status in future, requiring providers given default status to promote financial literacy within their client base and to produce investor education material.

As for New Zealanders' general financial literacy, one survey found that basic investment principles are poorly understood by many New Zealanders (Colmar Brunton, 2009). This study found that New Zealanders had a reasonable level of personal financial knowledge, but that knowledge was largely tied to the respondent's socio-economic status. An earlier survey by Colmar Brunton found that some were confused about what they were entitled to in retirement. "Considerable confusion existed over the nature of New Zealand Superannuation, with many believing it was means tested in retirement" (Colmar Brunton, 2006). Further evidence that not everyone understands superannuation issues came in responses to a survey conducted by research

firm UMR early in 2010. UMR found that 48 percent of KiwiSaver members believed that their investments carried a Government guarantee, while 37 percent said they did not know whether or not such a guarantee existed. Only 15 percent knew that there was no guarantee (New Zealand Herald, 2010).

Brian Gaynor, a finance sector commentator and executive director of Milford Asset Management, has written that in KiwiSaver the government had launched a good scheme, but New Zealand's financial advice sector had been devastated by the finance company debacle and there would be fewer advisers for people to consult in future because of the stricter rules and regulations introduced recently.

As a result too many KiwiSaver investors will probably stay in conservative funds when they could obtain higher returns, and a larger retirement lump sum payment, in more growth-orientated funds.

(Gaynor, 2010, April 24)

To summarize, the data is showing a disproportionate number of KiwiSavers are tied up in low-risk, low-growth investment schemes, either because they accepted the government's default option or their employer's preferred provider. The factors behind this may include apathy, or confidence in the government's default, or limited understanding of financial planning. New Zealanders' general financial literacy may not lag other nations, but their knowledge of investment strategies and the capital markets may be insufficient to provide them with the returns they will need for a comfortable retirement.

Chapter 3 **LITERATURE REVIEW**

This review covers a range of research relevant to the factors influencing the KiwiSaver fund choice decision. It begins with a brief review of what the literature has to say about the characteristics of services, and in particular financial services. This is followed by a review of information processing models of consumer buying behaviour, summarized in one model as a three-stage decision process – information search, comparison and evaluation. Several models of consumer and investor decision making in the economics, finance, marketing and psychology literature are then considered. This review also looks at behavioural studies and what they conclude about how people make decisions when faced with complex financial issues such as retirement savings planning. Behavioural researchers have found that while people might be *trying* to maximize their long-term economic wellbeing, they are hamstrung by their limited knowledge and limited confidence, their lack of involvement and the sheer complexity of the problem. The review culminates in a tentative model of potential factors influencing the KiwiSaver fund choice decision. These potential factors are drawn from the literature discussed in this chapter and are grouped into three categories: individual difference variables, environmental influences, and risk factors.

A guide to this review is provided in Table 3.1

3.1 Characteristics of Financial Services

There are seven main characteristics in the literature that distinguish financial services: intangibility, heterogeneity, inseparability, perishability, fiduciary responsibility, contingent consumption and long-term relationships. A literature review by Zeithalm, Parasuraman, & Berry (1985) found that intangibility, heterogeneity, inseparability, and perishability, sometimes referred to as the IHIP framework, were the most frequently cited distinguishing characteristics of services in general, found in 46 publications in the period 1963-1983. A similar conclusion was reached in a later review of 106 publications in the period 1963-1990 (Edgett & Parkinson, 1993).

Table 3.1*Guide to Literature Review*

3.1	The characteristics of financial services Intangibility, inseparability, heterogeneity, perishability, fiduciary responsibility, contingent consumption and long-term relationships.
3.2	Information search, comparison, evaluation
3.3	Decision models for financial services
3.4	Individual difference variables Demographic and socioeconomic status, knowledge and involvement, behavioural issues.
3.5	Environmental influences Peer influence, provider and government marketing, scheme design.
3.6	Risk factors
3.7	A tentative decision model for KiwiSaver Individual differences, environmental influences, risk factors.

Intangibility Intangibility is the most widely accepted distinguishing characteristic of services (Edvardsson, Gustafsson, & Roos, 2005), and particularly for financial services. Investment advice, for example, is characterized by experience and credence qualities. The quality of an investment adviser's service can only be evaluated with hindsight, and not at the time the consumer made the decision to purchase or follow that advice. Consumers tend to perceive increased risks when buying services as a consequence of their intangible nature (Howcroft, Hewer, & Hamilton, 2003). McKechnie (1992) says professional services are high in 'credence qualities', which cannot easily be assessed, sometimes even after consumption. If the value of an investment portfolio were to fall, it may be the result of a market-wide reversal rather than the fault of poor advice. So in the case of financial advice given on investment options, any evaluation of the quality of that advice will rest on trust or confidence in the financial adviser. As a result, consumers are usually conscious of the risk factor involved in purchasing some financial services.

Inseparability A service doesn't technically exist until a consumer has asked for it. This inseparability, the concept that services are produced and consumed simultaneously and with a high degree of input from the consumer, is particularly relevant to the financial services sector. The service is delivered through an interactive process. "An investment adviser would, as a minimum, need to know an individual's attitude to risk, and whether that individual wants to invest for capital growth or for income, before advice could be given" (Ennew & Waite, 2007, p. 58).

Heterogeneity and perishability Closely tied to inseparability is the notion of variability or heterogeneity in service delivery. Because services are often tailored to the needs or circumstances of the client, as is the case with long-term financial services, there is plenty of scope for variation in quality, or heterogeneity. Financial service providers need to be flexible to adapt to the differing needs of their customers, which can mean delegating authority to staff to allow them to modify a service and respond to customer needs. Variability of service can result from customers not being able to explain their needs, or customers having low expectations of that service. "Services are delivered from individuals to individuals and therefore each service encounter will be different by virtue of the participants or time of performance. Each consumer is likely to receive a different service experience" (Gabbott & Hogg, 1994, p. 313).

Perishability means that a service cannot be stored or saved, so any spare capacity that an investment adviser has, such as a morning with no client appointments, is lost and cannot be reclaimed.

Three further characteristics beyond the IHIP factors have been identified by researchers as being specific to financial services, namely fiduciary responsibility, contingent consumption and long-term relationships (Ennew & Waite, 2007).

Fiduciary responsibility Although all businesses carry responsibilities regarding the quality and safety of what they supply, financial services providers shoulder additional responsibilities for the management of their clients' funds and the quality of the advice they give to clients. This is sometimes referred to as their 'fiduciary responsibility'. "In financial services transactions a set of promises is essentially being exchanged between the buyer and the seller" (McKechnie, 1992, p. 5). Such an arrangement requires that the buyer has confidence and trust in the financial institution and its personnel. The buyer has to assess what is being promised and the likelihood of it being delivered. Where long-term investments are concerned, it is not easy for consumers to weigh up promises of future returns. Picking a pension plan is more likely to depend on experience and credence qualities as there are fewer search

qualities (Zeithaml et al., 1985). In a KiwiSaver context, consumers signing up with a bank for their retirement plan need to have trust in the institution, which brings in factors such as its size, its longevity and its reputation. It might take 20 or 30 years before an individual has the necessary experience to assess whether the bank has kept its promise.

An aspect of fiduciary responsibility pertinent to this study is that financial institutions also have a duty not to sell products that are inappropriate for customers. That includes not pushing large loans onto customers who are likely to struggle to repay them, or putting the life savings of an elderly client into a risky property investment. The mis-selling of inappropriate pension plans to at least two million UK employees in the 1990s is an extreme example of the financial services sector not taking its fiduciary responsibility seriously (Erturk, Froud, Johal, Leaver, & Williams, 2007).

Contingent consumption Some financial services products, such as life insurance and retirement pensions, work on a concept labelled ‘contingent consumption’. Consumers make regular payments from their income all their working lives to provide for their family in the event of their death, or to secure a future lump sum payment or annuity in their retirement years. They therefore forgo current consumption in return for peace of mind and long-term security. “Such contingent consumption presents major challenges to marketing executives as they seek to market an intangible product that reduces current consumption of consumer goods and services for benefits that may never be experienced,” (Ennew & Waite, 2007, p. 63).

Long-term relationships Closely related to contingent consumption is another reality of the financial services sector: buyer-seller relationships are typically long-term relationships. Whether through loyalty or simply inertia, customers tend to stick with their banks and other financial services providers. This presents the providers with a challenge to maintain an appropriate communication flow over time with those clients, but also presents them with opportunities for cross-selling savings plans, mortgages and investment products.

Since an irreversible amount of time and effort is required by an individual in order to acquire the necessary experience and information on which to assess an institution's reliability, it is usually the case that once satisfied, a consumer is more likely to remain with that institution than incur the costs of searching for and vetting alternative suppliers.

(McKechnie, 1992, p. 5)

3.2 Information Search, Comparison, Evaluation

The view of the individual or consumer as a rational, well informed decision maker for whom purchasing is a problem-solving activity stems largely from neoclassical economic theories. In the economics literature this rational economic agent is described by ‘expected utility theory’, which predicts how people will maximize their benefit when faced with choices involving uncertainty. First proposed by Morgenstern & Von Neumann (1947), and refined by Savage (1954), this founding theory was once the dominant model used to explain how people make decisions in the face of uncertainty.

These rational economic agents have a ‘life cycle’ approach to financial planning: they are net dissavers in their early adult years, borrowing from future earnings; by middle age they are earning sufficient to save and accumulate assets that they will later draw on to finance consumption in their retirement years (Modigliani & Brumberg, 1955). Related to the life cycle approach is modern portfolio theory (Markowitz, 1952) which applies the concept of lifetime utility maximizing to the analysis of investment portfolios. Modern portfolio theory is concerned with trading off risks and returns to maximize long-term growth.

Similarly, long-standing models in the marketing literature would characterize rational individuals as information processors who make logical investment decisions after working through a process of information gathering, evaluation and careful selection (Engel, Kollat, & Blackwell, 1968). Certain of their own needs and preferences and possessing perfect information, pension investors would process all the relevant factors to arrive at a rational decision (Schwartz, 1986).

According to Harrison, Waite, & White (2006), who have a track record in retirement investing research, a three-step consumer behaviour model developed by Simon (1957) – problem identification, information gathering, choice selection – served as a foundation for many later models, including Nicosia (1966), Howard & Sheth (1969), and Engel et al. (1968). The widely-cited Engel-Kollat-Blackwell model, for example, represents decision making as a five-stage process: problem recognition, information search, evaluation of alternatives, purchase decision and post-purchase behaviour. These models characterized the construct that consumers want to simplify and reduce the complexity of the decision process (Sheth & Parvatiyar, 1995).

Reflecting the influence these information processing models have had on research work since the 1960s, the following discussion is structured around a three stage process – information search, comparison and evaluation.

Information search Murray (1991) argues that too little attention has been given to understanding consumer buyer behaviour in the services industries, and particularly search behaviour leading into the buying decision. Information sources that consumers refer to are often grouped under two headings: internal and external. Murray showed that consumers prefer internal information sources when they are buying services. Prior knowledge and experience with a product or service is a highly credible information source and has been found to strongly influence consumer decision making (Bettman & Park, 1980; Gabbott & Hogg, 1999). As well as their personal memories and experiences, consumers also draw on their general attitudes towards the product, service or provider in question (Bettman, 1979; Jacoby, Chestnut, & Fisher, 1978). When consumers have no personal experience to draw on, they seek out external sources of information, including personal word-of-mouth sources such as family, friends and peers (Dowling & Staelin, 1994; Gronroos, 1984; Murray, 1991; Zeithaml et al., 1985); and non-personal sources such as advertising and published material both from suppliers and from media. The extent of this external search is usually considered to hinge on factors such as the consumer's level of uncertainty, their motivation to avoid or minimize risk, and the value and complexity of the product or service in question. "Since product complexity and buyer uncertainty are almost certain to exist in the case of many financial services purchases, the need for external sources of information would seem to be important in reducing the risk associated with the purchase" (Harrison, 2000, p. 58).

When buying services, consumers tend to see word-of-mouth sources as being credible and unbiased (Zeithaml et al., 1985). Word-of-mouth advice from trusted sources has been found to be important when businesses are deciding on financial services (File & Prince, 1992). Family, peer groups and influences from wider society including social institutions and social groups are all thought to impact on decision making (Childers & Rao, 1992). "Conforming to such social influences and pressures, consumers consciously reduce their choices and continue to engage in certain types of consumption patterns that are acceptable to the social groups to which they belong" (Sheth & Parvatiyar, 1995, p. 259). Word-of-mouth influence is strong within these groups, particularly when there are strong ties and the information source has credibility (Brown & Reingen, 1987).

Comparison Where services are concerned, consumers often have difficulties obtaining effective pre-purchase information, and therefore will typically have a smaller set of alternatives to choose from than is usually the case with products (Gabbott & Hogg, 1999). A limited amount of information at the pre-purchase stage means that arguably “the whole pre-purchase stage in the consumer decision process is of less importance to consumers compared with the post-purchase stage” (Harrison, 2000, p. 59). Harrison argues that services buyer behaviour does not fit the low-involvement models applying to product purchases. She says with services a ‘reducing model’ is more appropriate with most of the evaluation happening post-purchase in a three-stage process: the consumer selecting from a set of virtually indistinguishable options; from experience an attitude is formed about the service and the provider; and the consumer looks for messages confirming their choice. “This notion would also seem to fit well with financial services where consumers have an extended relationship with the financial services provider” (Harrison, 2000, p. 59).

Zeithaml et al. (1985) argue that the difficulties with information gathering regarding professional services result in consumers being very loyal to any provider or service they have found to be acceptable. Comparing services is problematic because the consumer cannot compare them simultaneously. Lacking any tangible clues to what a service will be like, consumers turn to other means of choosing between options, such as the appearance of the service providers, their professionalism and their physical environment (Gabbott & Hogg, 1999). The risks associated with financial services purchases mean that brand loyalty is an important factor in decision making. Consumers will sometimes simplify buying decisions by reducing their choices and developing long-term relationships with providers, a basic axiom of relationship marketing. “Several empirical studies have shown that in cases of certain products and services consumers find brand loyalty as the best risk reducer” (Sheth & Parvatiyar, 1995, p. 258).

Evaluation When considering how consumers evaluate a service, researchers typically focus on consumers’ perceptions of the quality of a service, rather than on a measurable, objective standard. Satisfaction is measured on the basis of perceived quality and performance against the quality and performance the customer was expecting. “The problem with this approach comes when consumers do not have the knowledge or experience to evaluate what they have received or that their expectations of what they wanted from the service are not clear” (Gabbott & Hogg, 1994, p. 318). One unique aspect of financial services is that they are less focused on one-off

purchases and are more based on a series of regular, two-way transactions over an extended timeframe (Turnbull & Gibbs, 1987).

Consumers can only evaluate a retirement investment plan with hindsight, which may be 20 years after they signed up to the plan. The service of a financial adviser, for example, is difficult to assess because clients have no straightforward way of knowing whether they would have been better served taking advice from an alternative adviser. In such cases, the way the service has been delivered can end up being a proxy for the service itself; so a financial adviser's regular newsletters to the client updating the status of the investments can serve as a tangible and measurable process aspect of the service delivery. This process aspect has also been labelled the 'functional quality' of service delivery, which looks beyond the technical dimension of *what* the customer gets and examines *how* the service is delivered and the client's perceptions of that delivery. In a financial services context, clients' satisfaction may be influenced by their involvement in the service; clients participating in decision making regarding investment strategies are likely to feel some personal responsibility for the outcome (Zeithaml et al., 1985).

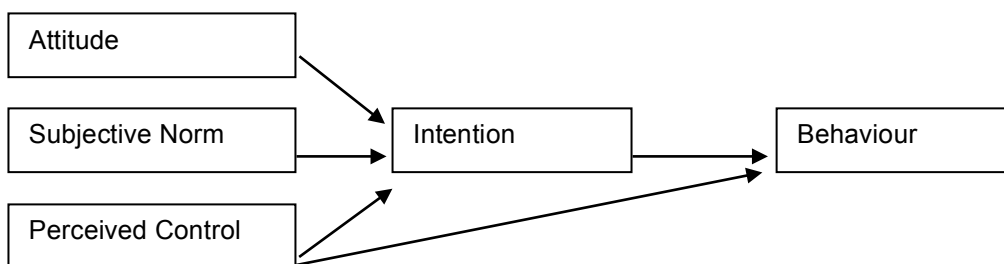
3.3 Decision Models for Financial Services

There are multiple decision models in the economics, finance, marketing and psychology literature, most of them aiming to identify factors that influence behaviour or decision making. This section reviews several models that explain how individuals reach decisions in the financial services sector, some of them developed specifically for decisions that focus on retirement investing. The work done on retirement investing decision making is limited, and the studies that have been done have come in for criticism, with researchers pointing to shortcomings, including: a lack of concrete measurement tools for empirical testing; a focus on general populations rather than on segmentation; and little attention to interpretive research designed to describe and understand behaviour (Harrison et al., 2006; McKechnie, 1992; Stanley, Ford, & Richards, 1985).

Several researchers in the consumer finance discipline have applied a motivational theory – the theory of planned behaviour (Figure 3.1) – to consumer decision making in financial services. The antecedent to this theory, the theory of reasoned behaviour, was introduced by Fishbein (1967) and later developed and refined by Fishbein & Ajzen (1975) as a model to understand and predict human behaviour.

Figure 3.1

Theory of Planned Behaviour Developed by Fishbein & Ajzen (1975)



Under the theory of planned behaviour, attitude, subjective norm and perceived control are the three factors that determine consumers' behavioural intentions. Attitude refers to a person's positive or negative feelings towards a particular action and sums up their beliefs about the likely outcome of that action; subjective norm is a person's perception about what referents – people important to them – would think of the course of action; perceived control is their assessment of how difficult it would be to carry out the action.

As a general rule, the more favourable the attitude toward performing the behaviour, the greater the perceived social approval, the easier the performance of the behaviour is perceived to be, the stronger the behavioural intention. In turn, the greater the behavioural intention, the more likely the behaviour will be performed.

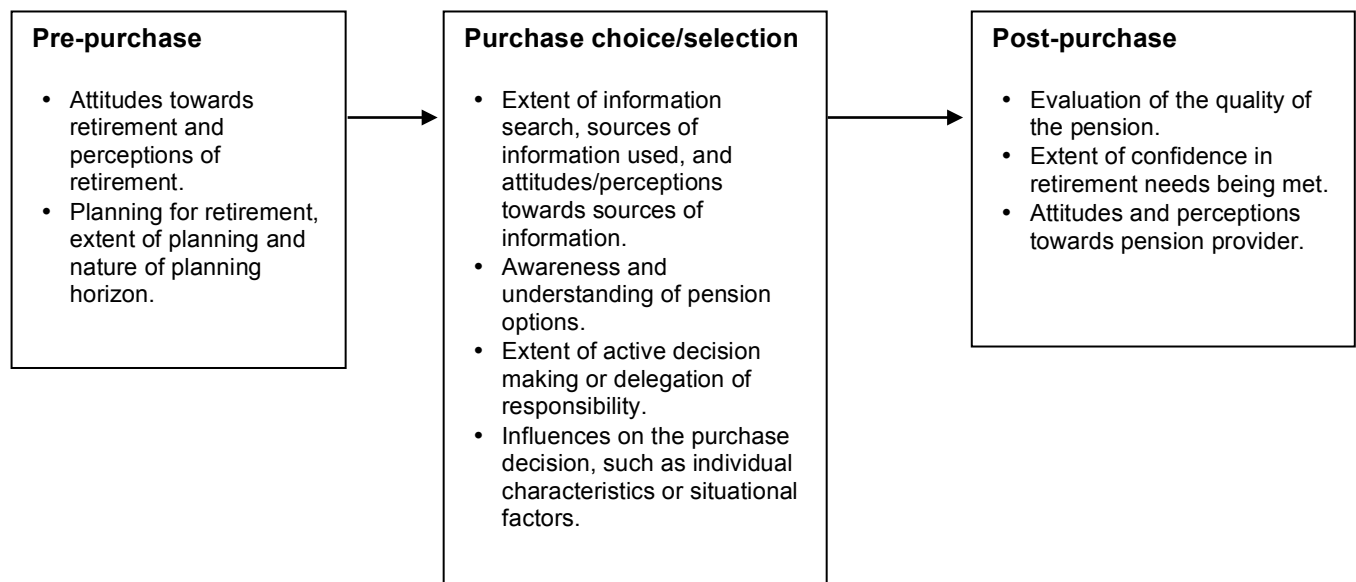
(Xiao, 2008, p. 73)

The theory of planned behaviour has been applied across a number of disciplines, including health, occupational choice, family planning, voting, alcoholism, technology take-up and consumer behaviour. A meta-analysis of 185 studies confirmed that the theory is valid and a strong predictor of both intention and behaviour (Armitage & Conner, 2001). In three studies looking at applications for shares in newly-privatized electricity and telecommunications businesses in the UK, the theory of planned behaviour accurately predicted intention, and intention was explained by attitude, subjective norm and perceived control/past behaviour (East, 1993). East, who argues that the theory of planned behaviour is suited to decision making on savings and investments, found that in all three studies "the intention to apply for shares was much influenced by relatives and friends" (East, 1993, p. 367). In other financial sector

studies, Xiao & Wu (2006) examined consumer behaviour towards completing a debt management plan and found that attitudes towards the behaviour and perceived control both predicted actual behaviour, though subjective norm did not. The theory of planned behaviour framework was also used by Tan & Teo (2000) in a study of the take-up of internet banking which found that attitudinal and perceived behavioural control factors both had significant influence over intentions to adopt the technology, however social influence was not a determining factor.

Figure 3.2

Three-Stage Framework for Retirement Decision Making Developed by Harrison, Waite, & White (2006)



The attitudes, perceptions and behaviours of individuals while deciding on a retirement scheme were modelled by Harrison, Waite, & White (2006), shown in Figure 3.2. Harrison et al. said it became apparent that the pension purchase process could be viewed as comprising three distinct stages: pre-purchase, purchase and post-purchase. This three-stage framework was generally consistent with the traditional models of consumer behaviour such as the Engel-Kollat-Blackwell model and recognized the cognitive, affective and conative stages of consumer decision making. Under pre-purchase, they found that participants' retirement plans were at least partially affected by their overall attitudes towards and perceptions of retirement. Positive or negative feelings about retirement would impact on savings behaviour. Under purchase choice/selection, they found that participants were reluctant to seek expert advice and

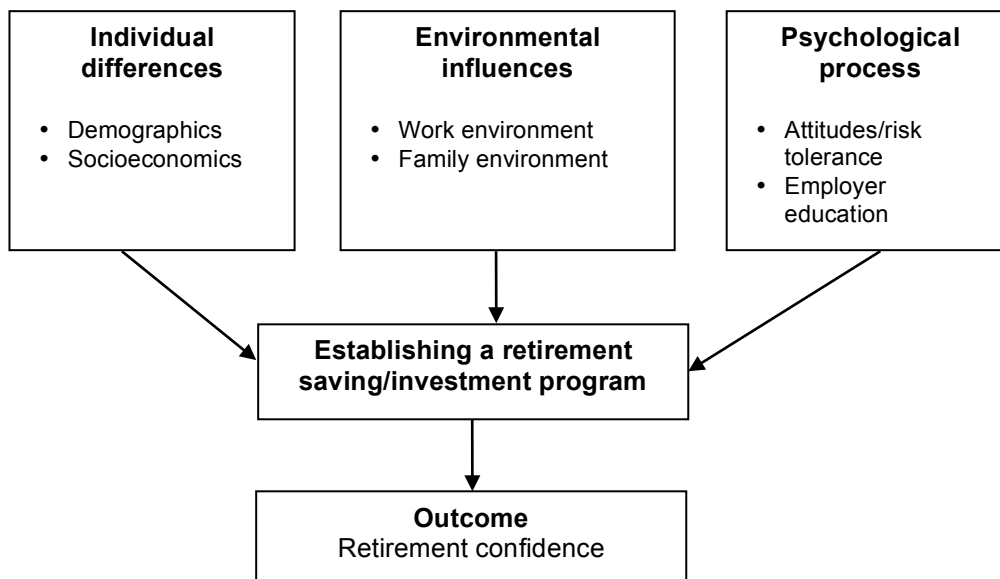
preferred to go to personal sources such as friends and relatives, consistent with the findings of Murray (1991) and File & Prince (1992). As for post-purchase evaluation, they reported that participants felt resigned to being unable to evaluate their pension properly.

Another model (Joo & Grable, 2000b), shown in Figure 3.3, was developed to reflect the retirement investment decision and it focused on three factors:

- a) *Environmental influences* including a person's employment, whether they have financial dependents and their household size;
- b) *Individual differences* or demographic/socioeconomic characteristics such as age, gender, marital status, income and education level;
- c) *Psychological processes* include financial attitudes, retirement attitudes and risk tolerance.

Figure 3.3

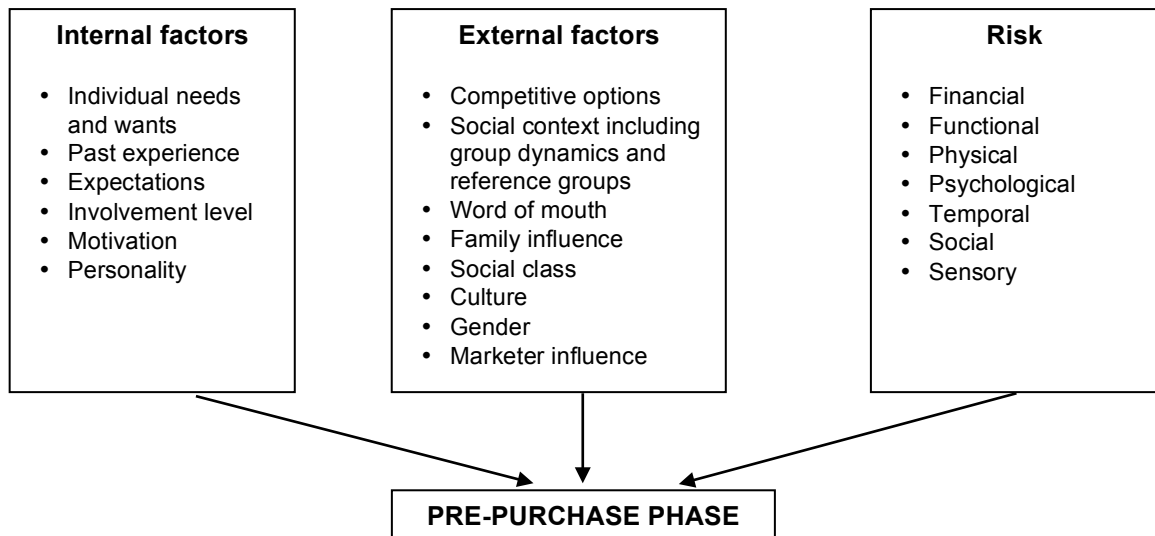
Retirement Investment Decision Model Developed by Joo & Grable (2000b)



Another study into decision making for retirement, conducted by Rickwood & White (2009) in Sydney, looked at the pre-purchase stage and at what factors were influencing people as they made retirement financial planning decisions (Figure 3.4). Rickwood & White say few studies have looked at pre-purchase decision making in financial services. Their model was based on the work of Kurtz & Clow (1998), who

Figure 3.4

Pre-Purchase Decision Model Developed by Rickwood & White (2009)



explored pre-purchase decision-making factors in the services environment. Rickwood & White say that while some of these factors had been looked at in isolation, this was the first time they had been brought together in a single study. “It is not evident from existing literature whether or not there are some internal or external factors that have more influence than others on a consumer’s decision to purchase financial products or services” (Rickwood & White, 2009, p. 146). They say there is a dearth of literature examining the importance of these variables in financial services decision making.

Rickwood & White’s model of the pre-purchase stage of pension planning categorizes influences as being internal factors, external factors and risk factors. Under ‘internal factors’ they identified involvement level, motivation and needs and wants. They reported a limited level of involvement in preparing financially for retirement, with the exception of married males aged 40-55. For most, retirement was not a topic for conversation among friends, and information was generally not actively sought. Age was the strongest influence on retirement savings. Most participants said they needed more information and more education, presented in an easily understood and straightforward way (Rickwood & White, 2009).

The major ‘external factors’ influencing retirement planning were found to be family influence, marketer influence and competitive options. Family influence had the biggest impact on participants preparing for retirement. Marriage and children were also important. While other studies have shown that life cycle stages determine financial needs and wants (Javalgi & Dion, 1999), the Rickwood & White study suggests that

saving for retirement is triggered by marriage. Advice from a family member was the most respected source of retirement savings information, while advice from respected media commentators could also be influential. Under marketer influence, all participant groups mentioned some form of media for gathering information or triggering action.

Rickwood & White found four 'risk factors' were associated with retirement decision making – functional, financial, psychological and temporal, confirming what Murray & Schlacter (1990) found. The weakest was temporal. These risk factors had a negative impact on decision making as participants said they doubted the safety and security of investing for their retirement. Two big concerns were the likelihood of the rules changing and the lack of independent unbiased advice.

Involvement and level of uncertainty

Consumers' 'involvement level', identified as influential in Rickwood & White's (2009) model, and their 'level of uncertainty' over decision making are two strong factors identified by researchers as being influential on consumers' attitudes and behaviour towards buying financial services (Harrison, 1994; McKechnie, 1992). These two factors have been combined into a 'consumer behaviour matrix' which Beckett, Hower, & Howcroft (2000) say explains how consumers behave when purchasing financial services. Although their matrix builds on work by Dwyer, Schurr, & Oh (1987) and Kelley & Thibaut (1959), the authors say the approach has its origins in the work of Weber, Shils, & Finch (1949) who argued that rather than postulate general theories of human behaviour, it was better to work with 'ideal types' of behaviour. The Beckett et al. matrix (Figure 3.5) has consumer confidence on one axis and involvement on the other, both tracking from low to high. "Each quadrant represents a different combination of involvement and uncertainty and thus a different mode of interaction to accommodate consumer needs when purchasing different financial products and services" (Beckett et al., 2000, p. 16). The four ideal types – repeat-passive, rational-active, relational-dependent and no purchase – range from low to high levels of involvement with the service and from low to high levels of consumer confidence.

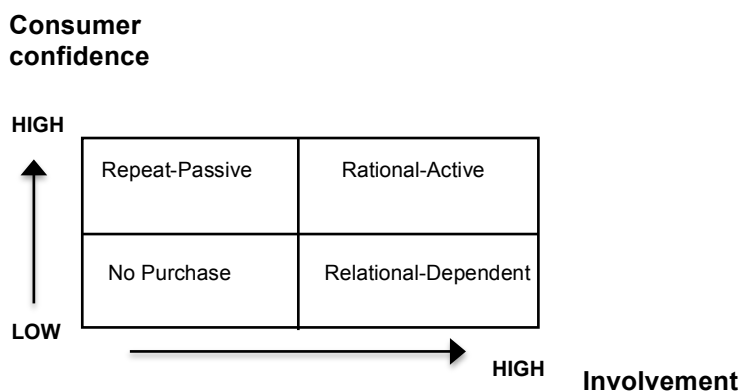
Consumers in the Rational-Active quadrant are involved and confident, with the ability and inclination to make considered decisions; those in the No Purchase quadrant have little confidence or ability to make active decisions on specialized financial services, and are more likely to leave funds in a simple savings account; those in the Repeat-Passive group are likely to repeat patterns of behaviour, described in the literature as 'behavioural loyalty'; and the Relational-Dependent consumers are highly

involved but lack confidence because of the uncertainty of the eventual outcome, so are likely to seek a lot of advice and form dependent relationships with their providers.

A literature review by Howcroft, Hewer, & Hamilton (2003) identified involvement and perceived risk as factors influencing buyer behaviour in a services context. Theoretical work on involvement suggests consumers will engage in information seeking and processing where they perceive there is a high relevance to their needs (Brucks, 1985; Bruner & Pomazal, 1993). Consumer involvement is about customers' level of contact with the provider and their participation in decision making. While the extent of customer involvement varies across different financial services, Aldlaigan & Buttle (2001) found that bank clients looked for high levels of personal contact regarding investment services: "Our study indicates that bank customers view investment services as high risk. Clearly, high involvement services such as these need to be well managed by banks to reduce levels of perceived risk and reduce the propensity for customers to switch" (2001, p. 238).

Figure 3.5

Consumer Behavioural Matrix Developed by Beckett, Hewer, & Howcroft (2000)



3.4 Individual Difference Variables

The remainder of this chapter looks at the literature supporting a series of potential factors influencing the KiwiSaver fund choice decision. These factors have been grouped into three categories: individual difference variables (this section), environmental influences (section 3.5), and risk factors (section 3.6). The chapter concludes with a tentative decision model for KiwiSaver (section 3.7).

Normative models from economics, consumer behaviour and finance discussed above would characterize KiwiSaver participants as well-informed, rational economic agents who are motivated to choose an investment portfolio that matches their preferences and their risk tolerance, and that maximizes their long-term savings, and with that, their income in retirement. However, optimizing and resolving such a complex equation would require accurate estimates of uncertainties such as lifetime earnings, asset returns, rates of taxation, family changes, health and longevity (Mitchell & Utkus, 2004). Simon argues that this concept of individuals as rational economic agents is in need of drastic revision and that “there are great doubts as to whether this schematized model of economic man provides a suitable foundation on which to erect a theory” (1957, p. 99). Tversky & Kahneman (1992) say that a substantial body of evidence is showing that decision makers systematically violate the basic tenets of these normative models.

Behavioural research has thrown up an alternative perspective on how people make decisions when faced with important issues such as retirement savings planning. Behavioural researchers assume that while people might be *trying* to maximize their long-term economic wellbeing, they are seriously hamstrung by several factors, the first being the sheer complexity of the problem. Simon (1955) argues that most people have limited problem-solving abilities, which he refers to as their ‘bounded rationality’. This limit on their computational capacity inevitably means they make sub-optimal choices, such as being overly conservative in their investment strategy.

In the marketing literature, Mowen (1988) uses the ‘decision-making perspective’ to describe the rational economic agent, however he argues that this perspective is only one of three perspectives from which consumer behaviour should be viewed. The other two are the ‘experiential perspective’, which is largely about consumers’ emotions, feelings and moods; and the ‘behavioural perspective’ where people are influenced by environmental factors and cultural norms. Foxall (1993), another critic of the rational economic agent model, says marketing research needs greater pluralism and that includes more behavioural approaches. “Most research in marketing still inhabits the world of cognitive consumers and responsive managers, semi-autonomous buyers and philosophical marketers” (Foxall 1993, p. 46). Foxall’s ‘behavioural perspectives model’ puts consumers’ purchase and consumption activity into a broad context including personal satisfaction, feedback from peers, memories of previous experience with the product or service, their current mood and health.

The following discussion expands on what are described as individual difference variables in Joo & Grable's retirement investment decision model (Figure 3.3). These variables include ways in which individuals' decisions can be influenced by demographic and socioeconomic factors, by their financial skill and acumen, by the influence of peers and marketers, and by their perceptions of and attitudes to risk.

Demographic/socioeconomic status

Age is an important determinant of retirement financial planning (Devaney & Su, 1997; Petkoska & Earl, 2009; Prenda & Lachman, 2001). The most diversified portfolios are held by older investors, particularly those with higher incomes and a higher education (Baker & Haslem, 1974; Goetzmann & Kumar, 2008). While older investors benefit from experience, their investment skill declines with their cognitive abilities (Korniotis & Kumar, 2011). Speelman, Clark-Murphy, & Gerrans (2007) report on two studies that found workers under 40 had made "inappropriate choices" by placing a high proportion of their pension investments in very low-risk, low-return capital guaranteed funds, and faced the prospect of reduced retirement incomes as a consequence.

Income, employment and education level are also positively correlated with retirement financial planning. Higher earners have had the discretionary income to put aside more funds for retirement (Jacobs-Lawson, Hershey, & Neukam, 2004). Foster (1996) found that employee participation in 401(k) pension plans in the US increased with income level and was higher for those working in professional roles than for other occupational groups. The amounts being saved in 401(k) pension funds was found by Yuh & DeVaney (1996) to be significantly influenced by educational attainment, as well as by higher income, home ownership and years spent in employment. While most studies have established a correlation between wealth and retirement planning, the evidence is mixed on whether there is a causal link and which causes which (Ameriks, Caplin, & Leahy, 2003; Lusardi & Mitchell, 2007a).

Previous studies have found significant gender differences on financial planning for retirement. Glass & Kilpatrick (1998) found that women prepare less for retirement, are less confident on financial matters, and because they generally earn less tend to be poorer in their retirement. Of course, as Martenson (2008) argues, women live longer so have to stretch their savings further. Women are more likely to invest in conservative assets when allocating their pension portfolios (Bajtelsmit, Bernasek, & Jianakoplos, 1999; Bernasek & Shwiff, 2001; Jacobs-Lawson et al., 2004; Sunden & Surette, 1998; Watson & McNaughton, 2007). Bernasek & Shwiff found that women held a lower

proportion of their portfolio in stocks and gender “was the most significant factor in explaining the percent of the pension invested in stocks” (2001, p. 355). However a Swedish study found women were more likely than men to switch out of a default scheme and make their own portfolio choice (Engstrom & Westerberg, 2004). Sunden & Surette (1998) found that investment choice was also influenced by marital status, with married women more likely than single women to choose a conservative strategy. Men are generally more confident, and younger men are prone to over-confidence in their investment decisions (Bhandari & Deaves, 2006).

Financial expertise and knowledge

The notion that people have the cognitive ability to optimize their lifetime finances and the willpower to put a plan into action is also questioned by Benartzi & Thaler (2007).

Both the implicit assumptions are suspect. Even among economists, few spend much time calculating a personal optimal savings rate, given the uncertainties about future rates of return, income flows, retirement plans, health and so forth. Instead, most people cope by adopting simple heuristics or rules of thumb.

(Benartzi & Thaler, 2007, p. 82)

The data analysis required to optimize an investment portfolio is challenging, even for economists and fund managers. Limitations on cognitive resources (attention, processing power and memory) and time mean that financial decision making often comes down to implementing rules of thumb, or ‘heuristic simplification’ (Hirshleifer, 2001). Mullainathan & Thaler (2000) argue that limits on people’s computational skills mean that rules of thumb like simple diversification, avoiding extreme options and settling for defaults are essential elements in a descriptive theory of long-term investing. Consumers trade off time against effort required when comparing their options, and will often resort to short cuts. Simplifying, or heuristic strategies are common:

Observed decision processes often reflect a reasonable compromise between the desire to make a good decision and the desire to minimize the cognitive resources used in making the decision. In short, we believe that individuals are adaptive decision makers.

(Payne, Bettman, & Johnson, 1993, p. xii)

Studies have found that consumers' expertise and knowledge are influential factors in decision making on financial services (Perry & Morris, 2005). Age, gender, marital status and education (Gough & Sozou, 2005), plus perceived risks (Diacon & Ennew, 2001) have also been identified as influencing consumers purchasing financial services. There is evidence that men and women process information differently in a financial decision making context (Clark-Murphy & Gerrans, 2002). Perry & Morris found that financial knowledge and responsible financial management behaviour were associated with consumers who perceived they had some control over the outcome of their financial planning decisions.

Studies into financial knowledge by Hilgert, Hogarth, & Beverly (2003) established a link between knowledge and "financially responsible behaviour" in saving and investing. Hershey & Walsh (2000) found that experienced financial planners produced significantly better quality solutions to a series of financial problems. Agnew & Szykman (2005) found that high-knowledge individuals were less likely to opt for a default asset allocation in a long-term investment; in one experiment only 2 percent of high-knowledge participants accepted a default compared with 20 percent of low-knowledge individuals. When Grable & Joo (1998) tested for determinants of financial satisfaction they found it was positively correlated to income, financial knowledge, risk tolerance and education. Another study found that saving and investing for retirement was linked to individuals' knowledge, financial risk tolerance and 'future time perspective' (Jacobs-Lawson & Hershey, 2005).

A survey conducted by the UK Financial Services Authority (2000) found most respondents were confused by financial services products, particularly those involving equities, yet just 10 percent said they would have wanted more information before making a decision; and a survey of more than 3000 US mutual fund investors classified only 4 percent of them as knowledgeable: "Most investors appear to be naïve, having little knowledge of the investment strategies or financial details of their investments" (Capon, Fitzsimons, & Prince, 1996, p. 59).

Consumers' level of knowledge about financial services affects their confidence in dealing with financial matters. Harrison (1994) studied financial services customers' perceived knowledge, level of confidence and involvement level and identified four clusters: the financially confused and the apathetic minimalists, who both take a short-term view of their futures; the capital accumulators who make a conscious effort to become involved in the higher-risk products and are motivated by the perceived benefits offered by these products; and the cautious investors who avoid high-risk and opt for

‘safer’ investment products. An individual’s perception of their level of financial knowledge may be just as important as their actual knowledge, for it can influence retirement savings levels (Hershey & Mowen, 2000).

Behavioural issues

Still under the broad heading of ‘individual difference variables’, a number of behavioural issues have been identified in the literature as bearing on decisions people make in their financial planning for retirement. Mullainathan & Thaler (2000) argue that as well as having to accept their bounded rationality (Simon, 1955), individuals are also limited by ‘bounded willpower’ and ‘bounded self-interest’. Retirement savers might *intend* to increase their pension contributions over time, or to review their portfolio with an expert, but in practice they don’t get around to either. The limits on willpower are evidenced by the fact that virtually all the saving done by Americans is through forced saving vehicles like paying off mortgages and through automatic payments for pension funds (Mullainathan & Thaler, 2000). As for bounded self-interest, this is where people act selflessly, for example by structuring their finances to benefit their children. To a traditional economics theorist this would be irrational.

Loss aversion One of the earliest breaks from expected utility models was prospect theory, which stemmed from the psychology discipline. Prospect theory (Kahneman & Tversky, 1979) shows that people in practice are more averse to risk than might be assumed under expected utility modelling, treating gains and losses quite differently. Kahneman & Tversky’s experiments on risky gambles produced a loss aversion index of about 2.5, meaning that where gains and losses of an equivalent dollar value were compared, individuals reported the loss was 2.5 times more painful than the positive sensation from a gain. Consequently, investors are more likely to put their money into low interest bank accounts rather than into volatile but potentially more lucrative shares because of their greater sensitivity to making investment losses.

Choice overload Traditional economic theory holds that a wide range of choices is good for consumers, or at least leaves them no worse off, however behavioural research provides some evidence that people can get overloaded with too many options. The idea of information overload has been explored in the consumer behaviour literature with no clear consensus reached (competing perspectives are summarized by Jacoby (1984)). Psychologists Iyengar & Lepper (2000) show that consumers find excessive choice demotivating. Their experiments found that people were more likely to purchase confectionery items when offered six choices than when

offered 24 or 30 choices. Where pension investment is concerned, studies show that scheme participants become overwhelmed by multiple choices and will simplify decision making by going for default options (Iyengar & Kamenica, 2010; Sethi-Iyengar, Huberman, & Jiang, 2004). A study of participation rates in US 401(k) pension schemes conducted by Sethi-Iyengar et al. (2004) found that as the number of fund options increased, membership of the scheme fell. A personal pension scheme in Sweden that offered participants 456 funds to choose from was widely thought to be overly complex for investors (Sunstein & Thaler, 2003). Seeking to narrow choice is an understandable strategy when faced with too many options, as is avoiding extreme options.

Avoiding extremes Even when they can access good quality information about investment risks and returns, many pension scheme investors will still opt for a simple heuristic like a *middle* investment option in a range, convincing themselves that avoiding extreme positions is a sufficiently logical and prudent strategy. One study explored pension scheme members' confidence in their investment choices, asking participants to rate their own portfolio choice against the median portfolio chosen by all scheme members (Benartzi & Thaler, 2002). The result was that 62 percent of participants preferred the median portfolio to their own, and only 21 percent preferred their own portfolio. The authors conclude that "most participants simply do not have the skills and/or information available to pick portfolios that line up with their risk attitudes" (2002, p. 1595). Benartzi & Thaler conclude that scheme members gain little benefit from choosing their own portfolios and typically resort to rules of thumb to help them cope, such as going for the middle option and avoiding extremes. In fact, a typical middle choice investment path such as a balanced fund could be inappropriate for younger retirement scheme members who would be better suited to growth funds, and also unsuitable to older members who in most cases should be in conservative plans (Ingles & Fear, 2009). Chernev (2004) found most investors want to select a compromise option where it is offered.

Naïve diversification Another rule of thumb is known as the naïve diversification strategy. When offered 'n' investment options, investors divide their savings evenly between these options, what Benartzi and Thaler (2007) called the '1/n rule'. So if investors are offered four funds, a high proportion of them will put 25 percent of their savings into each fund. Several studies have found a positive correlation between the number of equity funds offered and the resulting allocations to those funds (Benartzi & Thaler, 2007; Huberman & Jiang, 2006).

Backward looking Another simple strategy around investment decision making is for investors to be backward-looking and base their decisions on past performance of asset classes, which can be an unreliable indicator of future performance (Kahneman, 2003). Mitchell & Utkus (2004) argue that two behavioural phenomena could explain this: first, a concept that Kahneman & Tversky (1973) called the ‘representativeness heuristic’ where people like to see patterns in information available to them, from which they can draw erroneous conclusions; and second what some call an ‘availability heuristic’, meaning investors rely on readily available information, which in the case of pension scheme funds is large amounts of past performance data pushed out by the providers and covered in the media.

Several studies have identified a positive link between cash inflows into funds and their recent performance (Cronqvist & Thaler, 2004; Sapp & Tiwari, 2004). A large-scale study of four Australian superannuation funds concluded that “historical returns may be a significant driver of member investment choice and that members are showing return-chasing behaviour” (Clark-Murphy, Gerrans, & Speelman, 2009, p. 18).

Status quo bias Retirement savings planning is typically characterized by passive decision-making, with employees doing whatever requires the least effort and choosing the path of least resistance (Choi, et al., 2002). This would partly explain the popularity of choosing the default settings. When faced with difficult decisions, one response is to do nothing, which Samuelson & Zeckhauser (1988) labelled the ‘status quo bias’. In an experiment based on investment decision making they found a significant bias to the status quo, a result they say “challenges the presumption (held implicitly by many economists) that the rational choice model provides a valid descriptive model for all economic behaviour” (1988, p. 9).

3.5 Environmental Influences

Peer influence

Consumers’ susceptibility to interpersonal influence has been documented in the consumer behaviour literature (Bearden, Netemeyer, & Teel, 1989; Mourali, Laroche, & Pons, 2005). As discussed above, consumers regularly turn to word-of-mouth sources to help with financial decision making (Dowling & Staelin, 1994; Gronroos, 1984; Murray, 1991; Zeithaml, et al., 1985). Family, peer groups and influences from wider society including social institutions and social groups are all thought to impact on

decision making (Childers & Rao, 1992). “Conforming to such social influences and pressures, consumers consciously reduce their choices and continue to engage in certain types of consumption patterns that are acceptable to the social groups to which they belong” (Sheth & Parvatiyar, 1995, p. 259). Word-of-mouth influence is important within these groups, particularly when there are strong ties and the information source has credibility (Brown & Reingen, 1987).

Rickwood & White’s decision making model for retirement (Figure 3.4) found that family influences, marketer influence and competitive options were all influences on saving for retirement. “Familial influence appeared to have the biggest impact on the extent to which participants were prepared for retirement, with parents in particular considered to be an important and credible source of information” (2009, p. 148).

When they follow the default settings in a pension investment fund, scheme members are copying what most of their colleagues are doing, whether or not they have discussed with them the various contribution levels or investment funds that are available to them. A study by Duflo & Saez (2002) suggests that peer influence may be an important determinant of pension scheme decisions. They analyzed data on employees within a US university to see whether decisions people were making about a retirement plan were being influenced by others in the same department. While acknowledging that the decisions of individuals within a social group will be correlated for a host of reasons – such as their common backgrounds, tastes and values, and shared environment – they nevertheless found an individual’s participation is strongly correlated with participation rates in their sub-group. Duflo & Saez make no attempt to separate the influence of social norms from the influence of colleagues’ opinions.

Financial education

When financial literacy is discussed as a major issue for policy makers and for the financial services industry, the focus is usually on the negative, ie the poor levels of understanding of financial matters that emerge in studies (Gough & Nurullah, 2009; Joo & Grable, 2000b; Lusardi & Mitchell, 2007b; Van Rooij, Lusardi, & Alessie, 2007). However, O’Connell (2009a) found that New Zealand’s financial literacy levels compared reasonably well with those in Australia, Canada, Ireland, the UK and the US. There is some evidence overseas that participation in and contributions to personal pensions are higher when employers offer seminars on retirement planning, which are usually conducted by the financial service providers (Bayer, Bernheim, & Scholz, 2009; Bernheim & Garrett, 2003; Clark, d’Ambrosio, McDermed, & Sawant, 2006; Yakoboski

& Dickemper, 1997). Joo & Grable (2000a) found that where employer-sponsored retirement education is provided, plan participation is higher, and portfolio balances in pension plans are almost two-thirds larger than without the training. There is little evidence, however, that scheme members' portfolios are more diversified or better suited to their age or risk profile as a result of workplace seminars. Furthermore, Choi et al. (2002) found that the success of employer seminars is more limited when judged on investment behaviour rather than on intentions. Following a seminar for employees not already in a company's 401(k) scheme, all the seminar participants said they would join the scheme, yet Choi et al. found that over the following six months only 14 percent actually joined. The seminars influenced people's *intentions* to change their contributions or their portfolio allocations, but only in a few cases did those intentions translate into action or behavioural change.

Participants in Rickwood & White's study (2009) identified marketer influence as being in the mix as they made retirement savings decisions, with all groups gaining information through the media. In New Zealand, one of the most trusted sources of independent information on KiwiSaver is the government's Retirement Commission, which runs a popular website, sorted.org.nz, offering decision guides, case studies and calculators to help people get the most out of KiwiSaver.

Scheme design

In circumstances where people are on familiar territory and are certain about their preferences, defaults are less important. As Sunstein & Thaler argue (2003), most adults have figured out their preferences for ice cream and would not be influenced by a default option in a shop offering dozens of flavours. Yet in unfamiliar territory, such as choosing between complex investment options, people are attracted to the default settings, often because they see others choosing them. "With respect to savings, the designated default plan apparently carries a certain legitimacy for many employees, perhaps because it seems to have resulted from some conscious thought about what makes most sense for most people" (Sunstein & Thaler, 2003, p. 1181).

Policy makers and providers designing the default settings for pension schemes have a great deal of influence over the outcomes for scheme members. This is because their "choices of default savings rates and default investment funds strongly influence employee savings levels" (Choi, et al., 2002, p. 70). Even though employees can opt out of such defaults, studies show that few actually do so (Beshears et al., 2009; Choi, et al., 2002). Recent empirical work in a range of settings highlights the attractiveness of the

default option: in choosing internet privacy settings (Johnson, Bellman, & Lohse, 2002; Johnson, Hershey, Meszaros, & Kunreuther, 1993); in choosing car insurance (Johnson et al., 1993); and on savings choices in retirement plans (Madrian & Shea, 2001).

Choi et al. (2002) studied the experience of four large American companies that introduced automatic enrolment to their 401(k) pension schemes. They found that participation rates in the schemes rose by between 20 and 34 percent when being enrolled became the default position. Similarly, Madrian & Shea (2001) found that at one large US corporation participation in 401(k) funds increased from 37 to 86 percent of the workforce when the default changed to being automatically enrolled. They also found that 71 percent of the new cohort under automatic enrolment remained at the default contribution rate and the default fund allocation, which was a conservative portfolio. The most likely explanation for this behaviour, the authors argue, is that “employees view the default investment allocation under automatic enrolment as implicit advice from the company on the best allocation of one's retirement assets,” (Madrian & Shea, 2001, p. 1182).

In their review of pension plan research, Beshears et al. (2009) reported that in the case of US 401(k) pension schemes, most people contribute at the default level (as a percentage of their pay) even when they could get an additional tax break for contributing more. Savers also stick with the default contribution level even when it is relatively high – 6 percent of pay in one study. Beshears et al. (2009) and Madrian & Shea (2001) found that most 401(k) participants also stuck with the default asset allocation in their scheme, forgoing the opportunity to switch to other investment options. In one medium-sized chemical company, Beshears et al. (2009) found that 86 percent of employees who were automatically enrolled into the company's pension plan had some of their assets allocated to a default fund (compared to 10 percent of employees who had not been subjected to automatic enrolment), and 61 percent had everything tied up in the default fund (compared to 1 percent of those not automatically enrolled).

Similar deference to the default rules was shown by workers in Sweden's privatized personal pension scheme. The design of the Swedish pension plan was heavily ‘pro-choice’, allowing members to design their own portfolio from a mix of 456 funds (Cronqvist & Thaler, 2004). However, until an extensive advertising campaign encouraged Swedes to choose their own investment portfolio, only 8 percent of scheme members had ventured beyond the default portfolio. “If participants are not well

informed or highly motivated, then maximizing choice may not lead to the best possible outcome” (Cronqvist & Thaler, 2004, p. 424).

The pivotal role of the default settings in pension scheme investment choice was put into an Australian context by Gallery, Gallery, & Brown (2004), who found inequities among members of different superannuation funds at a time when few funds offered their members investment choice. “Having now moved to a choice environment those inequities are perpetuated for those members who either passively or actively opt out of making a choice” (Gallery et al., 2004, p. 19). Brown, Gallery & Gallery (2010) have argued for a government-regulated universal default fund in Australia to protect those who are unable or unwilling to make choices themselves.

The presentation of investment options is another factor that can influence retirement savers. Acting rationally, an individual should give the same responses irrespective of how questions are asked or options are framed, but in practice people are influenced by framing and menu design. Pension scheme members’ convictions are sometimes so weak that they can be swayed by the way their options are set out in the provider’s menu (Mitchell & Utkus, 2004). In one experiment (Benartzi & Thaler, 2002) participants in a retirement scheme were asked to choose investments from three menus. The investments ranged from high risk (A) to low risk (D). The first menu offered options A, B and C; the second offered B and C; while the third offered B, C and D. The researchers looked at the take-up of option C, which was in all three menus, and found that of those selecting from the first menu 29 percent preferred C; out of the second menu 39 percent preferred C; and out of the third menu 54 percent went for C. So in the first menu, where C was at the extreme, it was the least popular; in the third menu, where it was the middle choice, option C was the most popular. “This illustrates that choices are not rational according to standard economic criteria, and helps us understand why they might end up preferring the portfolio chosen by the median respondent to the one they choose on their own” (Benartzi & Thaler, 2002, p. 20).

In another experiment, pension scheme members were asked to make investment decisions after reviewing data on the returns from US shares over different time periods (Benartzi & Thaler, 1999). One group reviewed one-year return data and elected to invest 63 percent of their total funds in US shares, while a second group reviewed 30-year return data and then chose to allocate 81 percent of their funds to US shares. The researchers conclude that the way information is presented can have a strong influence on investment choice. Mitchell and Utkus (2004) report similar findings from an analysis of 2.3 million participants in a scheme run by Vanguard Group. Participants

who had enrolled in the scheme in 1999, near the top of a stock market bull run, were still allocating about 70 percent of their contributions to shares by 2003, by which time the market had dropped sharply. However new recruits to the scheme who were enrolling in 2003 were allocating only 48 percent of their funds to shares. The researchers conclude that the 22 percent difference was explained by both a sensitivity to current market conditions plus the impact of inertia.

3.6 Risk Factors

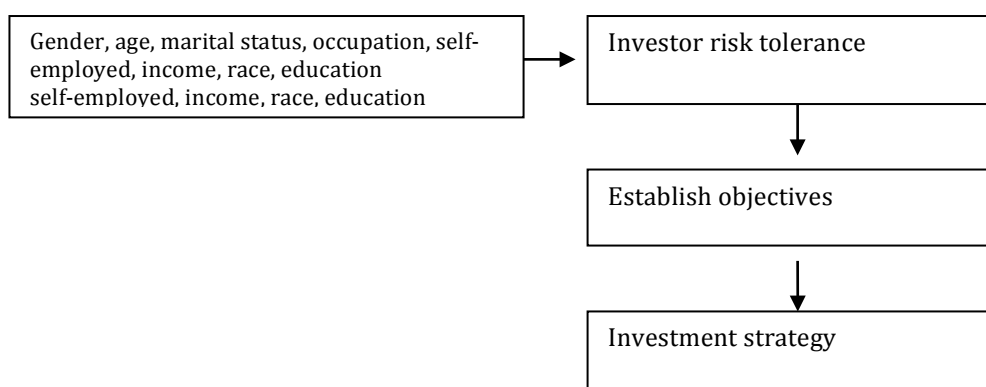
Bauer (1960) defined perceived risk as the individual's perception of the likelihood of failure associated with a particular product or service and the consequences of that failure. So the assessment is very much a subjective one that can be (and often is) based on little evidence or statistics. The topic of risk perception has received considerable attention from academics and practitioners in the marketing and economics disciplines. Closely associated with other consumer behaviour concepts such as involvement and trust, risk perception has been established as a powerful determinant of consumer behaviour, particularly in the services sector (V. Mitchell, 1999; Murray & Schlacter, 1990). As discussed above, the intangible nature of services often translates into a considerable risk for consumers, and their perceptions of that risk are partly determined by the complexity of the service, the uncertainty over the outcome with the service, and their knowledge of the service (Harrison et al., 2006). In a financial services context, consumers are buying a set of promises from their provider (McKechnie, 1992). It can be difficult or impossible to evaluate the performance of a retirement fund, for example, until the individual reaches or is close to retirement age.

Rickwood & White's study of pre-purchase decision making for retirement found that risk factors have a negative impact on decision making as participants doubt the safety and security of investing for their retirement. Participants identified two major risks: likely changes in rules and regulations, and a lack of independent, unbiased professional advice. "Consumers are cautious and cynical about putting their money into superannuation, preferring to put money into investments perceived to be more solid and stable" (Rickwood & White, 2009, p. 149). Similar concerns were found in a UK study of risk perceptions with investment products (Diacon & Ennew, 2001). It found that individual perceptions of risk in personal financial services can be grouped into five main dimensions (in order of importance): distrust of the product and/or provider; the seriousness of adverse consequences; volatility of return; poor knowledge and/or observability; and failure of regulation (Diacon & Ennew, 2001, p. 389).

A number of researchers have tested for relationships between investors' tolerance of financial risk and their individual characteristics (age, gender, occupation, education, experience etc). Grable & Lytton (1997) found demographic/socioeconomic characteristics were effective in differentiating among levels of risk tolerance (Figure 3.6). They found education was a particularly strong indicator, followed by gender, self-employment status and income. Other studies have confirmed that high risk tolerance is associated with higher education levels (Joo & Grable, 2005).

Figure 3.6

Model of Investor Risk Tolerance Developed by Grable & Lytton (1997)



Above-average levels of financial risk tolerance have also been linked with an increased knowledge of personal finance and investment markets, higher levels of income and being employed in a professional occupation (Grable & Lytton, 1999). A study of the Swedish pension market (Engstrom & Westerberg, 2004) found that those who were unfamiliar with investment markets were less likely to opt for an active investment decision with their pension funds; they were more likely to accept a default fund. One study looked at changes in risk tolerance levels over time – between 1983 and 2001 – and found that investors' willingness to take risks was linked to the recent performance of the share market (Yao, Hanna, & Lindamood, 2004).

Several studies have shown that investors with a low risk tolerance are unlikely to invest in shares and may have difficulty in building adequate retirement funds (Hanna & Chen, 1997; Yao, et al., 2004; Yuh & DeVaney, 1996). In their literature review, Wang & Hanna (2007) say researchers have found that financial risk tolerance makes “a significant difference in household portfolio decision making and is a crucial factor

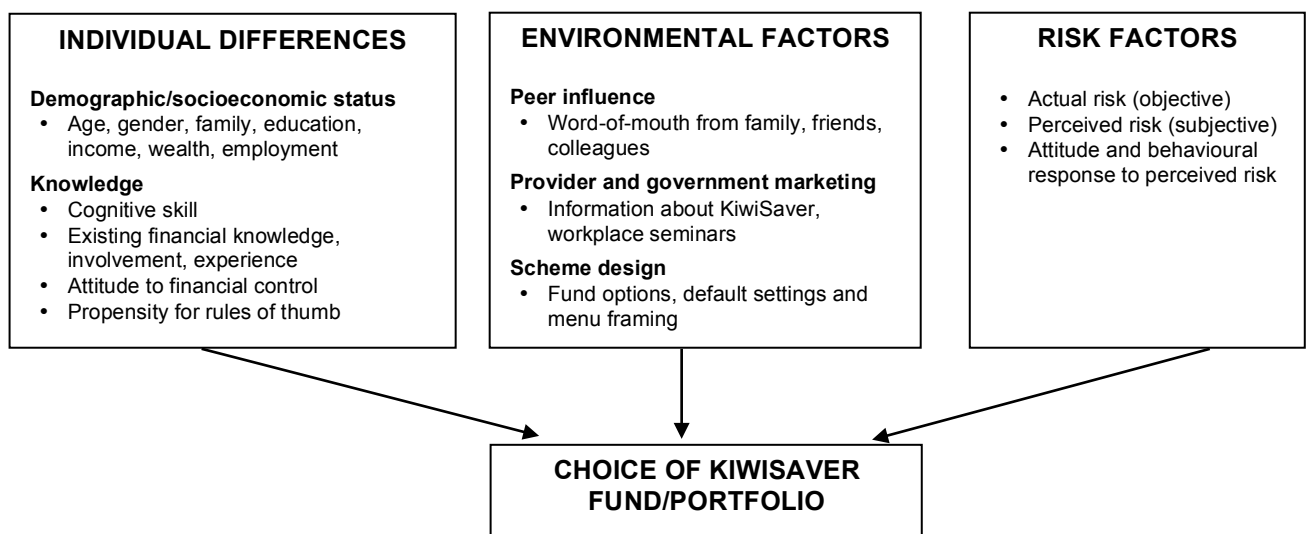
related to ownership of high return assets that are important for financial goal achievement” (2007, p. 3).

3.7 Tentative KiwiSaver Decision Model

A tentative model of factors influencing individuals choosing their KiwiSaver fund is provided in Figure 3.7. This potential model is drawn from the preceding literature, and derived in part from other models that represent consumer or investor decision making, including the models of Engel et al. (1968), Nicosia (1966), Howard and Sheth (1969), Harrison et al. (2006), Fishbein & Ajzen (1975), Kurtz & Clow (1998), Rickwood & White (2009), Joo & Grable (2000b), and Beckett et al. (2000). The influencing factors identified in other studies were all candidates for inclusion in the tentative model (Figure 3.7). The researcher selected each potential influencing factor for the model based on three criteria: first, the factor was recurring in the findings of other authors, and more weight was given to factors appearing in studies specifically on retirement decision making; second, the factor made prima facie sense in a New Zealand context; third, while the model was taking shape, the researcher discussed its component parts with a sounding-board group of KiwiSaver members, testing the logic and relevance of potential factors. The potential factors are grouped into three categories: individual differences, environmental factors and risk factors.

Figure 3.7

Tentative Model of Factors Influencing KiwiSaver Fund Choice



‘Individual differences’ in this model relate to the individual’s existing circumstances (demographic and socioeconomic), their knowledge of and experience in financial matters, their attitude to acquiring new knowledge and understanding of their limitations, their cognitive abilities and their propensity to use simple rules of thumb to solve problems.

‘Environmental factors’ are the more direct influences on their KiwiSaver decision, such as the views of peers (family, friends, colleagues), the availability of information either sought out (voluntary) or passively received (involuntary) from providers, the Retirement Commission etc, and the way providers have structured fund options and how these are presented in option menus;

‘Risk factors’ span the real/actual risk of a fund choice, such as overseas shares, the individual’s perception of the risks associated with the various options, and the individual’s attitude to that perception and subsequent behaviour.

The model in Figure 3.7 served as a starting point for the design and planning of the field work discussed in the next chapter. It informed the process of writing guiding questions used at the focus group meetings; it also informed a series of stimulus cards that were used in the focus groups. The aim was not to test this tentative model in a deductive way, but instead to use it as a stepping stone and loose guide to help plan lines of enquiry for the focus group meetings.

Chapter 4 **METHODOLOGY**

A qualitative strategy was used to explore factors influencing the investment fund choices being made by members of the KiwiSaver pension scheme. This chapter is divided into three parts: it begins with a brief overview of exploratory research approaches, theory building and the use of focus groups; the second part explains the three data gathering methods used in this study, namely focus group interviews, a stimulus card exercise and a brief questionnaire; and part three describes the coding procedure and data analysis process. The main themes that emerged from the focus groups, and tables showing the results of the stimulus card exercise are presented, analyzed and interpreted in the Findings and Discussion chapters.

4.1 Exploration and Theory Building

In their text on grounded theory, Glaser & Strauss (1967) say that the primary aim of all qualitative research is the generation of explanatory theory, as opposed to theory testing (typically the realm of quantitative methods) or mere description. Cronbach (1975), frustrated that social scientists at the time were blindly chasing the physical sciences in search of empirical generalizations, general laws and high-level theories, argued that forming “working hypotheses” was a much more achievable aspiration for most qualitative research. Other writers (Lincoln & Guba, 1985; Morse & Field, 1995; Patton, 2002; Silverman, 2006) argue that qualitative methods are highly flexible, can exist under either positivist or interpretivist umbrellas, and while they might be primarily concerned with theory building, they can also be used for testing theories or hypotheses.

Less controversial in the literature is the view that a qualitative approach is appropriate when little is known or understood about a phenomenon, certainly not enough to be able to create a conceptual framework and identify variables. As Strauss & Corbin put it, where quantitative researchers seek causal determination, prediction and generalization of findings, “qualitative researchers seek instead illumination, understanding and extrapolation to similar situations” (1990, p. 17). Qualitative methods also tend to be apposite when the research question is open-ended (the research question for this study is an open one), and when the aim is to identify potential variables that might later be tested quantitatively (Hoepfl, 1997).

When used in exploratory research, the qualitative approach is an inductive process, whether it follows the traditions of grounded theory, phenomenology or ethnography (Morse & Field, 1995; Strauss & Corbin, 1990). Researchers gather data about the issue under study and then subject the data to inductive analysis, which means searching for and discovering patterns, themes and categories. This approach contrasts with deductive analysis used in confirmatory research where data are analyzed against an existing theoretical framework (Patton, 2002, p. 453), and where “the reliance is on control of variables and prediction of outcomes using hypotheses” (Stebbins, 2001, p. 10). In the social sciences, generating new ideas or grounded theory is a common aim of exploratory researchers who ideally adopt an open-minded stance, bringing minimal a priori expectations to the process of gathering, analyzing, interpreting and eventually developing explanations about the phenomena under study (Lincoln & Guba, 1985). This study on KiwiSaver is exploratory as limited research has been conducted on how people are using the retirement savings scheme, and nothing has been published in New Zealand on the determinants of the fund choice decision.

Deductive then inductive

A broad literature review conducted across social science disciplines relevant to financial decision making has resulted in a shortlist of potential factors that could be influencing KiwiSaver members making a fund choice. These are expressed in the preliminary model (Figure 3.7). The aim was not to test this preliminary model in a deductive way, but instead to use it as a starting point and a loose guide to inform the focus group planning, what Cresswell (2003) calls a theoretical lens or perspective.

Having been informed and guided by the literature, the field work was conducted in an open-minded manner, the approach adopting an inductive process. As Cresswell (2003, p. 182) put it: “The qualitative researcher uses complex reasoning that is multi-faceted, iterative and simultaneous. Both inductive and deductive processes are at work.” The approach was not atheoretical, but neither was it driven by prior theory. In the Discussion chapter the results of this study are compared with what other researchers have found, “almost as if drawing a template of others’ work over the emerging analysis to compare the fit” (Morse & Field, 1995, p. 17).

The aim of the field work was to see the KiwiSaver fund choice issue through the eyes of scheme members; to understand how they perceived their influences and how they made sense of and articulated the fund choice decision. “Qualitative inquiry deals with human lived experience. It is the life-world as it is lived, felt, undergone,

made sense of, and accomplished by human beings that is the object of study” (Schwandt, 2001, p. 84). A phenomenological approach centred on in-depth interviews could have been used here which would have resulted in detailed descriptions of people’s experiences; however it was decided that focus group interviews would instead be used for three main reasons. First, focus groups are considered a good technique for probing motivating factors, in this case understanding why KiwiSaver members have made particular choices: “The technique allows the researcher to develop an understanding about *why* people feel the way they do” (Bryman & Bell, 2007, p. 512). Second, focus groups allow participants to bring forward issues that they deem to be important and their ideas can be challenged by other participants more effectively than in one-to-one interviews. Third, in a focus group setting individuals strive to “collectively make sense of a phenomenon and construct meanings around it” (Bryman & Bell, 2007, p. 512). The focus groups would be followed by the interpretive process of thematic analysis and from there the development of tentative theory. The study design was therefore outside the phenomenological tradition and closer to a grounded theory approach.

Focus groups

Many studies into financial services decision making have used focus groups – for example, two UK studies into the pension purchasing decisions (Gough & Nurullah, 2009; Harrison et al. 2006) and a similar Australian study (Rickwood & White, 2009), plus some UK research on decision-making styles (Howcroft et al., 2003). These authors argue that focus groups allow participants who are less than confident and potentially defensive about their financial knowledge to feel more comfortable in a collective setting that provides security and encourages disclosure. KiwiSaver members who were not financially savvy were similarly likely to find it challenging to have to discuss their fund choice decision, so it was decided that the more indirect approach of the focus group would be more productive.

Focus group interviews can be an exploratory and open-minded methodology (Bryman & Bell, 2007). They can be useful to explore provisional findings (Knight, 2002). Silverman (2006) counsels that focus group interviews do not give us either direct access to facts or events, nor do they tell us directly about people’s experiences, but they can offer us authentic representations of those experiences.

Originally used in the social sciences, focus groups have been widely used by marketers to evaluate new products, but more recently have become a popular method

for collecting other types of qualitative data (Morgan, 1997). As well as eliciting individual perspectives, focus groups can generate collective notions that are shared and negotiated by the group (Berg, 2001). This sharing is appropriate given the evidence that decision making for services can be strongly influenced by word of mouth (Murray, 1991; Zeithaml et al., 1985). Views may be built and developed in considerable depth as a result of interaction within the group; and with people contributing as members of a group rather than as individuals, their views can be more easily challenged in a group setting (Smithson, 2000). A focus group moderator adopts more of a background role than is the case with one-to-one interviews, which empowers participants to introduce new ideas the researcher had not considered, ideas the participants deem to be important and significant (Bryman & Bell, 2007).

Focus groups have their drawbacks and limitations, however, and the approach has faced criticism from some authors. Group selection is not as rigorous as probability sampling so sampling bias can easily intrude; and unless skilfully handled, a group discussion can be dominated by one or two individuals (Chisnall, 1997). Gomm (2004) argues that some group members will be easily influenced by others in the group and that the group setting raises confidentiality issues. Gomm also says focus groups are small samples that may not represent a wider population and thus limit researchers' ability to generalize the findings. In their guide to qualitative research, Gordon & Langmaid (1988) argue that focus groups are over-used and are sometimes run with too few groups. Among practical issues with focus groups are the difficulties of gaining attendance and making accurate recordings; also, they can quickly produce a large amount of data which may be difficult to analyze (Bryman & Bell, 2007).

4.2 Methods

Group recruitment

Purposive sampling, sometimes known as judgement sampling, was used to recruit focus group participants, an approach consistent with an in-depth enquiry into a phenomenon (Patton, 2002). "In judgement sampling you decide the purpose you want informants (or communities) to serve, and you go out to find some" (Bernard, 2000, p. 176). The criteria for this study were that participants had to be members of KiwiSaver, with diversity sought in terms of gender and age. The latter was important because there is evidence in the literature that age and life stage are factors that influence retirement financial planning decisions (Devaney & Su, 1997; Holm, 2009a; Javalgi & Dion, 1999;

Joo & Grable, 2000b; Petkoska & Earl, 2009; Prenda & Lachman, 2001; Rickwood & White, 2009). It was decided that the groups would be based on age brackets as other researchers have found homogenous groups are more productive because participants are more talkative and more likely to discuss shared experiences (Morgan, 1997; Stewart and Shamdasani, 1990). Three focus groups were organized: the first for 20-35 year-olds, the second for 36-54 year-olds, and the third for those aged 55 years and above.

Email invitations were sent to the researcher's networks both within and outside the university. Recipients were asked to on-send the invites to their networks and the process continued until all three groups were filled. This recruitment approach follows what Patton (2002) and other authors call a snowball or chain sampling process, where individuals often not known to the researcher seek out potential participants.

The aim was to recruit between five and seven participants for each focus group. Opinions vary on what is an ideal group size. Morgan (1997), who has run groups of between three and 20 participants, says the purpose of the research and field restraints need to be taken into account. Blackburn & Stokes (2000) say fewer than eight is ideal; Berg (2001) prefers between six and eight; while Lengua, Roosa, Schupak-Neuberg, Michaels, Berg, & Weschler (1992) say six to 12 participants works best. Another issue is whether or not focus group members know each other. It is widely thought that better data are obtained when participants are strangers. While acquaintances may converse more readily, they can rely on taken-for-granted assumptions that are what the researcher wants to explore (Agar & MacDonald, 1995).

Profiles of the 17 participants who made up the three focus groups are provided in Table 4.1. A good spread of young, middle-aged, and older adults was achieved as a result of basing the groups on age brackets (20-35, 36-54 and 55+). While the 36-54 and 55+ groups had an adequate mix of males and females, the 20-35 group had only one female, which was not ideal, and none of the participants in the 20-35 group had children. A more significant issue was that all 17 participants had tertiary qualifications, when ideally the focus groups should have included some unskilled, semi-skilled or technically qualified participants. As is acknowledged in the Conclusions chapter, having exclusively tertiary qualified participants limits the scope for generalizations.

Ethical issues

There were three main ethical issues that had to be addressed: gaining consent from participants, maintaining their confidentiality and respecting their privacy. Potential

participants were sent a *Participant information sheet* (Appendix 1) outlining the study so they could make an informed decision about whether they want to be involved. This document set out the purpose of the research, how the discussions would be recorded, how participants' comments would be analyzed and used, how participants would be described, how long the recorded data and the consent forms would be stored, who would have access to that material and how it would subsequently be destroyed.

A combined *Consent/confidentiality form* (Appendix 2) was prepared which all participants had to read and sign. Among the conditions set out in the information sheet and the consent/confidentiality form were some rules on confidentiality: participants' names would not be used in the final research report/thesis; and participants had to agree that they would not disclose any information discussed at their focus group meeting. Addressing the confidentiality issue was important in promoting a truthful and free-flowing discussion. "If group members feel apprehensive or inhibited by fear of somehow being exposed, they will not fully disclose their feelings and perceptions" (Berg, 2001, p. 181). It was important that there was no intrusion on participants' financial privacy, so no one in the groups was asked to reveal financial details, such as how much money was in their KiwiSaver account. Confidentiality was ensured by allocating a two-letter code to each participant (not their actual initials) in both the *Focus group transcript (coded)* document (Appendix 6) and the *Focus group codes and themes* document (Appendix 7).

Focus group meetings

The meetings were held at 5.30pm at AUT University and each lasted approximately an hour. Six participants came to the first meeting (20-35 year-olds), five attended the second (36-54 year-olds) and six were at the third meeting (55 years+), making a total of 17 participants for the three meetings (a profile of participants is provided in Table 4.1). Most participants knew one or two others in their group. The meetings were recorded on an audio recorder.

To be successful, a focus group meeting has to meet some broadly-accepted criteria, including: covering a range of relevant topics; generating data that are as specific as possible; exploring participants' feelings in some depth; taking account of the context group members use in their responses (Merton, Fiske, & Kendall, 1990). A flexible, less structured approach is often recommended for focus groups interviews, so instead of working through a list of questions as would be typical in a one-to-one

Table 4.1*Profile of the 17 Focus Group Participants*

Focus group	Gender	Occupation	Salary	Highest qual.	Children
20-35					
OJ	M	Video operator	\$20-40k	Bachelor's	0
NF	F	Researcher	\$40-60k	Bachelor's	0
KB	M	Consultant	\$60-80k	Bachelor's	0
KP	M	Lecturer	\$60-80k	Bachelor's	0
SV	M	Engineer	\$40-60k	Bachelor's	0
BO	M	Lecturer	\$60-80k	Master's	0
36-54					
TV	F	Accountant	\$40-60k	Bachelor's	2
SJ	M	Designer	\$60-80k	Bachelor's	0
KF	F	Accountant	\$40-60k	Master's	0
HS	M	Lecturer	\$60-80k	Master's	2
MF	F	Manager	\$100k+	Grad. Dip	1
55+					
HT	M	Lawyer	\$100k+	PhD	2
TP	F	Lecturer	\$100k+	Master's	2
BM	F	Lecturer	\$80-100k	PhD	0
DB	F	Administrator	\$60-80k	Bachelor's	1
BS	M	Lecturer	\$60-80k	Master's	1
HM	F	Journalist	\$100k+	Bachelor's	0

Note. The participants' initials have been changed to maintain their confidentiality.

interview, the moderator uses discussion topics that are only loosely phrased as questions (Morgan, 1997). The focus group guiding questions are in Appendix 3. After providing an introduction to the study at the start of each meeting, the researcher/ moderator asked participants to first do what was referred to as the 'stimulus card exercise' (Appendix 5). The top stimulus card asked participants a question: if you were choosing a KiwiSaver investment fund tonight, which

Table 4.2*Summary of the Focus Group Meetings*

1	Introduction to the research project.
2	Participants given a pack of 12 stimulus cards.
3	Card 1: Participants choose between five KiwiSaver investment funds: Conservative, Conservative/Moderate, Balanced, Growth, Aggressive. Cards 2-9: Each carries a potential influencing factor on the fund choice decision (eg Advice from family, friends, colleagues). Cards 10-12: Blank, allowing participants to add their own personal influencing factors.
4	Participants tick one of the 5 KiwiSaver funds on Card 1, then choose their top three influencing factor cards and rank them one, two and three.
5	Each participant then talks to the group about their fund choice decision and their three main influences, explaining why these were important.
6	The group discusses the points raised in the above exercise.
7	Some open or “trigger” questions are put to the group. These include questions about participants’ experiences with KiwiSaver, their knowledge of financial issues, their attitude to risk, their sources of information etc (see Appendix 3 for list of guiding questions).
8	Participants raise their own issues for discussion.
9	Participants complete questionnaire and consent/confidentiality form.

Note. The stimulus cards are appended (Appendix 5).

would you choose? They were presented with five options: Conservative, Conservative/Moderate, Balanced, Growth and Aggressive. Each fund option included a break-down of asset allocations such as shares, property and cash. Participants were then asked to think about what factors may have influenced their choice of fund. Under the fund choice card were eight ‘factor’ cards, each of them containing a potential

influencing factor (such as ‘Advice from family, friends and colleagues’), plus several blank cards onto which participants could write down other factors they felt had influenced them. Participants were asked to choose their top three influencing factors and rank them 1, 2 and 3, and were then asked to talk about their top three cards. A summary of how the focus groups were run is provided in Table 4.2.

Focus group participants could have been asked to discuss what factors had influenced them when they first joined KiwiSaver, but in many cases two or three years would have passed since they had joined the scheme. There was a strong chance some participants would have forgotten what they were thinking at the time. It was decided that it would be more fruitful to ask participants to select a fund on the night and discuss what factors they felt were *currently* influencing their thinking on their long-term financial planning. While this worked well and participants mainly talked about factors uppermost in their minds on the night of their focus group meeting, some participants occasionally referred back to what was concerning them at the time they joined the scheme. This switch in time zone could have caused confusion but the participants handled it without a problem. A lot of participants had little memory of what they had been thinking when they joined KiwiSaver. Some could not recall what fund they were in and had to look this up before attending the meeting. The stimulus cards served two purposes: they generated discussion (Kitzinger, 1994) because each participant was asked to talk about their top three influences; and they provided a self-contained data set that could be analyzed. The contents of the stimulus cards are provided in Appendix 5, while the results of the stimulus card exercise are collated in Tables 5.1 and 5.2.

Following this exercise the group discussed topics including their experiences with KiwiSaver and their provider, their knowledge of financial issues, their attitude to risk, where they got information and advice from, and so on. **This discussion was guided by some ‘trigger questions’ posed by the researcher (listed in Appendix 3). With hindsight, participants should have been asked if they had used social media as a source of information or advice. No previous studies had mentioned social media as an influencing factor on retirement decision making, but it is possible that some KiwiSaver members are discussing the scheme on Facebook.** In each focus group participants brought up their own issues for discussion. At the end of the meeting participants completed a brief questionnaire (Appendix 4) eliciting information on their demographics and their current KiwiSaver fund.

4.3 Data Analysis

At the conclusion of the focus group meetings the audio recordings were transcribed (Appendix 6 provides full transcripts of the meetings). As discussed above, the inductive analysis part of theory building involves discovering patterns, themes and categories in the data; identifying the essence of meaning or experience in the words of participant citations. While there are several approaches to analyzing focus group transcripts – including content analysis, pattern analysis and thematic analysis – they all aim to make sense of the discussion and identify “core consistencies and meanings” (Patton, 2002, p. 452). A thematic analysis procedure was used to search for and identify common threads in the transcript, which in some instances are explicit statements and in other instances are concepts alluded to indirectly by participants (Bryman & Bell, 2007; Gomm, 2004). Either way they are “significant concepts that link substantial portions of the interviews together” (Morse & Field, 1995, p. 140).

Coding procedure

The data coding procedure drew on Ritchie & Spencer’s (1994) five-step ‘framework analysis’ approach: familiarization; identifying a thematic framework; indexing; charting; mapping and interpretation. The focus group transcripts were read and re-read several times to raise familiarity with the text and to identify the broad tone of ideas discussed by participants (Creswell, 2003). The process of building a thematic framework began with adding descriptive notes to the margins of the transcript, summarizing concepts, opinions and feelings being expressed. The summarized concept notes were developed and edited and each one was allocated a preliminary double-letter code, for example <A-C>. These codes were then applied across the entire transcript to instances where participants were expressing the same concepts and feelings, a process Ritchie & Spencer describe as indexing. Coded or indexed comments were then copied or charted from the transcript across to a new document that would become the *Focus group codes and themes* document.

This coding process followed what Strauss & Corbin refer to as open coding involving “breaking down, examining, comparing, conceptualizing and categorizing data” (1990, p.61). It was an iterative process which in some instances resulted in two closely related codes being merged into a single code, and in other instances resulted in a crowded code being broken into two codes.

A total of 21 descriptive codes emerged from the data analysis process, and each descriptor was refined until it captured all the comments grouped under its category.

Figure 4.1 provides an example of a code, ‘Advice from family, friends, colleagues who are highly trusted’, followed by a descriptor and a participant’s comment. This example is extracted from the *Focus group codes and themes* document. The extract also explains the coding string that appears at the end of each bullet point comment.

Figure 4.1

Extract from ‘Focus group codes and themes’ Document Shows the Code <C-A>, Descriptor and a Bullet Point Comment

Advice from family, friends, colleagues who are highly trusted
<C-A>

DESCRIPTOR: Participants say they can “trust” or “rely on” the word of mouth advice they get from those who are close to them – their family, friends and work colleagues.

*You got to get advice from the people you trust. What they recommend for you is not necessarily what you may decide may be the best scheme for you. But you trust that they will be able to explain things for you, and interpret things in a way that you can understand.*⁰²⁸ KP M (20-35)

Coding string ⁰²⁸ KP M (20-35) explained:

“028”	The superscript reference identifies a comment. Some comments are assigned to more than one code.
“KP”	This two-letter reference represents a participant
“M”	Comments under each code are counted to establish the frequency/prevalence of viewpoints. A weighting is applied to these scores that reflects the strength of opinion being expressed based on two factors: the specificity of the comment and the conviction/intensity of the comment. *
(20-35)	This age group reference indicates which focus group meeting the comment came from, (20-35), (36-54) or (55+00).

Note. * Frequency and weightings are further explained below.

The basic coding process was conducted at two levels. The first level identified a participant’s quote and allocated to it a superscript identifier or tag. A participant quote, what some researchers describe as a ‘chunk’, could stretch anywhere from a short sentence to two or three longer sentences (Morgan, 1997; Wilkinson 2004). Miles & Huberman say chunks of data in a transcript can be “words, phrases, sentences or whole paragraphs, connected or unconnected to a specific setting” (1994, p.56). It is the researcher’s responsibility to define a unit of meaning in setting the stage for

interpreting and drawing conclusions. It was determined that a useful unit of meaning for the purpose of organizing the data would be a ‘bullet point comment’ in the *Focus group codes and themes* document. This comment was a sentiment or point of view expressed by a speaker, and was usually a single tagged quote but in some cases was two or three tagged quotes merged together.

This is where the second stage of basic coding came in: identifying appropriate places to merge two or more tagged quotes. This was done in instances where a speaker was either being repetitious or was expanding on a point for emphasis or with an example. An example of this first and second level coding is given in Figure 4.2 below, which shows extracts from the transcript and the *Focus group codes and themes* document. Here two closely related tagged quotes about attitude to risk are merged into one bullet point comment when they are transferred across to the *Focus group codes and themes* document. This merging of closely related tagged comments is significant because it has an impact on the measurement of frequency discussed below. In each instance of where quotes have been merged to form a single bullet point comment, an explanation of the reasoning is given in the *Focus group codes and themes* document.

Figure 4.2

Closely Related Comments are Merged and Treated as One Bullet Point

Extract from ‘Focus group transcript (coded)’ document:

SV (speaker)

Not necessarily because of the risks in the funds but because I know very little about investing. So it would be a risk for me to just jump in anywhere.⁰¹¹ (B-B and F-A) I’m avoiding extremes because I know very little. Until I knew more I wouldn’t want to make an extreme decision.⁰¹² (F-A and B-B).

When they were transferred across to the <B-B> and <F-A> codes in the ‘Codes and themes’ document, these related comments were merged and regarded as one point:

- Not necessarily because of the risks in the funds but because I know very little about investing. So it would be a risk for me to just jump in anywhere I’m avoiding extremes because I know very little. Until I knew more I wouldn’t want to make an extreme decision.⁰¹¹⁺⁰¹² (continuation of same point) SV M (20-35)

Note. Extracts from the *Focus group transcript (coded)* document and the *Focus group codes and themes* document illustrate how two closely related comments are merged and treated as one bullet point.

Parallel with the drafting and defining of codes was the emergence of a series of themes that captured the essence of those codes. Just as code-building was an iterative process, so too was the development of themes; in some instances two closely related themes were merged into a single theme, and in other instances a crowded theme was broken into two themes. In many cases a theme reflects a topic on which participants have differing views: ‘Attitude to risk’, for example, captures both negative and positive attitudes; ‘Perceived time to retirement’ captures comments about retirement being a distant concept and comments about retirement being a near-term prospect; and ‘Information sources’ embraces opinions about KiwiSaver providers being helpful with information and providers not being helpful.

Internal consistency and transparency

To improve the internal consistency and reliability of the coding, a second coder independently analyzed the transcript line by line and checked the allocation of comments to codes (Kidd & Parshall, 2000). This resulted in a series of revisions to the initial coding process. Also, for reasons of transparency, an audit trail is provided between the three main data analysis documents:

- The *Focus group transcript (coded)* document – Appendix 6;
- The *Focus group codes and themes* document – Appendix 7;
- Figure 5.1 which summarizes the codes and themes.

A comment in the *Focus group codes and themes* document can be traced back to the transcript using the superscript reference, allowing the reader to check whether the comment has been allocated to any other codes. Similarly, the transcript document makes it transparent how comments have been allocated to codes. Table 4.3 on the following page illustrates how participant comments in the *Focus group transcript (coded)* document are allocated to particular codes. As is shown, in some instances a participant’s bullet point comment can be allocated to two codes.

Table 4.3

Extract from Focus Group Transcript (Coded) Document Shows How Participant Comments are Allocated to Codes

Transcript extract	Mapped to codes
<p>HS: I think it does matter. If I'm reorganising my KiwiSaver investments I'd be thinking very carefully about what kind of fund, how they communicate, the ethical side to what they are investing in I think is really important, and people have to take that more into account these days.⁰⁷³ (G-A and D-B).</p>	<p>>> Code G-A: <i>It matters what fund you are in</i></p> <p>>> Code D-B: <i>It's important to be in an ethical fund</i></p>
<p>MF: In time this will be my second biggest asset after my house so it's important that you do look after it. I did some research before I joined Gareth Morgan, asking a family member and then looking online at the providers' websites because I did want to find the most ethical provider but there is not a lot of choice there.⁰⁷⁴ (G-A and D-B).</p>	<p>>> Code G-A: <i>It matters what fund you are in</i></p> <p>>> Code D-B: <i>It's important to be in an ethical fund</i></p>
<p>Another factor is that in the end I will get an inheritance which is currently invested in a high risk portfolio with Fisher Funds, who are also a KiwiSaver provider. I'm a bit nervous about that because in the last couple of years my inheritance has halved, so I didn't want to put my KiwiSaver funds at the same level of risk.⁰⁷⁵ (D-A).</p>	<p>>> Code D-A: <i>Other assets important factor in fund choice</i></p>
<p>HS: I had a particular colleague at work who was very helpful.⁰⁷⁶ (C-B).</p>	<p>>> Code C-B: <i>Advice from family, friends and colleagues (helpful)</i></p>
<p>I found my employer was disappointing. I was just referred to the IRD website. I wasn't give enough information by the employer or providers, but if I had been proactive I could have found it.⁰⁷⁷ (E-B).</p>	<p>>> Code E-B: <i>Employer as information source</i></p>

Measuring frequency and strength of opinion

Once data had been coded the question arose of whether to quantify the results. Opinion is divided on the issue of quantifying the expression of views within the framework of qualitative research. Because qualitative sampling does not tend to generate a statistically representative set of respondents or participants, expressing results in terms of frequencies can be misleading (Pope, Ziebland, Mays, 2000). Asbury (1995) argues that one danger of quantifying comments is that they may lose their original context. In a broader point, Morgan (1995) says that when focus group participants make comments in a meeting it may be because they find the topic interesting but it is not necessarily what they think is important. For example, a member of a focus group expressing a viewpoint may be a reflection of “the specific pattern of interaction happening at the time” (Sim 1998, p.349).

However, qualitative researchers will sometimes quantify aspects of their data (Bryman & Bell, 2007; Miles and Huberman, 1984; Silverman, 2006) to help uncover the phenomenon under study. As Bryman & Bell point out, qualitative researchers often engage in quasi-quantification through the use of terms like ‘many’ or ‘some’; by quantifying the number of responses under a category the researcher is “injecting greater precision into such estimates of frequency” (2007, p. 635). A common approach in business and management research where interviews or focus groups have been used is to log the number of responses that fall under a particular theme or code in the coding process. Miles & Huberman (1984) recommend that after comments in the interview transcript have been categorized by theme, a ‘content summary sheet’ is generated showing the number of comments under each theme category. The prevalence of comments can be determined in a number of ways (Braun & Clark, 2006; Silverman, 2006; Rabiee, 2004). One method is to count the number of speakers who articulated the theme or code (often called ‘extensiveness’), or to count the number of individual occurrences of the comment (frequency).

In quantifying their narrative analysis some researchers take the process one step further and apply weightings to participants’ comments, reflecting the reality that some comments are more thoughtful or profound than others. “In extracting themes from the interviews it is important to take account of the extensiveness, intensity and specificity of comments made, and more weight should be assigned to such quotes” (Breen, 2006, p. 472). In some studies more weight is applied to a comment that refers to personal experience rather than to a hypothetical situation, or the weighting reflects the depth of feeling in which the comment is expressed (Rabiee & Richardson, 2001).

Applying weightings to bullet point comments

To demonstrate what ideas focus group participants talked most about, the researcher decided to measure the prevalence of opinions under each code. In the *Focus group codes and themes* document (Appendix 7) each bullet point represents a point made by an individual participant. As explained above, in some instances a participant may have made broadly the same point on a couple of occasions during the discussion, and in these cases the researcher has merged the comments into one bullet point.

Bullet point comments were counted to establish prevalence, with a weighting applied to each bullet point that reflects the strength of opinion being expressed. Two criteria were used to assess the strength of opinion in a bullet point comment. The first was ‘the specificity of the comment’ – how detailed and extensive is the comment; is it based on the participant’s personal experience, backed with detail, or is the comment brief, abstract and lacking detail? The second criterion was ‘the conviction/intensity of the comment’ – to what extent does the speaker communicate a depth of feeling and strongly-held opinion on the issue? A three-stage weighting scale was developed against which bullet point comments would be measured: Low (scoring 1), Medium (scoring 2) and High (scoring 3). The default was Medium and 97 out of 137 bullet point comments score 2 points. Examples and explanations of how the Low, Medium and High ratings were applied are provided in Figure 4.3 on the following page.

Figure 4.3

Extracts from the 'Focus groups codes and themes' Document Show how Weightings are Applied to Bullet Point Comments

Examples of weightings applied to bullet point comments in the 'Focus group codes and themes' document:

L – comment is brief and/or very general or abstract in nature; or it is said with little conviction/intensity (scores 1). For example:

- I'd rather be safe than sorry.⁰¹⁰ OJ L (20-35)

This rates an L because it is brief, off-the-cuff and slightly cliched expression not backed with any detail or personal experience.

M – comment is average in terms of strength of opinion, intensity and/or specificity (scores 2). For example:

- I don't want to lose anything but I also don't want to sit on the conservative. When I went into it I was 53 so I was looking at 12 years maximum. In terms of saving for retirement that was pretty short. I haven't got enough time for conservative and balanced might just get me there a bit faster.⁰⁹⁵ DB M (55+00)

This comment rates an M because it is a thoughtful and well expressed, and the speaker backs it up with sufficient personal experience and detail.

H – comment is extensive or detailed/specific in nature, reflecting a personal experience; or it is said with conviction/intensity (scores 3). For example:

- An ethical scheme because I didn't want to be investing in tobacco or armaments companies. But I've found it very difficult to provide an employer that excluded companies that I didn't want to invest in. I'm with Gareth Morgan and I see that I've got shares in Pepsi Cola and McDonalds which I would rather not. But there isn't a provider that excludes takeaway and soft drink companies. If there was I would choose that provider. In my view soft drink companies aren't ethical.⁰⁵³ MF H (36-54)

This comment rates an H because the speaker has strong feelings about the issue, uses examples to make the point, and expresses the comment with considerable conviction.

The summary graphic Figure 5.1 in the Findings chapter shows the main themes and codes that emerged from the focus group meetings. This summary is discussed in detail in the Findings and Discussion chapters. The figure appearing in the corner of each box in Figure 5.1 is a measure of the prevalence of the code or theme based on the weighted mentions procedure discussed above.

Stimulus card data collation

This exercise, referred to earlier in this chapter, was conducted with participants at the start of each focus group meeting. To recap, the top stimulus card in the 12-card pack asked participants, ‘If you were deciding today on an investment fund for your KiwiSaver savings, which would you choose?’ They had five options: Conservative, Conservative/Moderate, Balanced, Growth and Aggressive. They then had to consider what factors were influencing their choice of fund and were presented with eight ‘potential factor’ cards (eg ‘What I’ve learned from the media’), plus several blank cards onto which they could write down other factors they felt had influenced them. Participants were asked to rank their top three influencing factors 1, 2 and 3, and were then asked to talk about their top three cards.

The contents of the cards is shown in Appendix 5. The participants’ fund choices and influencing factor rankings are shown in two summary tables (Table 5.1 and Table 5.2) in the Findings chapter. The collated results of the stimulus card exercise are provided in Appendix 8.

Questionnaire and case studies

Participants completed a questionnaire at the end of each focus group meeting. The *Focus group questionnaire* (Appendix 4) collected demographic information on each participant, as well as information on what KiwiSaver scheme they belong to. The completed questionnaires were collated into brief case studies on the 17 participants. The *Participant case studies* document is appended (Appendix 9).

Triangulation of data sources

In the context of research methods, triangulation can refer to the use of multiple observers, multiple methodologies, or multiple data sources (Hoepfl, 1997). Patton (1999 page 1193) says using different data collection methods is ‘methods triangulation’, while examining the consistency of different data sources within a method is ‘triangulation of sources’.

At the completion of the field work the researcher had three data sources available, allowing for a degree of triangulation in the analysis work. The first source was the output of the focus group meetings in the form of the *Focus group codes and themes* document (Appendix 7), summarized in Figure 5.1. The second source was the results of the stimulus card exercise (Appendix 5) where participants selected a

KiwiSaver fund from five options, and then ranked a series of cards containing potential influencing factors, summarized in Tables 5.1 and 5.2. The third source was data from a questionnaire completed by focus group participants (Appendix 4) which gathered details regarding their actual KiwiSaver provider, their method of joining the scheme (active choice or default) and their current fund choice.

Data from all three sources was used to build a model of factors influencing the investment fund choices that New Zealanders are making when they join KiwiSaver. This model is shown in Fig 6.1 and discussed in detail in the Discussion chapter.

Table 4.4

Summary of Focus Group Documents and Data Outputs Provided in Appendices, Tables and Figures

Focus group meeting documents

Focus group participant information sheet:	Appendix 1
Focus group consent/confidentiality form:	Appendix 2
Focus group guiding questions:	Appendix 3
Focus group questionnaire:	Appendix 4
Focus group stimulus cards:	Appendix 5

Data outputs

Focus group transcript (coded):	Appendix 6
Focus group codes and themes:	Appendix 7
Results of stimulus card exercise	Appendix 8
Participant case studies:	Appendix 9
Summary of codes and themes from focus groups:	Figure 5.1
Participants' fund choices/influencing factors (by individual):	Table 5.1
Participants' fund choices/influencing factors (by focus group):	Table 5.2

Chapter 5 FINDINGS

This chapter presents the data emerging from the field work, comprising the three focus group meetings, the stimulus card exercise and the questionnaire. The sub-headings in this chapter are based on the main themes emerging from the focus groups as illustrated in Figure 5.1 on the following page. A ranking procedure is used in Figure 5.1 to show the prevalence of themes and codes in the focus group meetings. Themes are ordered top to bottom, so ‘Attitude to risk’ was the most prevalent theme and ‘Other assets’ the least prevalent. Codes making up those themes are ordered from left to right. Numbers in the corners of each box in Figure 5.1 reflect the prevalence of themes and codes. The prevalence number in the corner of a theme box is the sum total of the codes making up that theme.

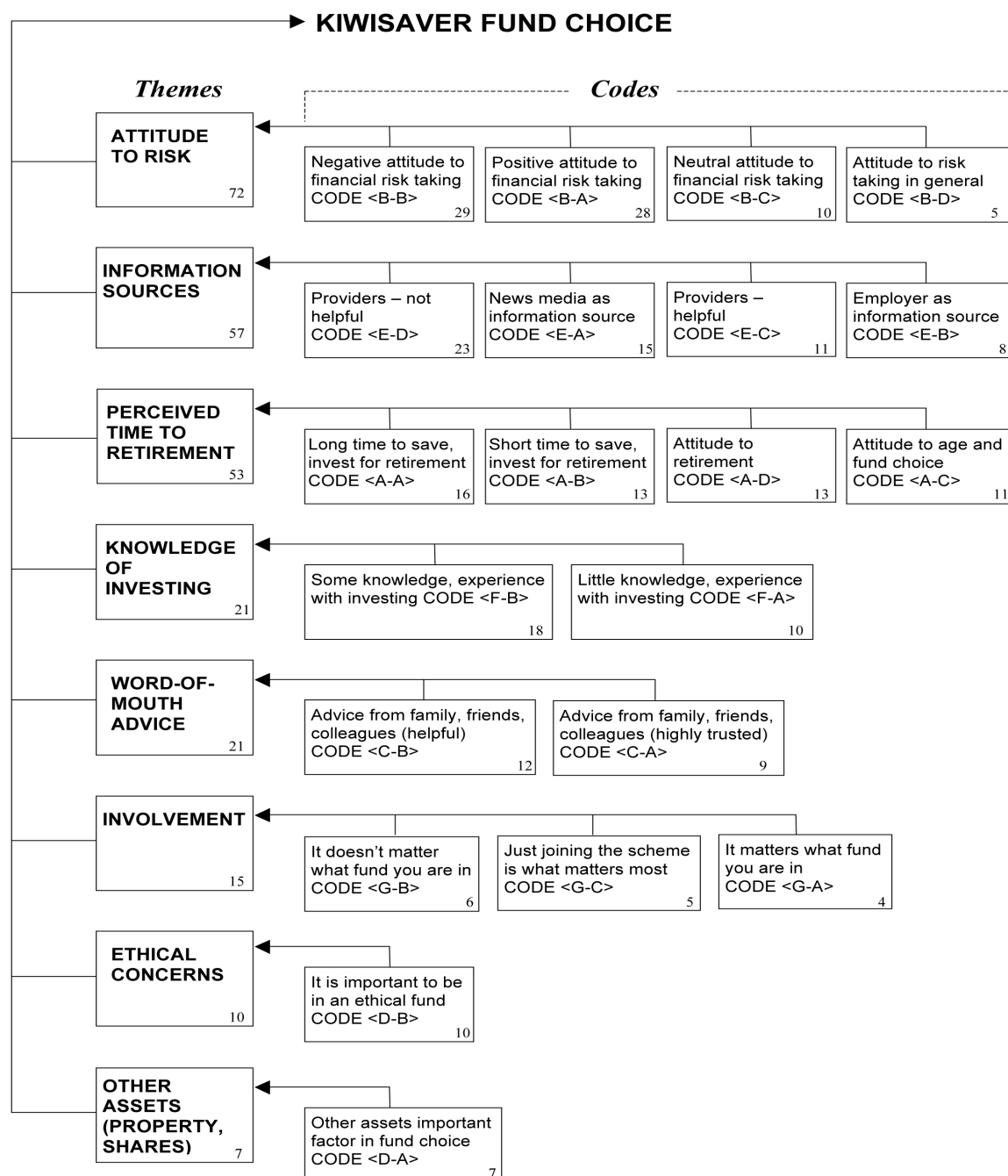
Table 5.1 provides the results from the stimulus card exercise. It shows the investment funds chosen by participants at the meetings, as well as the top three factors they each felt were influencing their choice of fund. The final column of Table 5.1 is labelled ‘Actual KiwiSaver membership’. This data, gathered from the questionnaire, shows which participants actively chose a provider when they joined KiwiSaver and which went with their employer’s default provider; it shows the current provider for all 17 participants; and it shows what type of fund participants are currently in.

Table 5.2 provides a summary of the raw data in Table 5.1. The columns under ‘Investment fund choice’ show how many people in each focus group chose each of the investment fund options. The number is given in brackets, so for example, three participants in the 20-35 age group chose ‘Growth’. The group scores for ‘Influencing factors’ were calculated as follows: each participant’s first choice of influencing factor was given three points, their second choice two points and their third choice one point. Scores were totalled for each group and for all participants.

The final section in this chapter, on the influence of the scheme default settings and participants’ current KiwiSaver fund, is based on responses provided in the *Focus group questionnaire* and summarized in the final column of Table 5.1. An analysis and interpretation of the findings, along with a model explaining the factors influencing the KiwiSaver fund choice (Figure 6.1), is provided in the Discussion chapter.

Figure 5.1

Codes and Themes Emerging from the Focus Group Meetings



Note. The prevalence of codes and themes is ordered top to bottom for themes, left to right for codes. Numbers in the corner of each box reflect the prevalence of each code.

Table 5.1

Participants' Fund Choices and Top Influencing Factors (by individual) from the Stimulus Card Exercise

	Investment fund choice	Influencing factors			Actual KiwiSaver membership
		First	Second	Third	
20-35					
NF	Conservative	Advice from family, friends, colleagues	What I've learned from the media	Attitude to risk	Active choice, Gareth Morgan, Balanced
KB	Growth	Attitude to risk	Advice from family, friends, colleagues	Age and other assets	Active choice, Gareth Morgan, Balanced
OJ	Conservative	Age and other assets	Advice from family, friends, colleagues	Professional financial advice	Active choice, ASB, Conservative
SV	Balanced	Attitude to risk	Avoiding extremes	Age and other assets	Employer default, Tower, Default
KP	Growth	Advice from family, friends, colleagues	Age and other assets	Attitude to risk	Active choice, Fisher Funds, Growth
BO	Growth	Age and other assets	Past experience with investing	Attitude to risk	Employer default, Tower, Mixed
36-54					
MF	Balanced	Attitude to risk	I'd like to choose an ethical scheme*	Advice from family, friends, colleagues	Active choice, Gareth Morgan, Balanced
SJ	Growth	Age and other assets	Choice*	Advice from workplace, provider, Government	Employer default, Mercer, Balanced
HS	Balanced	Advice from family, friends, colleagues	Age and other assets	What I've learned from the media	Employer default, Tower, Default
KF	Conservative/Moderate	Attitude to risk	What I've learned from the media	Past experience with investing	Employer default, Tower, Mixed
TV	Growth	Attitude to risk	Age and other assets	Advice from workplace, provider, Government	Employer default, Tower, Mixed
55+					
DB	Balanced	Attitude to risk	Age and other assets	Advice from workplace, provider, Government	Employer default, Tower, Default
HM	Balanced	Attitude to risk	Past experience with investing	Age and other assets	Active choice, ANZ, Mixed
HT	Growth	Age and other assets	Attitude to risk	Made money in growth funds*	Active choice, AXA, Balanced
BS	Growth	Unhappy with default provider*	Analysis of top performers*	What I've learned from the media	Active choice, Milford, Growth
BM	Growth	Age and other assets	Past experience with investing	Attitude to risk	Employer default, Tower, Growth
TP	Conservative/Moderate	Attitude to risk	Avoiding extremes	Age and other assets	Employer default, Tower, Default

*Any other factor choices

Table 5.2

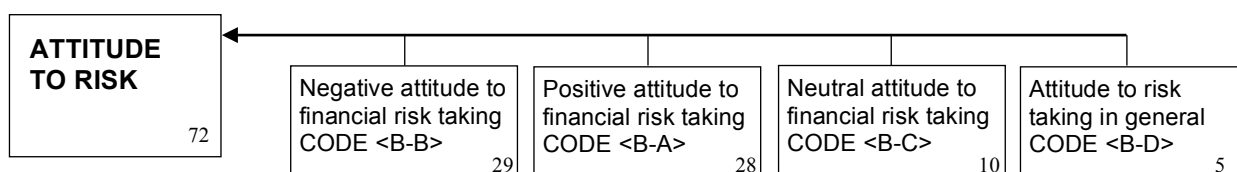
Participants' Fund Choices and Top Influencing Factors (by group) from the Stimulus Card Exercise

	Investment fund choice			Influencing factors		
	First	Second	Third	First	Second	Third
20-35	Growth (3)	Conservative (2)	Balanced (1)	EQUAL: Age and other assets (10) & Advice from family, friends, colleagues (10)		Attitude to risk (9)
36-54	EQUAL: Balanced (2) & Growth (2)		Conservative/Moderate (1)	Attitude to risk (9)	Age and other assets (7)	Advice from family, friends, colleagues (4)
55+	Growth (3)	Balanced (2)	Conservative/Moderate (1)	Attitude to risk (12)	Age and other assets (10)	Past experience with investing (4)
All	Growth (8)	Balanced (5)	EQUAL: Cons (2) & Cons/Moderate (2)	Attitude to risk (30)	Age and other assets (27)	Advice from family, friends, colleagues (14)

5.1 Attitude to Risk

Figure 5.2

Codes Within the 'Attitude to risk' Theme



Attitude to financial risk is the dominant factor influencing KiwiSaver members making the fund choice decision. Risk was uppermost in the minds of the focus group participants, in relation to both their KiwiSaver decision and their financial planning generally. As Figure 5.1 shows, the four codes that make up the 'Attitude to risk' theme scored 72 weighted mentions between them. The prominence of this theme was also evident in the stimulus card exercise where 'Attitude to risk' ranked clearly as the top influencing factor for participants. It was chosen as the number one influencing factor by 8 of the 17 participants (Table 5.1).

While there were some opinions offered on risk taking in general (code B-D), all of them expressing risk aversion, the majority of sentiment expressed in all three groups was on attitude to *financial risk*. Participants were evenly split on the topic with half

having a negative attitude and half a positive attitude to financial risk, based on the weighted mentions scale shown in Figure 5.2.

Negative attitude to financial risk taking

Negative attitudes to financial risk were voiced in all three groups. The younger participants who were risk averse said it was because they were not well enough informed, not sufficiently experienced or just “not having a head for finance”. For those in the 36-54 and 55+ groups and uncomfortable with risk it was the fear of potential losses that put them off. One said she would “hate to go backwards” while another did not want people “playing” with his savings. The following two examples are from participants who both chose the conservative/moderate fund option:

- Since KiwiSaver is a Government recommended scheme, with not only your own contribution by also from the Government and your employer. So I think safety is the most important thing. I don't want to lose my money. ⁰⁶³ KF M (36-54)
- I don't have much time to go so I don't want to lose anything. I want to be on the safe side. It's not necessarily going to make me a lot of money, I know, but avoids the possibility of losing. ¹¹⁶ TP M (55+00)

Positive attitude to financial risk taking

Positive attitudes to financial risk (code B-A) were more prevalent in both the 20-35 and 55+ age groups than in the 36-54 age bracket. Participants who welcomed risk mostly saw it as a route to faster funds growth. This example, which came from a participant who chose a growth fund in the stimulus card exercise, regarded risk as being mitigated by a 30-year time span, and was typical of those comfortable with risk in the 20-35 focus group:

- A growth fund may have its ups and downs but overall it grows at a faster rate for say 30 years then you are going to be in a better position. From my point of view, the risk is well worth taking. The biggest risk is that there is a massive dip when you want to get your money out when you reach retirement, but I guess you can mitigate that risk to some degree closer to that time. ⁰³⁵⁺⁰³⁶ KP M (20-35)

A similar outlook on the relationship between financial risk and the timeframe was expressed by someone in the 55+ group who chose the growth fund:

- I'm a bit surprised so many people are choosing conservative and not risking more because they have got a lot of years to get there. At a younger age you're able to risk a lot more and recover. Whereas going to conservative is something I'll choose at some stage. You don't want to risk it all. But it's kind of counter-intuitive. A lot of people don't understand how it works. ¹³⁹ HT M (55+00)

Most of those in the 55+ age bracket who were comfortable with financial risk understood the received wisdom about reducing risk exposure with age. A couple felt that because they had relatively small balances in their KiwiSaver accounts they could afford to be a bit more risk-taking in search of higher returns. One 55+ participant who had opted for a growth fund in the stimulus card exercise had not let age reduce her appetite for risk:

- I've chosen growth because I'm an optimist and I only have a few years to be in KiwiSaver. So who cares. So I'm paying in 8% at the moment. I like playing with money. I lost money in the 87 share market crash. I like taking risks. Risk doesn't worry me. It's a bit of fun. I'm an optimist. I'm on my own so it doesn't matter. If I make a stupid mistake it will only affect me.¹¹³⁺¹¹⁵⁺¹³⁵ BM M (55+00)

Neutral attitude to financial risk taking

While most comments on financial risk were expressing a clearly positive or clearly negative standpoint, some participants talked about taking a middle position on the issue. Some saw the option of shifting between growth and conservative funds, or of balancing risk by splitting their funds between two or more funds. One participant wanted to steer a middle course:

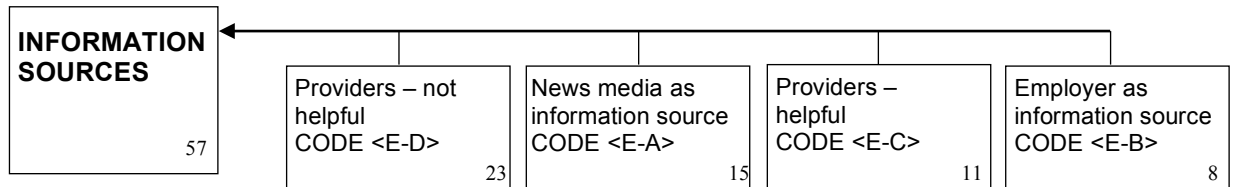
- I prefer to be safe. I think with my age I still want to have some growth so that when I retire I can have more money. I want something that will grow more than a bank deposit.⁰⁶² KF M (36-54)

The importance of risk attitude as an influencing factor in fund choice is emphasized by its showing in the stimulus card exercise. When analyzed by focus groups, 'Attitude to risk' came out the top factor for all participants, as well as the top factor in both the 35-54 and 55+ age brackets (Table 5.2).

5.2 Information Sources

Figure 5.3

Codes Within the 'Information sources' Theme



Providers not helpful

Many participants felt that their choice of investment fund was influenced by information and recommendations coming from their employer, the media, the government and providers. The most surprising aspect of this was that many participants had a negative view of providers' ability to supply them with timely and useful information. Some felt they had been poorly informed when they joined the scheme, but the most common criticism was their dissatisfaction with the ongoing information and fund performance reporting they were getting from their provider.

Among the criticisms from participants was that their provider had not clarified where their funds were invested; or the information they were getting was "too confusing" or lacked detail; or the communications were infrequent or required too much effort on the part of the client. As one participant put it:

- The information isn't good enough. When I get the information it doesn't mean a whole lot to me. Because this is a retail scheme things need to be simplified and explained to people. ⁰⁴⁷ SV M (20-35)

One participant felt that at the time new employees are recruited to KiwiSaver, or when an existing employee elects to join the scheme, "the onus is on providers to make sure that we are well informed". A client of Tower, which came in for criticism from several participants, he said he had received no communication at all in the two years since he joined KiwiSaver. Another participant felt that the default providers like Tower "can be lazy and still get the numbers".

News media as information source

The role of the media as an information source for KiwiSaver recruits and members was a popular topic. Views expressed on the media were strongly positive with most regarding the media as an important or helpful source of information. One participant liked the fact the media were detached. Two said they were avid readers of financial columnist Mary Holm's column in the New Zealand Herald. Others said the media had been useful in pointing to poor performance in one case, and one participant talked up what she had learned from the media "about the finance companies and others who will cheat investors". Another said the media had been his primary information source:

- I've learned most of what I know about KiwiSaver through the media and not through the Government or workplace seminars. ⁰⁵⁹ HS L (36-54)

There was one critical voice from the youngest focus group regarding the quality of information coming through the media:

- I don't trust too much of what's reported in the media. You have a lot of people saying a lot of different stuff. Sometimes you can't tell whether people are really qualified to comment, or whether it's purely marketing to talk up their scheme. ⁰²¹ KP M (20-35)

Providers helpful

Other participants had a more positive view of their providers' ability to supply useful, timely information. A Fisher Funds client, for instance, described the standard of communication as "excellent", while a Milford client felt a monthly newsletter was providing a good insight into fund performance. Three Gareth Morgan clients all seemed pleased with the detailed monthly reports they were receiving on their investments.

- Gareth Morgan, balanced. I get monthly email report that gives a breakdown of every company I own shares in as well as charts showing the growth of my fund against the industry standard, and some commentary. There's plenty of information, I wouldn't need any more. ⁰⁷⁰ MF M (36-54)

Participants were tending to focus more on the information flow from providers since they had joined the KiwiSaver, as opposed to when they were joining. But this is still significant because without useful ongoing information about performance, scheme members would be unlikely to re-evaluate their original fund choice decision.

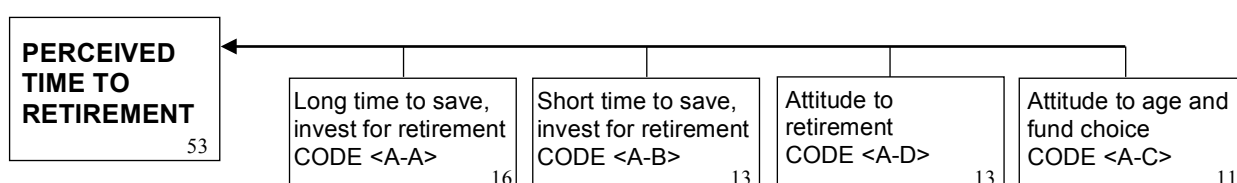
Employer as information source

There was little discussion on how well employers were doing in terms of providing information. However, a few participants had looked to their employer for information about KiwiSaver, and those who had reported mixed results. Two participants felt disappointed by the information their employer was able to provide, one saying he was just “referred to the IRD website”, and another saying the material from her employer was insufficient and too general. Two other participants were mildly positive about their employers, one saying her employer had plenty of information on its provider while another said her employer held several seminars.

5.3 Perceived Time to Retirement

Figure 5.4

Codes Within the ‘Perceived time to retirement’ Theme



KiwiSaver members regard their age and life stage as important factors when they weigh up their fund choice options, and based on the evidence from the field work this has been rated the second most important factor in the KiwiSaver fund choice (Figure 6.1). Many focus group participants talked about financial planning for their retirement in terms of their life stage. They also expressed some broader opinions on the relationship between an individual’s age and what would be an appropriate fund choice. However, the most prevalent comments focused on how they perceived the proximity of their retirement – how close or how distant their retirement seemed to them (all captured in the A-A, A-B and A-D codes). Some also expressed opinions on retirement in general, or government policy relating to retirement financial planning (A-C code).

Long time to save, invest for retirement

Not surprisingly, the youngest focus group, the 20-35-year-olds, saw retirement as well over the horizon. One participant, who thought the retirement age would be at 70 when he got there, said he had “a massive amount of time” to follow a growth path and to

cope with any volatility. Another said that having decades to save and invest for retirement justified his choice of a growth fund:

- I've got 40 years to retirement which is a long time and I back myself to end up better off then following a growth approach than taking a conservative outlook.⁰⁰⁷ KB M (20-35)

Short time to save, invest for retirement

Only one participant from the middle age group and one in the 55+ group expressed the view that they still had a long time to save and invest for retirement, and both had again chosen a growth fund. All the comments under the A-B code – perceive a short time to save/invest for retirement – came from the two older focus groups. A couple of 55+ participants talked about needing to be more conservative given their shorter time horizon: “At my age I need to be a bit more conservative than high risk,” for example. Interestingly, other participants bucked the conventional wisdom and said their short time horizon meant they could not afford to be conservative:

- I think I'm in a growth fund but that's definitely what I would choose now. I'm in my early 50s so I don't have a great many years left so it has to grow big.¹¹⁰ BS M (55+00)
- I don't want to lose anything but I also don't want to sit on the conservative. When I went into it I was 53 so I was looking at 12 years maximum. In terms of saving for retirement that was pretty short. I haven't got enough time for conservative and balanced might just get me there a bit faster.⁰⁹⁵ DB M (55+00)

Attitude to retirement

Participants expressed some broader attitudes towards retirement planning or towards the prospect of one day retiring, and in some cases these attitudes could have a bearing on their financial planning. Younger participants talked about retirement being a long way off but they were aware they had to make arrangements for it. They had other priorities of course:

- I've thought about it in terms of the percentage of my income going in. I do have some other priorities and you have to think how much of my income can I put towards this. It's so far away and you want to buy a house and things like that.⁰⁴⁵ KB M (20-35)

Comments from those in the 55+ age bracket centred on the financial progress they had made before KiwiSaver came along. One participant talked about the good sense of New Zealanders towards planning for retirement and how many were rightfully wary of putting a lot of their savings into the share market in difficult financial times.

Attitude to age and fund choice

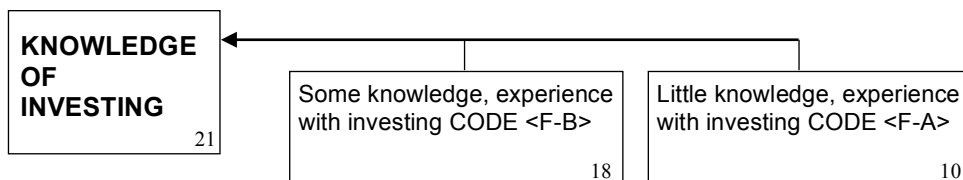
In broader views on the relationship between age and fund choice, some articulated the received wisdom, such as: “I’m a bit surprised so many people are choosing conservative ... at a younger age you’re able to risk a lot more and recover”. Another participant said the younger you were “the more time you had for a volatile investment to go up and down but grow more strongly”. However one participant held a contrary view, arguing that younger KiwiSaver members should be going into conservative funds.

- If I was going into this and I was 25 I’d be going for conservative. Because you’d be putting a lot of money in over a lifetime and it might be your major retirement fund and so I wouldn’t be taking any risks at all. I can understand what you mean Allison about ‘it’s not a lot, it’s only close to the end of your working life and you can afford to gamble a little bit. For me the younger I was the more conservative I would be. ¹²⁴ DB M (55+00)

5.4 Knowledge of Investing

Figure 5.5

Codes Within the ‘Knowledge of investing’ Theme



Some knowledge or experience with investing

Previous experience with investing – or the lack of previous experience – has a bearing on the KiwiSaver fund choice. Participants in the 55+ age bracket were the most talkative on the subject, however there were differences of opinion on the idea of switching from one fund to another or one provider to another. One 55+ participant felt that because switching was easy “it didn’t really matter if you started off and felt you’d made a mistake – you could change to another provider or another fund”. Another in the same age bracket felt people’s inertia prevented them from switching, while a third felt that switching funds was no more fruitful than “changing queues at the supermarket”.

Some younger participants who had experience of investing felt that the volatility of the financial markets in recent years – coupled with the widespread failure

of finance companies in New Zealand – would have made some scheme members wary of investing in shares. However one 20-35 age bracket participant who had chosen a growth fund in the stimulus card exercise said his previous experience had influenced his fund choice:

- I've invested probably 40% of my assets in shares over the last decade. So I know what I'm getting into with this. ⁰²⁵ BO M (20-35)

Limited knowledge or experience with investing

This viewpoint came mostly from the younger participants, and all but one of the comments in this code emerged from the 20-35 age bracket focus group. They talked about their “poor understanding of the financial markets”, about not having a head for finance, and being “just not informed enough to take risks”.

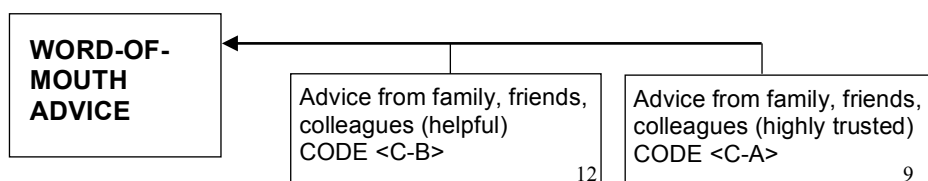
- I have a poor understanding of the financial markets and how they work, but I'm aware of the volatility and that puts me off. I haven't received much professional advice and I don't have much past experience with investing. ⁰¹⁶⁺⁰²² SV M (20-35)

One older participant (55+) said she had gone with her employer's default provider because she was not into reading balance sheets: “I don't understand it and it bores me to tears.”

5.5 Word-of-Mouth Advice

Figure 5.6

Codes Within the 'Word-of-Mouth advice' Theme



‘Advice from family, friends, colleagues’ turned out to be a strong influencing factor, but only for one focus group, the 20-35-year-old age bracket. In their focus group meeting, participants talked of how they listened to advice from those close to them, finding that advice to be at least helpful and in some cases highly trusted. In the stimulus card exercise, ‘Advice from family, friends, colleagues’ ranked as equal first

for the youngest focus group as a fund choice influencing factor. It has therefore been ranked overall third in the final model of influencing factors in Figure 6.1.

Advice from family, friends, colleagues (helpful)

All but one of the comments under this code came from participants in the 20-35 and 36-54-year old groups. Participants talked about listening to the advice of family members, or learning from their friends, or just talking things over with friends and work colleagues who were in a similar situation to them. In all cases participants found the advice helped in their decision making process.

Advice from family, friends, colleagues (highly trusted)

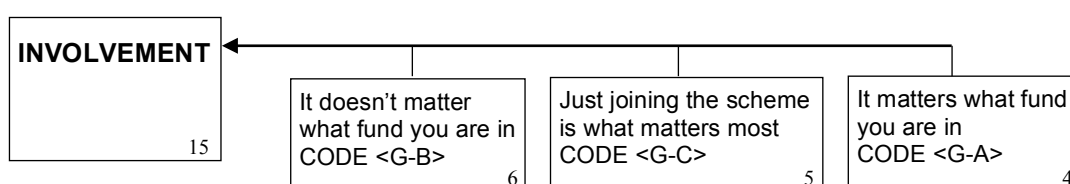
All comments under this code came from those in the 20-35 focus group. Participants talked about trusting or relying on the judgement and advice of family members who had experience with financial matters. They felt that those close to them had their best interests at heart. As one participant put it:

- You got to get advice from the people you trust. What they recommend for you is not necessarily what you may decide may be the best scheme for you. But you trust that they will be able to explain things for you, and interpret things in a way that you can understand.⁰²⁸ KP M (20-35)

5.6 Involvement

Figure 5.7

Codes Within the 'Involvement' Theme



It doesn't matter what fund you are in

Some participants were not engaged with the fund choice decision, saying they were indifferent about where their savings were invested, or they were prepared to accept their employer's default scheme and fund. A younger (20-35) participant, who had joined for the "free money" in the Government's kick-start, said he would not be concerned about the fund until he started to see losses. Two other participants who had

gone with their employer’s default had either not got around to choosing a fund or were just not interested in doing the research.

Joining the scheme is what matters most

Several comments captured the idea that the most important or obvious choice was to be in the scheme because “it was such a good deal”, it was “a no brainer” or it was easy to switch funds later but “the main thing was to be in the scheme”. These sentiments were all expressed by older (55+) participants.

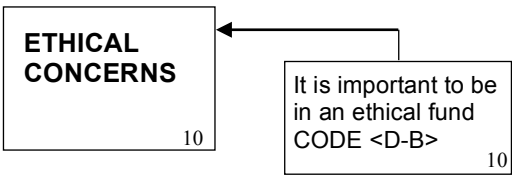
It matters what fund you are in

A couple of participants, both in the 36-54 age bracket, felt the fund choice was an important decision. One gave two reasons: first, KiwiSaver would be her second biggest asset after her house so it was “important that she looked after it”; and second because she was looking for an ethical fund. Another participant had several concerns:

- I think it does matter. If I’m reorganising my KiwiSaver investments I’d be thinking very carefully about what kind of fund, how they communicate, the ethical side to what they are investing in I think is really important, and people have to take that more into account these days. ⁰⁷³ HS M (36-54)

5.7 Ethical Concerns

Figure 5.8
Code Within the ‘Ethical concerns’ Theme



Several participants in the 36-54 age bracket focus group felt their ethical concerns would influence their choice of KiwiSaver fund. One said the ethical side of investing was important and “people had to take it more into account these days”. Another said she had actively looked for a provider offering an ethical fund but none had met her standards:

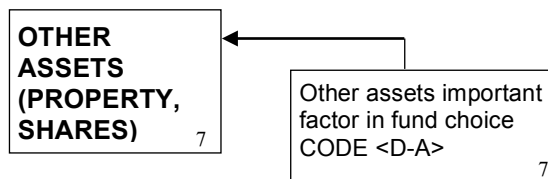
- I didn't want to be investing in tobacco or armaments companies. But I've found it very difficult to find a provider that excluded companies that I didn't want to invest in. I'm with Gareth Morgan and I see that I've got shares in Pepsi Cola and McDonalds which I would rather not. But there isn't a provider that excludes takeaway and soft drink companies. If there was I would choose that provider. In my view soft drink companies aren't ethical. ⁰⁵³ MF H (36-54)

Another participant said it was interesting that the ethical investment issue had arisen as she had previously only been concerned with whether her investment was growing and that it was legal. The participant who raised the issue in the 36-54 focus group had also added it as an additional factor in the stimulus card exercise, putting "I'd like to choose an ethical scheme" as her second influencing factor.

5.8 Other Assets (Property, Shares)

Figure 5.9

Code Within the 'Other Assets (Property, Shares)' Theme



Participants who had other assets such as property or shares said they had taken these other investments into account when choosing their KiwiSaver fund. In one case a participant in the 55+ age bracket had already started other investments "because the government wasn't looking like being there for us". Another had chosen a balanced fund in both the stimulus card exercise and with her actual KiwiSaver provider because she wanted a less risky investment than an expected inheritance was currently invested in.

- Another factor is that in the end I will get an inheritance which is currently invested in a high risk portfolio with Fisher Funds, who are also a KiwiSaver provider. I'm a bit nervous about that because in the last couple of years my inheritance has halved, so I didn't want to put my KiwiSaver funds at the same level of risk. ⁰⁷⁵ MF H (36-54)

5.9 Default Settings

The *Focus group questionnaire* (Appendix 4) collected demographic information on each participant and details of their current KiwiSaver scheme and their investment fund. This data is provided in the final column of Table 5.1. The strong influence of KiwiSaver's default settings are in evidence here as nine of the 17 participants had opted to go with their employer's default KiwiSaver provider. These nine participants were distributed across the three focus groups, with two in the 20-35 group, four in the 36-54 group and three in the 55+ group. Of the eight participants identified in Table 5.1 as having made an active choice of KiwiSaver provider, one was self employed and another was not a full-time employee. So of the 15 who were full-time employees, nine had gone with their employer's provider.

The point was made in the Methodology chapter that focus group participants were not asked to discuss their actual choice of KiwiSaver provider, investment fund and influencing factors because in most cases two or three years would have passed since they had joined the scheme. It was decided that it would be more fruitful to ask participants to select a fund on the night and discuss what factors they felt were *currently* influencing their thinking on their long-term financial planning. It is nevertheless clear from the questionnaire results that participants were heavily influenced by their employer's default settings, at least in terms of the employer's KiwiSaver provider. As one 55+ participant put it: "I just placed my confidence in my employer – that someone had made a considered decision to go with Tower. I'm not into reading balance sheets."

However, many of those going with their employer's default provider had not necessarily stuck with the provider's default fund. Of the nine participants who had gone with the default provider, four had remained in the provider's default (conservative) fund, while five had opted to switch into other funds, such as balanced or a mix of funds, or in one case a 55+ participant had switched into a growth fund.

Employer default settings as an influencing factor joins the other factors discussed in this chapter in a summary graphic (Figure 6.1) at the start of the following Discussion chapter. The Discussion chapter argues that the model represented in Figure 6.1 answers the research question at the centre of this study and explains the main factors influencing the KiwiSaver fund choice decision.

Chapter 6 **DISCUSSION**

This chapter starts with a model (Figure 6.1) that answers this study's research question: What factors are influencing the investment fund choices of New Zealanders joining KiwiSaver? Evidence for the influencing factors shown on the left of the model emerged from the focus groups and stimulus card exercise, and in most cases the findings are supported by previous research. The factor on the right, 'Employers' KiwiSaver default settings', is based on data from the questionnaire, from the focus group meetings and from data published by the government, again backed the literature.

The design, rules and incentives built into KiwiSaver were always going to influence how New Zealanders responded to the scheme. People have clearly been affected by the by the auto-enrolment rule, which has contributed to 1.75 million joining the scheme by June 2011. New Zealanders are being attracted by the incentives that KiwiSaver offers in the form of employer and government subsidies. Another aspect of the scheme's design is the conservative bias built into the default funds which means a high proportion of KiwiSavers are invested in highly conservative schemes.

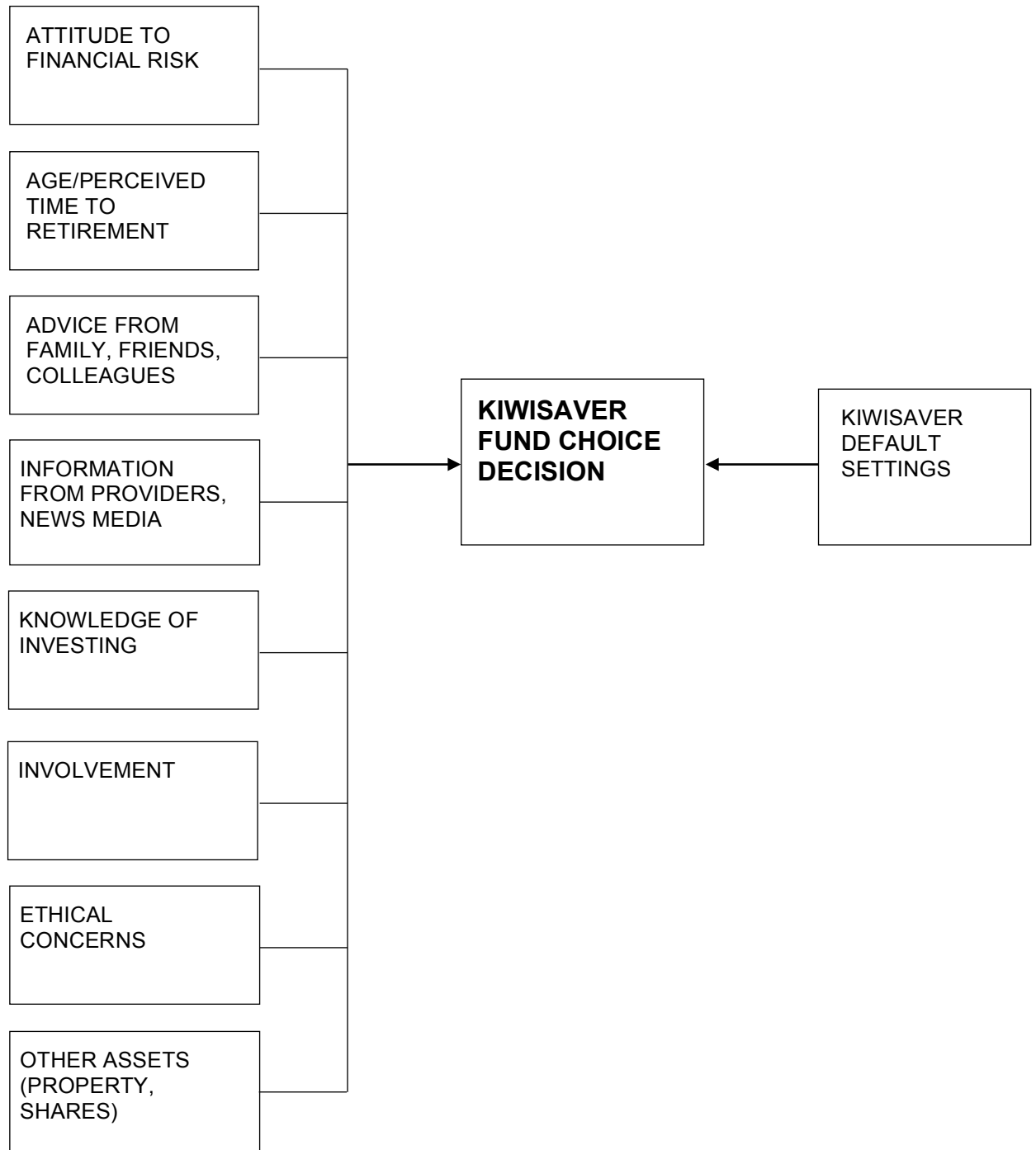
This chapter discusses in turn each of the main influencing factors on fund choice identified in Figure 6.1, analyzing and interpreting the field work findings in the context of what other studies have found. The implications of these findings for providers, scheme members and policy makers are also explored. The chapter concludes with a discussion on KiwiSaver's default rules and their consequences, with some suggestions for changes when the default provider arrangements are reviewed, scheduled for 2014.

6.1 Attitude to Financial Risk

This study has identified three main issues linking financial risk attitude with the KiwiSaver fund choice decision: first, risk attitude emerges as a strong determinant of portfolio selection; second, those with negative attitudes to risk are worried about the security of their savings and are therefore more likely to opt for a conservative portfolio; and third, those with positive attitudes to risk see it as a route to faster capital growth and are more likely to invest in a growth portfolio.

Figure 6.1

Factors Influencing KiwiSaver Fund Choice



Risk attitude a strong determinant of investment behaviour

KiwiSaver members' attitude to risk was always going to be an important factor in how they responded to the scheme, given that their funds are not guaranteed or underwritten in any way by the government or by their providers. The architects of KiwiSaver acknowledged this issue of personal risk when they chose to base the default schemes on a conservative investment approach. For their part, the providers have responded to the personal risk factor by displaying prominent advice and warnings on their websites about the trade-offs between low risk and high risk funds.

The conservative bias in KiwiSaver funds management is evident, with 57 percent of the funds invested at the end of June, 2011, placed in conservative (including default) or conservative/moderate funds (Morningstar, 2011). This compared with 18.5 percent in balanced funds, 16.6 percent in growth, and 8 percent in aggressive (see Table 2.4). While some KiwiSavers are in default schemes because they simply accepted their employer's defaults and took no active part in choosing a provider or a fund, others would have made a conscious decision to follow the default settings. The influence of the scheme's default settings are discussed in detail in section 6.9.

This study shows that KiwiSavers' attitude to financial risk is a dominant influencing factor in the fund choice decision. Participants' attitude to risk was the most prevalent issue in all three focus group meetings, and it ranked as the participants' top influencing factor in the stimulus card exercise. Interestingly, focus group participants were evenly split on whether financial risk was good or bad, with half holding a positive attitude and half a negative attitude to financial risk.

Perceptions of risk have been established in the literature as powerful determinants of consumer behaviour, particularly in the services sector (V. Mitchell, 1999; Murray & Schlacter, 1990). Consumers perceive several risks with financial services, including their complexity, their intangible nature, and the uncertainty over their outcomes (Harrison et al., 2006; Howcroft, Hower, & Hamilton, 2003). As McKechnie (1992) pointed out, consumers are buying a set of promises, and in the case of KiwiSaver they will have to wait until their retirement to evaluate whether the promises have been fulfilled. At the time they join the scheme, they have little useful information to go on and can only guess at the likelihood of their investment failing and the consequences of that failure (Bauer, 1960). If they are risk averse, KiwiSavers will worry about the safety and security of their funds, about the lack of independent financial advice, and about the likelihood of politicians changing the rules governing the scheme, which has already happened twice. "Consumers are cautious and cynical about

putting their money into superannuation, preferring to put money into investments perceived to be more solid and stable,” (Rickwood & White, 2009, p. 149). A UK study of investment products found investors had five main worries: distrust of the product and/or provider; the seriousness of adverse consequences; volatility of return; poor knowledge and/or observability; and failure of regulation (Diacon & Ennew, 2001, p. 389).

The influence of risk attitude found in this study concurs with the findings of research into consumer decision making, particularly in financial services; Joo & Grable (2000b) found risk tolerance was one of the ‘psychological processes’ that helped predict retirement investment decision making; Rickwood & White (2009) found four risk factors (functional, financial, psychological and temporal) were associated with retirement decision making.

Negative attitudes to risk reflect worries about security

Participants in all three focus groups expressed negative attitudes to financial risk. The younger participants who were risk averse said they felt not well enough informed or not sufficiently experienced in financial matters. The risk-averse in the 36-54 and 55+ groups said they were put off by the fear of potential losses. About half of all participants expressed aversion to risk, and all but one of the participants expressing negative risk attitudes had chosen conservative, conservative/moderate or balanced funds. Risk averse participants in the 36-54 and 55+ groups said fear of potential losses put them off growth funds. One said she would “hate to go backwards” while another did not want people “playing” with his savings. Several studies have shown that investors with a low risk tolerance are unlikely to invest in shares and may have difficulty in building adequate retirement funds (Hanna & Chen, 1997; Yao et al., 2004; Yuh & DeVaney, 1996).

Risk-averse participants who feared losing money and going backwards were reflecting Kahneman & Tversky’s prospect theory (1979). Discussed in the literature review, this theory shows that people view gains and losses quite differently, and in one celebrated study participants reported that a loss of a particular dollar value was 2.5 times more painful than the positive sensation they got from a gain of the same value (Kahneman & Tversky, 1979). Nervous investors pick safe, low-risk options rather than more volatile growth funds because of their greater sensitivity to making losses.

Another risk-avoiding strategy identified in the literature – avoiding extremes by choosing the middle option in a range – found little support in this study. However there

was some evidence that KiwiSavers lack confidence in their fund choices. Given a second chance at picking a preferred investment fund in a re-run of the stimulus card exercise, many participants changed their minds (see Conclusions chapter). When Benartzi & Thaler (2002) asked members of a US pension scheme to rate their own portfolio choice against the median portfolio chosen by all scheme members, 62 percent of them preferred the median portfolio to their own. “Most participants simply do not have the skills and/or information available to pick portfolios that line up with their risk attitudes,” (2002, p. 1595).

KiwiSaver providers have voiced concerns about the high proportion of members defaulting into conservative funds. In a government-sponsored report – *KiwiSaver: Evaluation of Supply Side Impacts* – providers said that enrolling new recruits into conservative funds would potentially reduce the returns from KiwiSaver over time (Ministry of Economic Development, 2008, p. 51). Superannuation scheme providers have traditionally sold through advisers, who would sit with a client and determine an appropriate risk profile based on the client’s age, their income, their personality etc. However, KiwiSaver is regarded as a low-cost retail scheme in which members make decisions on their fund choice without the benefit of professional advice. Given today’s economic climate it is understandable that most opt for low-risk, conservative funds. Confidence in the financial markets was undermined in 2008 and 2009 by the collapse of multiple finance companies and the onset of a global recession. Financial confidence surveys have shown many New Zealanders are wary of the financial markets and are feeling unprepared for retirement (Rabobank, 2009; Colmar Brunton, 2009; Mercer, 2010). One study of risk tolerance levels over time – between 1983 and 2001 – and found that investors’ willingness to take risks was linked to the recent performance of the share market (Yao et al., 2004).

Positive attitudes to risk reflect positive view of growth funds

Most of the participants who expressed positive attitudes to financial risk – more common in the 20-35 and 55+ age groups – saw risk as a route to faster funds growth, while some were comfortable with risk because they had only limited funds in their KiwiSaver accounts. Younger participants said they had plenty of time to ride out market downturns and still end up with higher capital growth (see section 6.2). About half of the focus group participants were tolerant or welcoming of risk, and of the seven participants voicing positive attitudes to risk, six chose a growth fund in the stimulus card exercise.

The literature review looked at performance comparisons between shares and fixed income assets over longer time periods (Goetzmann & Ibbotson, 2006; Siegel, 2007). These comparisons consistently show that shares provide superior returns. A US study (Ellement & Lucas, 2007) found retirement plans invested in conservative/low risk assets would not even preserve their capital value for their owners' retirement. Ellement & Lucas argue that even so-called balanced funds are "too conservative for young investors" (2007, p. 37).

The relatively high level of risk tolerance shown by half of the study participants may have been associated with their education level. All have tertiary qualifications (Table 4.1). A number of researchers have tested for links between investors' tolerance for financial risk and their individual characteristics (age, gender, occupation, education, experience etc). Grable & Lytton (1999) found demographic/socioeconomic characteristics were effective in differentiating among levels of risk tolerance, and education was a particularly strong indicator (Figure 3.6). Other studies have confirmed that high risk tolerance is associated with higher education levels (Joo & Grable, 2005).

Above-average levels of financial risk tolerance have also been linked with an increased knowledge of personal finance and investment markets, higher levels of income and being employed in a professional occupation (Grable & Lytton, 1999). All the participants in the KiwiSaver study are in professional jobs.

A one-size-fits-all approach to the initial design of the KiwiSaver default schemes in 2007 – with all six default schemes based on conservative portfolios – was understandable and prudent. It would not have helped establish the scheme's credibility if early investors lost wealth in a share market crash. Given what happened to world economies in 2008-2009, the architects of KiwiSaver appear to have been prescient. However, as the scheme matures it will be important to recognize that members aged under 40 have a different risk profile to those aged over 50, and therefore more flexibility could be built into the default scheme design, perhaps with the default portfolios' asset mix being based on the age of individual members. This concept is developed further in sections 6.2 and 6.9.

6.2 Age/Perceived Time to Retirement

Three significant issues emerged on the link between fund choice and participants' age and perceived time to retirement. First, most participants saw their age as an important factor in their choice of KiwiSaver fund; second, participants who saw themselves as relatively young tended to support the conventional wisdom that they should be

invested in growth assets; and third, some older participants who perceived a short time to their retirement bucked the conventional wisdom and felt they too should be invested in growth assets, but for different reasons.

Age a strong determinant of investment behaviour

Where long-term investing is concerned, an individual's age and life stage should influence their investment strategy. Age has been shown as an important determinant of retirement financial planning (Devaney & Su, 1997; Petkoska & Earl, 2009; Prenda & Lachman, 2001). Normative models would characterize KiwiSavers as rational economic agents who would follow modern portfolio theory and life cycle theory to maximize their long-term wealth (Markowitz, 1952; Morgenstern & Von Neumann, 1947). This would translate to a growth portfolio for younger investors, a conservative portfolio for those close to retirement, and a balanced portfolio for those in between.

In the focus group meetings, most participants regarded their age and life stage as important factors when weighing up their fund choice options, with 'Age/Perceived time to retirement' emerging as the second most prevalent factor behind risk attitude in the focus group meetings. The most prevalent comments focused on how close or how distant their retirement seemed to participants.

Younger Kiwisavers favour growth funds

Those in the 20-35 age group saw retirement as well over the horizon, one saying he had "a massive amount of time" to follow a growth path and to cope with any volatility. Financial advisers would not hesitate to recommend that KiwiSaver members under the age of 34 – who make up one third of the scheme's members – should be invested with a bias towards growth assets. However, the government's *Capital Markets Matter* report, produced by the Capital Market Development Taskforce and discussed in the literature review, said that while growth funds suited longer-term investors, and younger investors were better able to cope with volatility, KiwiSaver members aged 18-24 were *more likely* to have been auto-enrolled into a conservative default scheme than were members from any other age bracket (Ministry of Economic Development, 2009). The scheme's default settings are discussed in section 6.9.

Two US studies similarly showed workers aged under 40 had made poor choices by placing a high proportion of their pension investments in low-risk, low-return capital guaranteed funds, and faced the prospect of reduced retirement incomes as a consequence (Speelman, Clark-Murphy, & Gerrans, 2007). In a policy statement on

superannuation prepared for the Australian Institute, Ingles & Fear (2009) argue that even a balanced fund could be inappropriate for younger retirement scheme members who would be better suited to growth funds; and a balanced fund could also be unsuitable for older investors who in most cases should be in conservative plans. Other studies have shown age is one of the most influential factors influencing retirement saving and investing behaviour (Rickwood & White, 2009; Joo & Grable, 2000b).

Some older KiwiSavers favour growth funds too

Those for whom retirement was fast approaching had mixed views on the conventional wisdom that they should all be invested in conservative funds. The willingness by some 55+ members to accept higher risks for higher rewards may reflect the fact that the scheme is only four years old and most people have relatively small amounts of money in their KiwiSaver accounts. Again, these participants are all tertiary educated and in professional positions. Other researchers have found that the most diversified portfolios tend to be held by older investors, particularly those with higher incomes and a higher education (Baker & Haslem, 1974; Goetzmann & Kumar, 2008).

An issue before policy makers is whether the default scheme arrangements could be modified when they are next put out to tender in 2014, and one option is for the default providers to discriminate between different age groups. As discussed in the literature review, some jurisdictions with direct contribution pension schemes similar to KiwiSaver have managed to prevent younger members from ending up in deeply conservative funds. Several South American and Eastern European countries have their default funds based on different asset mixes that are appropriate to the account holder's time horizon. In Chile, for example, the default fund for people aged under 35 must have 25-60 percent invested in shares; the default fund for men aged 56 and over can have a maximum of 20 percent of its funds invested in shares. New Zealand providers may well be supportive of such a shift if they saw it benefitting their members.

6.3 Advice from Family, Friends, Colleagues

Two issues surfaced from this study regarding where KiwiSavers are getting their financial advice from: first, word-of-mouth advice from family, friends and colleagues is a strong influencing factor on fund choice for younger members and is helpful for some older members; and second, almost no one is getting professional investment advice.

Younger members influenced by advice from family and friends

Consumers' susceptibility to interpersonal influence has been documented in the consumer behaviour literature (Bearden, Netemeyer, & Teel, 1989; Murali, Laroche, & Pons, 2005). When consumers have no personal experience to draw on, they seek out external word-of-mouth sources of information, including family, friends and peers (Dowling & Staelin, 1994; Gronroos, 1984; Murray, 1991; Zeithaml, Parasuraman, & Berry, 1985). Particularly when they are buying services, consumers see word-of-mouth sources as credible and unbiased (Zeithaml et al., 1985). Family, peer groups and influences from wider society including social institutions and social groups are all thought to impact on decision making (Childers & Rao, 1992).

'Advice from family, friends, colleagues' turned out to be a strong influencing factor for the 20-35 age group, and the issue was highly prevalent in their focus group meeting. Participants talked of how they listened to advice from those close to them, finding that advice to be at least helpful and in some cases highly trusted. They listened to their parents, learned from their friends, and talked things over with work colleagues who were in a similar situation to them. Participants talked about trusting the judgement and advice of family members who had experience with financial matters.

Harrison et al. (2006), who developed a three-stage model for pension purchasing, found that participants were reluctant to seek expert advice, preferring personal sources such as friends and relatives. Their conclusion was consistent with the findings of Murray (1991) and File & Prince (1992). A model of the pre-purchase stage of pension planning developed by Rickwood & White (2009) found the major external factors were family influence, marketer influence and competitive options. Family influence had the biggest impact on participants preparing for retirement, and advice from a family member was the most respected source of retirement savings information.

Mowen (1988) and Foxall (1993) emphasized the importance of behavioural perspectives of consumer behaviour, which includes consumers responding to cultural norms and feedback from peers. Earlier work on the theory of planned behaviour by Fishbein & Ajzen (1975) established 'subjective norm' as one of three factors determining consumers' behavioural intentions. This is a person's perception of what people important to them would think about their the course of action.

Given that few KiwiSavers receive professional financial advice, it was inevitable that they would turn to family, friends and colleagues for guidance. The strong influence of family advice in financial planning – a factor arising in this study and in previous studies – suggests that providers wanting to influence their younger

clients probably need to aim their marketing messages and information campaigns at their young clients' parents.

Few KiwiSaver members are getting professional advice

An option in the stimulus card exercise was 'Professional financial advice' as an influencing factor. This card was ignored by most participants, with just one choosing it as his third-ranked influencing factor, reflecting the fact that KiwiSaver is a retail rather than a wholesale scheme. When the scheme was launched, providers were encouraged to cap their annual fee to members at \$40, which the government initially subsidized.

Providers told the government's *Supply Side Impacts* survey researchers that KiwiSaver's profit margins "were insufficient to allow them to spend time and money advising clients on the appropriate investments for their risk profile" (Ministry of Economic Development, 2008, p. viii). Brian Gaynor, a finance sector commentator and executive director of Milford Asset Management, has said that New Zealand's financial advice sector suffered following the collapse of the finance companies, and as a result too many KiwiSaver investors would remain in conservative funds.

An aspect of financial services marketing discussed in the literature review is the concept of fiduciary responsibility. Financial services providers are usually considered to be responsible for the quality of the advice they give to clients, and they have a duty not to sell products that are inappropriate for particular customers – for example not putting an elderly KiwiSaver client into a risky property fund.

If the slim profits in KiwiSaver accounts is preventing providers from giving clients personal advice on portfolio selection, the onus is on providers to give good quality advice on their websites. Longer term, the government could re-write the rules applying to the six default providers, requiring them to engage much more closely with clients, including providing targeted advice on portfolio selection. The *Supply Side Impacts* report (Ministry of Economic Development, 2008) recommended that the government change the conditions attached to awarding default provider status and include an expectation that providers actively promote financial literacy. Promoting some degree of financial advice could also be added to that requirement. Under current legislation, the default provider arrangements will be reviewed in 2014, and the government will be inviting providers to re-tender for the status of being a default provider.

6.4 Information from Providers, News Media

KiwiSavers' information needs generated plenty of discussion at the focus group meetings, from which three main issues arose: first, information from providers, the media and other sources is important to the fund choice decision for many members; second, providers could be doing a far better job of supplying useful information to their clients; and third, the news media is a trusted source of financial information.

Information from providers, the media and other sources is important

The nature of financial services such as pension funds means it can be difficult for consumers to compare providers or portfolio options, either when they join the scheme or later. The extent of an information search will usually hinge on factors such as a consumer's level of uncertainty, their motivation to avoid or minimize risk, and the value and complexity of the product or service in question. Harrison (2000) argues that with a high degree of complexity and buyer uncertainty applying to financial services, external information is going to be important to consumers making decisions. However, with limited information available at the pre-purchase stage, arguably "the whole pre-purchase stage in the consumer decision process is of less importance to consumers compared with the post-purchase stage" (Harrison, 2000, p. 59).

Many participants felt that their choice of investment fund was influenced by information and recommendations coming from their employer, the media, the government and providers.

Zeithaml et al. (1985) argue that the difficulties with gathering information about professional services can result in consumers being loyal to any provider they have found to be acceptable. Consumers will sometimes simplify buying decisions by reducing their choices and developing long-term relationships with providers (Sheth & Parvatiyar, 1995). Participants in Rickwood & White's study (2009) said they needed more information and more education, presented in an easily understood and way.

When considering how consumers evaluate a service, researchers typically focus on consumers' perceptions of, rather than on a measurable, objective standard. Satisfaction is measured on the basis of perceived quality and performance against what the customer was expecting. "The problem with this approach comes when consumers do not have the knowledge or experience to evaluate what they have received or that their expectations of what they wanted from the service are not clear," (Gabbott & Hogg, 1994, p. 318). One unique aspect of financial services is that they are less one-off purchases and more based on regular, two-way transactions over an extended

timeframe (Turnbull & Gibbs, 1987). Consumers can only evaluate a retirement investment plan with hindsight, which may be 20 years after they signed up to the plan. At present, most people have no clear expectations of their KiwiSaver providers in terms of performance or service levels. Many providers do publish on their websites – typically under an FAQ section – information in very general terms about the likely performance of their different funds; and existing clients are given data on their account’s performance – but the detail in such reporting varies between providers.

Providers could do a better job of informing their clients

Many focus group participants had a negative view of their providers’ ability to supply them with timely and useful information. They talked more about the information flow from providers since they had joined KiwiSaver, as opposed to when they were joining. This is still significant, however, because without useful ongoing information about performance, scheme members would be unlikely to re-evaluate their original fund choice decision, or consider switching to another provider altogether. Assessing their provider is difficult and clients have no way of knowing whether they would do better switching to an alternative. In such cases, how the service has been delivered can end up a proxy for the service itself; so a monthly newsletter from Milford or regular performance reports from Gareth Morgan can serve as tangible and measurable process aspects of the service delivery.

As reported in the Findings section, there was little discussion of how well participants’ employers were doing in terms of providing information. There is some evidence from overseas that participation in personal pensions is higher when employers offer retirement planning seminars, which are usually conducted by the financial service providers (Bayer, Bernheim, & Scholz, 2009; Bernheim & Garrett, 2003; Clark, d’Ambrosio, McDermed, & Sawant, 2006; Yakoboski & Dickemper, 1997). Joo & Grable (2000a) found that where employer-sponsored retirement education is provided, participation is higher, and portfolio balances in pension plans are almost two-thirds larger than without the training.

News media a trusted information source

The role of the media as an information source for KiwiSaver was a popular topic in the focus group meetings. Most participants were positive about the media as an important source of information. The media were described as “detached” in reporting on providers’ performance. Rickwood & White’s study (2009) found that advice from

respected media commentators could be influential in retirement investment decisions. Fairfax Media's *Sunday Star Times* publishes regular data on the performance of most KiwiSaver funds based on data provided by Morningstar. Such historical performance data has been found to influence investors. Investors can be backward-looking and base their decisions on past performance of asset classes, which can be an unreliable indicator of future performance (Kahneman, 2003). Mitchell & Utkus (2004) argue that this could be explained as an availability heuristic, meaning investors rely on readily available information, which in the case of pension scheme funds is performance data published in the media. Studies have identified a link between cash inflows into funds and their recent performance (Cronqvist & Thaler, 2004; Sapp & Tiwari, 2004). A study of four Australian superannuation funds concluded that "historical returns may be a significant driver of member investment choice and that members are showing return-chasing behaviour," (Clark-Murphy, Gerrans, & Speelman, 2009, p. 18).

It is important that the media in their watchdog role continue to provide detailed news coverage and commentary on the KiwiSaver scheme, both in their general news pages and bulletins as well as in their more specialist business sections. As well as keeping the providers honest and accountable, this will help KiwiSaver members evaluate the performance of their funds against the alternative options available to them. Several focus group participants described the Retirement Commission's website Sorted, www.sorted.org.nz, being a helpful repository of information and advice on getting the best out of the KiwiSaver scheme.

6.5 Knowledge of Investing

Previous research has found that while most people unfamiliar with investment matters, the minority who do have experience will draw on that knowledge to manage their retirement portfolio. This study confirms those findings: most KiwiSavers lack investment know-how, but those who have it regard it as a strong influencing factor in their decision making.

Most KiwiSaver members lack investment know-how

While this study provides some support for this conclusion, stronger evidence is provided by other researchers. Consultant Alison O'Connell, a former director of the UK Pensions Policy Unit, compared New Zealand's financial literacy levels with those in other developed countries. She found that New Zealanders understood basic concepts

of risk, return and diversification, though other countries were putting greater resources into teaching financial literacy in schools. She found however that most financial education initiatives were aimed at helping those on tight budgets to stay out of debt, rather than on giving investment advice (O'Connell, 2009a).

Colman Brunton surveys have found that basic investment principles are poorly understood by many New Zealanders (2009), and some are confused about what they are entitled to under New Zealand Superannuation (2006). Research firm UMR found in 2010 that 48 percent of KiwiSaver members believed that their investments carried a government guarantee (New Zealand Herald, 2010). Financial literacy studies overseas have consistently shown that most people have a poor understanding of financial and investment matters (Gough & Nurullah, 2009; Joo & Grable, 2000b; Lusardi & Mitchell, 2007b; Van Rooij, Lusardi, & Alessie, 2007). A survey of more than 3000 US mutual fund investors classified only 4 percent of them as knowledgeable (Capon, Fitzsimons, & Prince, 1996).

The government's *Capital Markets Matter* report, produced by the Capital Market Development Taskforce, concluded that too much was expected of KiwiSaver members: "It is difficult for relatively unsophisticated investors to find and understand the key information they need, let alone compare products in order to make a discerning choice," (Ministry of Economic Development, 2009, p. 11).

Previous experience is a strong influence on investment behaviour

Previous experience with investing has a bearing on the KiwiSaver fund choice. Murray (1991) found that consumers prefer internal information sources when they are buying services, while Foxall (1993) determined that memories of previous experience are important in purchasing decisions. Other researchers have found prior knowledge and experience as highly credible and influential on consumer decision making (Bettman & Park, 1980; Gabbott & Hogg, 1999; Perry & Morris, 2005).

Agnew & Szykman (2005) found that high-knowledge individuals were less likely to opt for a default asset allocation in a long-term investment. Similarly, a study of the Swedish pension market (Engstrom & Westerberg, 2004) found that those who were unfamiliar with investing were less likely to opt for an active investment decision with their pension funds; they were more likely to accept a default fund. When Grable & Joo (1998) tested for determinants of financial satisfaction they found it was positively correlated to income, financial knowledge, risk tolerance and education.

Another study found that investing for retirement was linked to knowledge, financial risk tolerance and ‘future time perspective’, (Jacobs-Lawson & Hershey, 2005).

Harrison (1994) studied financial services customers’ perceived knowledge, level of confidence and involvement level. She found that while the financially confused took a short-term view of their futures, those who had made a conscious effort to become involved in the higher-risk products were motivated by the perceived benefits offered by these products. She also identified cautious investors who avoided high-risk products and opted for ‘safer’ investments.

These findings on financial knowledge suggest that if KiwiSaver is to succeed in the long run, policy makers and providers need to develop programmes to raise financial literacy and confidence levels so a greater number of scheme members can meet the investment responsibilities that KiwiSaver has put on their shoulders. As discussed above, one recommendation in the *Supply Side Impacts* report (Ministry of Economic Development, 2008) is that the government should change the conditions attached to awarding default status in future, requiring providers given default status to promote financial literacy within their client base and to produce investor education material.

6.6 Involvement

How much time, research, thought and energy – collectively known to marketers as involvement (Engel & Blackwell, 1982) – do KiwiSaver members put into choosing their retirement portfolio? In line with other researchers’ findings, this study would suggest that KiwiSavers have a relatively low involvement in the fund choice decision.

Low involvement in KiwiSaver fund choice decision

Normative models from economics, consumer behaviour and finance would predict a high level of involvement from individuals planning their long-term financial wellbeing. KiwiSaver members would choose an investment portfolio that matched their age and their risk tolerance, that maximized their long-term capital gain, and with that, their income in retirement. Certain of their own needs, they would evaluate the options and arrive at a rational investment decision (Schwartz, 1986). However, for KiwiSavers to optimize their life cycle finances would be a complex equation requiring accurate estimates of uncertainties such as lifetime earnings, asset returns, rates of taxation, family changes, health and longevity (Mitchell & Utkus, 2004). Simon (1955) argues that the rational economic agent concept needs drastic revision, while Tversky &

Kahneman (1992) say decision makers systematically violate the basic tenets of these normative models. Limits on cognitive resources and time mean that financial decision making can come down to rules of thumb, or 'heuristic simplification' (Hirshleifer, 2001). Mullainathan & Thaler (2000) argue that simple diversification, avoiding extreme options and settling for defaults is inevitable. People trade off time against effort required when comparing their options, and will often resort to short cuts.

As well as accepting their bounded rationality (Simon, 1955), individuals are also limited by 'bounded willpower' (Mullainathan & Thaler, 2000). Retirement savers might *intend* to increase their pension contributions over time but in practice do not get around to it. Most of their saving is through paying off mortgages and automatic payments for pension funds

Rickwood & White's research (2009) into the pre-purchase stage of pension planning identified three internal factors: involvement level, motivation and needs and wants. They reported only a limited level of involvement in preparing financially for retirement. Most participants thought little about their retirement and few actively sought information. However, Howcroft et al. (2003) identified involvement and perceived risk as the two principal factors influencing buyer behaviour in a services context. In other studies, consumers' involvement level and level of uncertainty over decision making have been shown as influential on attitudes and behaviour towards buying financial services (Harrison, 1994; McKechnie, 1992). These two factors were combined into a 'consumer behaviour matrix' which authors Beckett et al. (2000) say explains how consumers behave when purchasing financial services. Based on 'ideal types' of behaviour, the Beckett et al. matrix (Figure 3.5) identified personalities who range from low to high levels of involvement and from low to high levels of consumer confidence.

Most focus group participants had not been particularly involved with their real world fund choice decision, saying they were indifferent about where their savings were invested, or they were prepared to accept their employer's default scheme and fund.

KiwiSaver is four years old and most members hold only a few thousand dollars in their accounts, so it is perhaps understandable that most scheme members do not feel deeply involved in their retirement accounts. However attitudes are likely to be different ten years from now when KiwiSaver accounts are typically holding \$40,000, \$50,000 or more. There will be a greater sense of having to look after what will grow into substantial portfolios, both in terms of security and capital growth.

6.7 Ethical Concerns

Socially responsible investing has become increasingly popular since the 2008 financial crisis, and SRI funds under management are now at \$US22 trillion (United Nations, 2010). Pension fund providers are coming under pressure to look beyond financial growth and to include broader investment criteria such as environmental protection, sustainability and community welfare (Sethi, 2005).

KiwiSaver providers were initially slow to offer ethical funds but by April 2011, six 'sustainable' or 'socially responsible' fund options were available, most of them offered by smaller providers. The issue of ethical investing emerged in only one focus group meeting, the 36-54 age group, where several participants felt their ethical concerns would influence their choice of KiwiSaver fund.

6.8 Other Assets (Property, Shares)

This study is exploring how people choose from a range of investment funds offered by their KiwiSaver providers, most of whom describe their funds on a spectrum from growth (sometimes called a 'share fund' or an 'aggressive fund') through to conservative (sometimes called 'income'). As well as standard funds on the conservative to growth spectrum, some providers offer niche, specialized KiwiSaver funds such as the socially-responsible funds mentioned above. Grosvenor offers a 'Trans-Tasman small companies fund' and an 'International share fund'; members of the SuperLife KiwiSaver scheme can invest 100 percent in property if they choose.

KiwiSaver members familiar with investment principles will be conscious of the need to diversify, not just within the scheme but across their total assets and investments. Diversifying means reducing risk by investing in a variety of assets. A KiwiSaver member, for example, who does not own any property and who already has a share portfolio of New Zealand companies, may be interested in choosing an international share fund or a fund invested exclusively in property. Conversely, a member who owns several properties already may want a KiwiSaver fund that is heavily invested in the share markets at home and overseas. Where an individual has a significant holding of other assets, it makes sense to take them into account when choosing a KiwiSaver fund.

6.9 Default Settings

The strong influence of KiwiSaver's default settings is evident in the fact that when they joined the scheme, nine of the 17 focus group participants opted to go with their employer's default KiwiSaver provider. Previous studies have shown that the default rules will have a strong influence on savers' behaviour, in terms of participation rates, contribution levels and choice of investment fund. The rapid uptake of KiwiSaver can in part be attributed to its default auto-enrolment feature, an approach adopted by some employer-run 401(k) plans in the US. Choi et al. (2002) found that four large American companies that introduced automatic enrolment to their 401(k) pension schemes saw participation rise by between 20 and 34 percent. Another study of a 401(k) scheme found participation rose from 37 to 86 percent of the workforce when the default changed to being automatically enrolled (Madrian & Shea, 2001). They also found that 61 percent of the auto-enrolled cohort remained at the default contribution rate and the default fund allocation.

The power of the default rules in retirement savings decisions was confirmed in an extensive literature review (Beshears et al., 2009) which reported that participation rates in 401(k) schemes increased substantially when participation was the default.

The New Zealand government-sponsored *Supply Side Impacts* report on the impact of KiwiSaver suggests that apathy, confidence in the government's conservative default option, or poor financial literacy could all be factors explaining why a high proportion of KiwiSaver members are in conservative funds (Ministry of Economic Development, 2008). The *Capital Markets Matter* report said that young KiwiSaver members were *more likely* to have been auto-enrolled into a conservative default scheme than were members from any other age bracket (Ministry of Economic Development, 2009).

Consumers are attracted to the default settings, often because they see others choosing them (Sunstein & Thaler, 2003) and even though employees can opt out of defaults, studies show that few actually do (Beshears et al., 2009; Choi et al., 2002). This deference to the default rules was shown by workers in Sweden's privatized personal pension scheme where initially only 8 percent of scheme members ventured beyond the default portfolio (Cronqvist & Thaler, 2004).

Furthermore, behavioural research shows that people can get overloaded with too many options (Iyengar & Lepper, 2000), and going for the default option keeps things simple (Iyengar & Kamenica, 2010; Sethi-Iyengar et al. 2004). Sethi-Iyengar et

al. (2004) found that as the number of fund options in a US pension scheme increased, membership of the scheme fell.

The reality is that most people are not particularly interested or involved in financial planning for their retirement. While KiwiSaver has got off to a promising start, a combination of inertia, limited financial knowledge and a lack of confidence means that a high proportion of members may not get the best out of the scheme. Many will stick with the default arrangements, whether those default arrangements are appropriate for their personal circumstances or not. For younger KiwiSavers in conservative funds, the current default arrangements appear not to be working.

The government can make some fundamental changes to the default arrangements in 2014 when it is scheduled to run a re-tendering process for the status of being a default provider. One option would be to require default providers to offer a more comprehensive education and advice service to their KiwiSaver clients, perhaps in partnership with employers. The cost of any such financial education and advice programme could be shared between providers, employers and KiwiSaver members. The *Supply Side Impacts* report (Ministry of Economic Development, 2008) included a suggestion that conditions attached to awarding default provider status be changed to include an expectation that providers actively promote financial literacy.

One way to raise the public's understanding of investing for retirement would be to improve the coordination between the government agencies with an interest in financial literacy, a recommendation put forward by the CMD taskforce (Ministry of Economic Development, 2009). Agencies running financial literacy programmes include the Ministry of Education, the Securities Commission, the Reserve Bank, the Ministry of Consumer Affairs, the Ministry of Pacific Island Affairs, the Career Services, the Department of Corrections, Housing New Zealand, Inland Revenue, and Work and Income New Zealand. The taskforce argues that while the work of these agencies is captured by the Retirement Commission's National Strategy for Financial Literacy, the fact that this is not government strategy is leading to poor coordination and a lack of joint planning.

The CMD taskforce also recommends that it be made mandatory that providers regularly report fund performance information to investors and also through a centrally-run and unbiased website. According to the taskforce, a centrally-run website could display the performance data of all providers and funds in a standardized format, as well as displaying providers' disclosure documents and additional consumer information. Regular statements explaining short and long-term performance would provide an

education opportunity for investors. While acknowledging that providing statements would impose costs on providers, the CMD report argues that providers already have access to the information. “So while some costs are likely to be involved, we would not expect these to be excessive, particularly if the information is provided electronically rather than in paper-based form” (Ministry of Economic Development, 2009, p. 33).

The Commerce Minister, Simon Power, has indicated the government will implement many of the CMD taskforce's recommendations. He has already committed to introducing requirements for ‘plain English’ investment statements, with risk warnings on complex investments, and a more coordinated approach by government departments to boost financial literacy. The Securities Commission announced plans in April 2010 for new disclosure standards on KiwiSaver providers that require far more detailed explanations of their investment objectives and policies, saying that at present some statements of investment policies are “so broad and all encompassing as to give no meaningful indication of the actual investment activities that will be undertaken” (Securities Commission, 2010).

Another reform option for 2014 would be to change the design of the default funds, requiring providers to move away from a single, one-size-fits-all conservative default fund and introduce instead a life cycle investment approach under which younger members would be mostly invested in growth assets, middle-aged members in balanced funds, and older KiwiSavers in conservative assets. It has been argued that the issue is complex and that age-appropriate defaults does not take into account individuals’ risk aversion or exposure to human-capital risk (Littlewood, 2010). However, providers acknowledged in the *Supply Side Impacts* report that too many KiwiSavers were in conservative default funds that did not match their risk profile (Ministry of Economic Development, 2008, p. viii). Scheme members could still opt out of these defaults, but the defaults would at least be far more appropriate than is currently the case.

The research question at the start of this study asked: What factors are influencing the investment fund choices of New Zealanders joining KiwiSaver? This chapter has sought to answer that question, first in terms of a model (Figure 6.1) and then in a discussion that has analyzed the findings of the field work in the context of prior research in disciplines relevant to the topic. The following chapter, Conclusions, summarizes this thesis, discusses its limitations and its contribution, and identifies opportunities for further research.

Chapter 7 CONCLUSIONS

Previous studies have suggested that participation rates and contribution levels in direct contribution pension schemes are influenced by the incentives on offer, the enrolment regime, the default rules and financial education, with the latter two being important factors in scheme members' asset allocation choices (Bayer, Bernheim, & Scholz, 2009; Bernheim & Garrett, 2003; Beashears et al., 2009; Choi et al., 2002; Joo & Grable, 2000a; Madrian & Shea, 2001; O'Connell, 2009; Sunstein & Thaler, 2003; Toder & Khitatrakun, 2006). Toder & Khitatrakun argue that evaluating the effectiveness of KiwiSaver must include research that measures both the degree to which individuals understand the scheme and their general financial knowledge, as well as their individual characteristics, their contribution levels and their asset choices.

Two important factors were evident about KiwiSaver prior to this study: first, thanks to the auto-enrolment regime and the incentives on offer, the uptake of the scheme had greatly exceeded expectations, with 1.75 million joining by June 2011 (Inland Revenue Department, 2010); and second, the prescribed asset allocation built into the design of the default funds had to some degree inflated the proportion of KiwiSavers and their savings invested in conservative funds – 57 percent of the funds invested at the end of June 2011 were in conservative (including default) or conservative/moderate funds (Morningstar, 2011). Of course not all those in conservative funds had joined a default scheme; a significant proportion had *actively chosen* a low-risk, conservative fund.

The aim of this study was to identify and rank the main factors that influence recruits who either actively make a fund choice decision or passively accept the defaults when they join KiwiSaver. The introduction to this thesis explained that there are two clear schools of thought in the literature on the issue of financial planning for retirement. First there are the neoclassical economists and marketing theorists (Engel, Kollat, & Blackwell, 1968; Howard & Sheth, 1969; Markowitz, 1952; Morgenstern & Von Neumann, 1947; Nicosia, 1966; Savage, 1954) who would expect KiwiSaver recruits to be rational, well informed decision makers who would follow a logical process of information gathering and evaluation to reach a decision that maximized their long-term wealth. Second there are the behaviouralists (Benartzi & Thaler, 2007; Foxall, 1993; Kahneman & Tversky, 1979; Mitchell & Utkus, 2004; Mowen, 1998; Mullainathan & Thaler, 2000; Simon, 1955) who would expect KiwiSaver recruits to be not particularly skilled at managing their retirement savings because they are naïve,

lacking in the necessary cognitive ability to solve the optimization problem, nervous of taking any risks and prone to following their friends, the defaults or the path of least resistance. In practice, telling the full story of the KiwiSaver fund choice decision involves drawing on both perspectives. However, despite the high education levels of the participants in this study, the findings would suggest that the behaviouralists are closer to the mark than the rationalists.

As Figure 6.1 illustrates, this study found that aside from the strong influence of the default scheme settings in KiwiSaver, there are several main factors influencing the fund choice decision. The single most prevalent factor is 'Attitude to financial risk', but interestingly participants were evenly split on whether financial risk was good or bad. Participants were either attracted to the promise of higher returns associated with growth funds, or were accepting of slower, steadier returns associated with conservative funds. Either way, their attitude to risk affected their fund choice. The next most important influencing factor appears to be KiwiSavers' age and perceived time to reaching retirement. While younger participants were in tune with the rationalists in thinking their long horizon to retirement meant they should opt for growth funds, some older participants felt they too should be in growth funds, which would bring a smile to the behaviouralists. Advice from family, friends and colleagues turned out to be another important influencing factor, which would find more support among the behaviouralists than with the neoclassical economists. This study confirmed one point the providers have been arguing – that few joining KiwiSaver are getting professional financial advice.

A wake-up for providers came through in the next influencing factor: while people trust the media as a source of information on KiwiSaver, some are dissatisfied with the quality of information and fund performance reporting they get from their providers. Previous knowledge of investing turned out to be a significant but not a major influencing factor, mainly because most participants – and most KiwiSaver members – have had little experience in the financial markets. Less significant still was support for the marketing concept of involvement. Few participants felt really engaged or connected to the idea of choosing a retirement fund. In an aside, participants were asked which they had spent more time on: choosing their KiwiSaver fund or choosing their current cellphone. Nine of the 17 participants said they put more time into choosing their cellphone, which again would have the behaviouralists nodding.

In order to find out whether the process of taking part in a focus group discussion, and therefore having to think about KiwiSaver, resulted in participants

changing their minds on their KiwiSaver fund and their influencing factors, participants were contacted three months after the focus group meetings and were asked to do the stimulus card exercise again. Of the 16 who responded, four had changed their minds about their fund choice, and 10 changed at least one of their three influencing factors. On the face of it, encouraging more dialogue and education on KiwiSaver would probably change the way people respond to the scheme, as a number of studies have shown (Bayer, Bernheim, & Scholz, 2009; Bernheim & Garrett, 2003; Duflo & Saez, 2002; Joo & Grable, 2000a).

Implications

When the findings of the present study are added to the small body of research conducted on KiwiSaver and the studies on financial literacy in general, a number of issues arise on the design of KiwiSaver and the way members are using the scheme.

1. The government will be under some pressure to change the default provider rules and conditions when they are due for review in 2014 in ways that would reduce the proportion of young KiwiSavers stuck in conservative funds not matching their age or risk profile. This study raises concerns about KiwiSavers being in inappropriate funds, and providers themselves have criticized the conservative bias in the scheme (Inland Revenue Department, 2010; Ministry of Economic Development, 2008). The government could require providers to move from a single to multiple default funds based on a life stage investment approach (Rajkumar & Dorfman, 2010). Where new recruits decline to make an active choice of KiwiSaver fund, they would be drafted into an age-appropriate default fund with an appropriate asset mix to match their risk profile.

2. Another potential reform option for 2014 would be for the government to require default providers to offer a comprehensive education and advice service to their KiwiSaver clients, perhaps in partnership with employers. While the cost of such a programme could be shared with employers and KiwiSaver members, the default providers (who have done well out of KiwiSaver) would shoulder some of the responsibility for their clients making wise decisions on their investment strategy.

3. Still on education, coordination between the ten government agencies that have an interest in financial literacy could be improved, as the Capital Market Development Taskforce report (2009) recommended. Surveys by Colmar Brunton (2009) and a study on New Zealand's financial education (O'Connell, 2009) show more needs to be done if New Zealanders are to be responsible for managing their own portfolios.

4. In this study, some participants criticized the quality of information and performance data coming from KiwiSaver providers. The CMDT report (Ministry of Economic Development, 2009) suggests that providers be directed to report their fund performance information to investors on a regular basis and that their investment statements be written in plain English. It also recommends that performance data from all providers should be provided on a centrally-run and unbiased website. According to the CMDT report, an independent, centrally-run website could allow investors to search for different investment options by type, risk level, minimum amount, fees and so on, and also provide or signpost to impartial educational material. The CMDT report draws a comparison with the local real estate industry where a central website, realestate.co.nz, allows home buyers to search for properties within a certain price range, number of bedrooms and/or location. A centrally-run site could be independently funded by a small levy on all KiwiSaver accounts to avoid any conflict of interest.

Limitations, contribution and future research

This study presents some provisional findings on the KiwiSaver fund choice issue. The field work, based on focus groups and a largely inductive mindset, was always going to be exploratory in nature, and the resulting model (Figure 6.1) explaining the factors influencing fund choice is inevitably tentative. The general limitations of using focus groups apply to the present study. In particular, while the age groups and gender split among participants was a reasonable reflection of New Zealand's working population, the fact that participants all had tertiary qualifications limits the scope for generalizations. A future study could focus on 'blue collar' workers.

One strength of focus groups for the present study however was the opportunity to go deeper into answering what is essentially a "why" question: why have you chosen a particular fund? In the forum of a supportive meeting, participants opened up on their attitudes, motivations and fears in relation to issues such as money, trust and risk. The stimulus card exercise was successful, both in stimulating discussion, but also providing a parallel dataset to work with alongside the thematic analysis of the transcript. The findings that emerged from the study – in terms of attitudes to retirement planning and investing – were largely consistent with the results of studies overseas. This study did not ask participants about their use of social media in a financial planning context. Any future study of factors influencing retirement decisions should probe the use of social media such as Facebook. It is inevitable that social media will be a growing forum for people wanting to discuss their retirement options.

The contribution of this study has been to highlight some tentative factors that could now be tested using multiple methods – in another round of focus groups that involve wider sectors of the community; in a series of one-to-one interviews with KiwiSaver members exploring their motivations in greater depth; and in a wider quantitative survey using a deductive strategy to test the fund choice model developed in this study.

Financial literacy levels are clearly a major issue and, as Toder & Khitatrakun (2006) have suggested, there needs to be further research into how well New Zealanders understand their new pension scheme. Among other issues ripe for study are the impact of ethnicity, gender, education levels and income levels on the fund choice decision; the determinants of risk attitude towards investment decision making; and the communication styles used by providers, in terms of presenting their fund options and reporting their performance. Research on these and similar themes will give providers and policy makers valuable insights into improving a pension scheme that is off to a promising start.

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Appendices

Appendix 1. Participant Information Sheet

Date Information Sheet Produced: 25 November 2010

Project Title: Assessing influences on the investment fund choices that New Zealanders make when they join the KiwiSaver pension scheme

An Invitation

You are invited to join a focus group discussion about the KiwiSaver pension scheme. We are researching people's views on the fund choice decision that KiwiSaver members make when they join the scheme. I am Allan Lee, an MPhil student at AUT University in Auckland. My supervisor is Dr. Yingzi Xu, a senior lecturer in the Business & Law Faculty. Participation in the focus group is entirely voluntary.

What is the purpose of this research?

The aim of this project is to explore the factors that are influencing KiwiSaver members when they make an investment fund choice or simply enrol in a so-called default scheme. The results of the research will form the basis of my Master of Philosophy thesis.

Why are you being invited to participate?

You have been approached by a contact of the researcher who has agreed to help find willing participants. You will need to be a member of KiwiSaver to take part.

What will happen in this research?

The researcher is organising three focus group meetings that will take place in March 2011. There will be a meeting for those in the 20-29 age bracket, one for those aged 30-54 and one for those aged 55+. We are aiming for approximately equal numbers of males and females in each focus group. The researcher will raise a number of topic questions and invite your thoughts. It is okay if you don't wish to comment on a particular topic. There will be no pressure put on anyone to answer any question. You can also raise any issues you want around the theme of the discussion. The focus group discussions will be audio recorded and the recordings will be transcribed. Some comments from participants will be included in the research report, however individuals will not be identified. The focus group will last about an hour. You will be asked to complete a brief questionnaire at the end of the discussion. Should you feel at any point that you do not wish to continue participating, you may of course withdraw from the research.

What are the discomforts and risks?

The design of this research will not cause any discomfort or personal risk. No one will be asked to reveal detailed financial information. There will be absolutely no pressure to respond to any particular point in the discussion.

How will these discomforts and risks be alleviated?

This invitation is voluntary. If at any stage you do not feel like taking part in the discussion, you have the right to withdraw.

How will my privacy be protected?

The researcher will not be using anyone's name in the research report. Participants will be asked to sign a consent and confidentiality form in which they agree not to disclose information discussed in the focus group meetings.

What opportunity do I have to consider this invitation?

You have until the day before the focus group to decide whether you want to take part.

How do I agree to participate in this research?

Please contact the researcher. Details below.

Will I be compensated for expenses?

Yes, each participant will be given a \$50 petrol voucher at the end of the meeting.

Will I receive feedback on the results of this research?

Summary results of this survey will be made available to you should you wish to see them. If you do, please indicate this on the consent form.

What do I do if I have concerns about this research?

Any concerns regarding the nature of this project should be notified in the first instance to the Project Supervisor, Dr. Yingzi Xu, yingzi.xu@aut.ac.nz, 09-921-9999 ext 5033.

Concerns regarding the conduct of the research should be notified to the Executive Secretary, AUTECH, Madeline Banda, madeline.banda@aut.ac.nz, 09-921-9999 ext 8044.

Whom do I contact for further information about this research?**Researcher Contact Details:**

Allan Lee, allan.lee@aut.ac.nz, 09-921-9999 ext 7016, 021-445-808

Project Supervisor Contact Details:

Dr. Yingzi Xu, yingzi.xu@aut.ac.nz, 09-921-9999 ext 5033

Approved by the Auckland University of Technology Ethics Committee on 23/12/2010, AUTECH Reference number 10/310.

Appendix 2. Consent/Confidentiality Form

Project title: Assessing influences on the investment fund choices that New Zealanders are making when they join the KiwiSaver pension scheme

Project Supervisor: Dr Yingzi Xu

Researcher: Allan Lee

- ☐ I have read and understood the information provided about this research project in the Participant Information Sheet dated 25 November 2010.
- ☐ I have had an opportunity to ask questions and to have them answered.
- ☐ I understand that the interviews will be audio-taped and transcribed.
- ☐ I understand that I may withdraw myself or any information that I have provided for this project at any time prior to completion of data collection, without being disadvantaged in any way.
- ☐ If I withdraw, I understand that all relevant information including tapes and transcripts, or parts thereof, will be destroyed.
- ☐ I agree to take part in this research.
- ☐ I agree that I will not disclose information discussed by participants in the focus group meetings.
- ☐ I wish to receive a copy of the report from the research (please tick one):
Yes ☐ No ☐

Participant's signature:

.....

Participant's name:

.....

Participant's Contact Details:

.....
.....
.....
.....

Date:

***Approved by the Auckland University of Technology Ethics Committee on
23/12/2010 AUTEK Reference number 10/310***

Appendix 3. Focus Group Guiding Questions

Open questions:

1. Do you think it matters what kind of fund you're in?
2. Who did you seek advice from when you joined KS? What other sources of information did you use (eg media, provider)?
3. Did you feel sufficiently informed? Should more advice be available to people making choices about KS investments?
4. How confident do you feel making investment decisions?
5. Which took more of your time/attention: making your KS fund choice, or choosing your current cellphone?
6. Did anyone rank the "middle option" card quite high? Do you use rules of thumb like this?
7. What are the risks with growth funds? Are there risks with conservative funds? What guarantees are there with KS?
8. Nearly 60% of KS members are in conservative funds. Do you think that's a good thing?

Appendix 4. Focus Group Questionnaire

Project Title: Assessing influences on the investment fund choices that New Zealanders make when they join the KiwiSaver pension scheme

Gender:

Occupation:

Education: What is your highest qualification?

.....

Family: Do you have children living at home? If so, how many?

.....

If you are working, which income bracket are you in:

Up to \$20,000	\$20,000 - \$40,000
\$40,000 - \$60,000	\$60,000 - \$80,000
\$80,000 - \$100,000	\$100,000+

KiwiSaver fund

Who is your provider?

Did you select this provider, or did your employer select the provider on your behalf?

.....

Do you know what kind of fund your savings are in? (Yes/No)

If you do, is it:

A conservative fund

A balanced fund

A growth fund

Other name of your fund?

Appendix 5. Focus Group Stimulus Cards

Card 1: Choose a KiwiSaver fund



INVESTING YOUR KIWISAVER FUNDS

If you were deciding today on an investment fund for your KiwiSaver savings, which would you choose (tick one)

- ☐ **Conservative** – 100% bank deposit
- ☐ **Conservative/Moderate** – 70% bank deposit, 30% fixed interest (govt and corporate bonds)
- ☐ **Balanced** – 33% bank deposit, 33% fixed interest, 33% shares and property
- ☐ **Growth** – 70% shares and property, 30% fixed interest
- ☐ **Aggressive** – 100% shares and property

The following cards display various factors that might have influenced your choice of fund. Please rank them in order of importance to you.



Top influencing factors (cards 2-12)

Card 2: My past experience with investing

Card 3: My attitude to risk

Card 4: What I've learned from the media

Card 5: Professional financial advice I've
received

Card 6: Advice from family, friends, colleagues

Card 7: You like to avoid extremes when you
make choices

Card 8: Your age and your other assets

Card 9: Advice from workplace seminar, your
provider or the Government

Cards 10, 11, 12: Any other factor? (please
write below)

Appendix 6. Focus Group Transcript (Coded)

Focus group transcript (coded)

Focus group 1

NF

(Chose conservative card)

I don't really have a head for finance and I'm not one for taking risks.⁰⁰¹ (B-B and F-A).

CARD 1. Advice from family, friends, colleagues.

Because I trust people like my parents and my partner, I trust their judgement because they know more about it than I do.⁰⁰² (C-A).

CARD 2. What I've learned from the media.

What I've learned from the media because my job is in the media and I read a lot.⁰⁰³ (E-A)

CARD 3. Attitude to risk.

I'm just not informed enough to take risks.⁰⁰⁴ (B-B and F-A)

(She is in Gareth Morgan, 50/50 balanced and conservative).

KB

(Chose growth card).

CARD 1. Attitude to risk.

I don't mind taking risks and I don't mind doing the research to make informed decisions, and I back myself to take that risk.⁰⁰⁵ (B-A)

CARD 2. Advice from family, friends, colleagues.

My dad has worked in finance forever, so I can rely on advice from him. I also take advice from people I've worked with.⁰⁰⁶ (C-A).

CARD 3. Age and other assets

I've got 40 years to retirement which is a long time and I back myself to end up better off then following a growth approach than taking a conservative outlook.⁰⁰⁷ (A-A).

OJ

(chose Conservative card)

Mainly because I'm looking to save and go overseas so I'm not looking to retire any time soon. Any extra cash I have I want to save and put away.⁰⁰⁸ (A-A)

CARD 1. Age and other assets

CARD 2. Advice from family, friends, colleagues.

CARD 3. Professional advice I have received.

I feel my family and friends know enough about it. I listened to friends who were in the same situation.⁰⁰⁹ (C-B). **I'd rather be safe than sorry.**⁰¹⁰ (B-D).

SV

(Chose balanced card)

CARD 1. Attitude to risk

Not necessarily because of the risks in the funds but because I know very little about investing. So it would be a risk for me to just jump in anywhere.⁰¹¹ (B-B and F-A).

CARD 2. I like to avoid extremes.

I'm avoiding extremes because I know very little. Until I knew more I wouldn't want to make an extreme decision.⁰¹² (F-A and B-B).

Most of my advice has come from family and friends.⁰¹³ (C-B)

CARD 3. Age and other assets.

I might have gone more conservative but because I'm relatively young, things are not that tight and I don't have many dependencies.⁰¹⁴ (A-A)

What I've learned from the media is a factor.⁰¹⁵ (E-A) **I have a poor understanding of the financial markets and how they work, but I'm aware of the volatility and that puts me off.**⁰¹⁶ (F-A).

(He's in Tower balanced)

KP

(Chose growth card)

When KiwiSaver first started I might have picked an aggressive fund. But the experiences of the last couple of years, of ups and downs in the financial markets, I'd go for growth rather than aggressive.⁰¹⁷ (F-B).

CARD 1. Advice from family, friends, colleagues.

They are the people I trust the most so I like to hear what their opinions are.⁰¹⁸ (C-A).

I've done a lot of research into KiwiSaver myself around the rules, when I can withdraw my funds etc.⁰¹⁹ (F-B)

CARD 2. Age and other assets

CARD 3. Attitude to risk.

I've got at least 40 years of contributions. If the retirement age goes up – I wouldn't be surprised if it was 70 by the time I retired. That's a massive amount of time so if anything stuffs up I've got plenty of time to get it fixed or to play it safe. Even if I end up playing it safe for 20 years that's still half of the time I have. It seems pretty straightforward to me to pick something that's going to earn the most money starting from now.⁰²⁰ (A-A and B-A).

I don't trust too much of what's reported in the media. You have a lot of people saying a lot of different stuff. Sometimes you can't tell whether people are really qualified to comment, or whether it's purely marketing to talk up their scheme.⁰²¹ (E-A). An example of that was the coverage of the Hulich Investment Fund – they were topping up their fund with their own money to make their results look better. There's obviously cowboys out there involved in other things apart from KiwiSaver.

I haven't received much professional advice and I don't have much past experience with investing.⁰²² (F-A). I don't think avoiding extremes in choices is really relevant because you might find an extremely good deal so that depends on other factors.

BO

(Chose growth fund)

I'm relatively new to KiwiSaver. I've been a New Zealand resident for a little under a year. It's a pretty small proportion of my total assets. I'm tempted to choose the aggressive but I'm not sure what shares and property the investments are going into.⁰²³ (B-A and E-D).

CARD 1. Age and other assets.

The majority of my assets are outside of KiwiSaver so I feel comfortable risking quite a bit there.⁰²⁴ (B-A).

CARD 2. My past experience with investing.

I've invested probably 40% of my assets in shares over the last decade. So I know what I'm getting into with this.⁰²⁵ (F-B)

CARD 3. Attitude to risk.

My attitude towards risk ties into this. It's a small portion of my entire pool so I'm comfortable with the risk. ⁰²⁶ (B-A)

NF:

I was working for Fairfax when I first joined about three years ago and they had a lot of information about their provider. I looked at that and the FAQs and I talked to colleagues. ⁰²⁷ (E-B). If I was more interested in finance I would be seeking a lot more advice.

KP:

You got to get advice from the people you trust. What they recommend for you is not necessarily what you may decide may be the best scheme for you. But you trust that they will be able to explain things for you, and interpret things in a way that you can understand. ⁰²⁸ (C-A). They will help you make a good decision. They are not necessarily going to push you in a particular direction, but they will point out good opportunities when they see them. ⁰²⁹ (C-B).

I wonder if some people are hesitant to join KiwiSaver because of what they have observed with the finance companies, and they see KiwiSaver as an extension of that whole dubious industry. ⁰³⁰ (F-B).

BO:

I had No 4 'advice from family friends and colleagues'. My past investing experience has come from my father and I trust him because he's invested for a long period of time. ⁰³¹ (C-A).

Does it matter what kind of fund you are in?

KB:

I think it does. If you're of my parents' generation not so much, but for the younger generations you've got a longer time until you can access that money, giving you a longer time to increase the reward and take some hits during that period. I think it comes down to whether people want to endure the risk or not, or whether they just want to play it safe. ⁰³² (B-C).

SV:

I'm not too concerned about what fund I've chosen until I start to see losses. Any gain you make is still a gain. KiwiSaver was sold to me by family purely on the kick start, it's free money. ⁰³³ (G-B).

KB:

A growth fund is generally more volatile. Like any cyclic activity, over a long period of time you're going to have some peaks and troughs but you've got to hope that you'll get a bigger increase over that time period. ⁰³⁴ (B-A).

KP:

The biggest risk is that there is a massive dip when you want to get your money out when you reach retirement, but I guess you can mitigate that risk to some degree closer to that time. ⁰³⁵ (B-A). A growth fund may have its ups and downs but overall it grows at a faster rate for say 30 years then you are going to be in a better position. From my point of view, the risk is well worth taking. ⁰³⁶ (B-A).

KB:

At the end of the day you can still self manage those things yourself. If the growth fund is not doing very well for a 3-4 year period you can swap into a conservative or balanced option and minimize your risk. When the growth fund is doing better you can swap back into growth. ⁰³⁷ (B-A).

KP:

The danger with a growth fund is that if you jump ship at the bottom (of a cycle) and go into something else you run the risk of losing out when the steep growth happens on the other side.⁰³⁸ (B-A).

SV:

I was aware that the my provider couldn't guarantee a return or profit, but I wasn't aware that they couldn't guarantee to give you your money back. That surprised me.⁰³⁹ (F-A).

OJ:

I'm hoping my money is really safe.⁰⁴⁰ (B-B).

Which took more time/attention – making your current KiwiSaver choice or choosing your current cellphone?

SV - cellphone

KB: KiwiSaver

OJ – cellphone

NF – far more time choosing my cellphone

BO and KP – cellphone

At your age, how hard is it to think about retirement?

BO:

I'm thinking about it and planning for it, but the hard part is knowing how much will be there based on my investments right now.⁰⁴¹ (A-D).

KP:

I hope that I can retire before my 60s. It's a long time away but you've got to make arrangements for it.⁰⁴² (A-D).

SV:

Career paths, looking at buying my first property

KB:

I tend to live in the now a lot rather than. Retirement seems far too distant to really comprehend.⁰⁴³ (A-A).

The reason I've signed up to KiwiSaver is it's a good scheme and there are added bonuses associated with it which can benefit me, but at the same time **I've gone with a growth fund, that money goes away and it's managed by someone else and it can just tick over in 30-40 years.**⁰⁴⁴ (A-C).

I've thought about it in terms of the percentage of my income going in. I do have some other priorities and you have to think how much of my income can I put towards this. It's so far away and you want to buy a house and things like that.⁰⁴⁵ (A-D).

Do you avoid extremes?

KP:

That doesn't seem relevant to me. There's a number of different factors in play.

Is anyone planning to switch their funds?

KB:

I've got a mixed portfolio but I think I'll switch into growth. I know it will take few hits but I'm not worried about that.⁰⁴⁶ (B-A).

How good is the information from your provider?

SV:

The information isn't good enough. When I get the information it doesn't mean a whole lot to me. Because this is a retail scheme things need to be simplified and explained to people.⁰⁴⁷ (E-D).

NF:

Gareth Morgan we get a monthly email and it's really easy with graphics showing what your fund has done since you joined. I find my provider's information is easy to navigate and to understand.⁰⁴⁸ (E-C).

KP:

Fisher Funds is been really good, the standard of communication is excellent with monthly newsletters, or you can log in at any time.⁰⁴⁹ (E-C).

BO:

There's a website but it doesn't have very much information at all. It itemises contributions but I really have no idea what the funds are investing in.⁰⁵⁰ (E-D).

KB:

The default providers can be lazy and still get the numbers.⁰⁵¹ (E-D).

Focus group 2

MF

(Chose Balanced card)

CARD 1. My attitude to risk.

I'm not wanting to take a lot of risk. But I don't want to be very conservative either, so I'm in the middle.⁰⁵² (B-C).

CARD 2. Any other factors – ethical scheme

An ethical scheme because I didn't want to be investing in tobacco or armaments companies. But I've found it very difficult to find a provider that excluded companies that I didn't want to invest in. I'm with Gareth Morgan and I see that I've got shares in Pepsi Cola and McDonalds which I would rather not. But there isn't a provider that excludes takeaway and soft drink companies. If there was I would choose that provider. In my view soft drink companies aren't ethical.⁰⁵³ (D-B).

3. CARD 3. Advice from family friends and colleagues.

I chose Gareth Morgan on the advice of a family member.⁰⁵⁴ (C-B).

SJ

(Chose growth card)

CARD 1. Age and other assets.

I have 26 years to retirement. That's not long. So I need to go for something that gives me a better return. I don't have a house. Given my age I should be taking more risks. I'm saving 8%.⁰⁵⁵ (A-B).

CARD 2. Any other factors – Choice.

I wasn't aware of the choices available and how you can change within the scheme.
CARD 3. Advice from workplace seminar, provider or government.

HS

(Chose Balanced card)

I'm pretty sure I'm in a deeply conservative fund. Like a lot of people I ended up in a default fund. I just haven't got round to investigating and evaluating this and deciding exactly where I want to put my money.⁰⁵⁶ (G-B).

CARD 1. Advice from family friends and colleagues.

I turn to people who know more than me and ask them what I should do. I have a sense of personal hopelessness in this area, it's not one of my skills.⁰⁵⁷ (C-B).

CARD 2. Age and other assets.

At my age I need to be a bit more conservative than high risk.⁰⁵⁸ (A-B and B-B).

CARD 3. What I've learned from the media.

I've learned most of what I know about KiwiSaver through the media and not through the Government or workplace seminars.⁰⁵⁹ (E-A).

I would also be influenced by my ethical concerns.⁰⁶⁰ (D-B).

KF

(Chose Conservative/Moderate card)

It's interesting that you raise the ethical issues. Previously I only considered whether my money was growing and that it was legal. If you look at Warren Buffet's investment strategy, Coca Cola is a company he has held for a long time.⁰⁶¹ (D-B)

I prefer to be safe. I think with my age I still want to have some growth so that when I retire I can have more money. I want something that will grow more than a bank deposit.⁰⁶² (A-B and B-C).

CARD 1. Attitude to risk.

Since KiwiSaver is a Government recommended scheme, with not only your own contribution by also from the Government and your employer. So I think safety is the most important thing. I don't want to lose my money.⁰⁶³ (B-B).

CARD 2. What I've learned from the media

What I have learned from media about the finance companies and others who will cheat investors.⁰⁶⁴ (E-A).

CARD 3. My past experience with investing.

I have worked for a finance company. I have held some stock and found that I always bought at the top price and sell at a low price. You can easily lose all your profits. It's not something that everyone can do.⁰⁶⁵ (F-B).

TV

(Chose Growth card)

CARD 1. Attitude to risk

When I first joined KiwiSaver I went into conservative because of the 2008 world financial crisis. Last year I moved to balanced and then in February this year I changed again to growth.⁰⁶⁶ (B-C). I often go to the website and check what the returns are on each of the funds

CARD 2. Age and other assets

Because of this I chose growth. I have more than 20 years before I retire but I won't stay in growth for all that time.⁰⁶⁷ (A-A)

CARD 3. Advice from workplace seminar, provider or government.
I learned from my colleagues.⁰⁶⁸ (C-B).

Providers

SJ: Mercer, in a balanced fund. I find the information I get is very confusing. I'm not particularly good with figures.⁰⁶⁹ (E-D).

MF: Gareth Morgan, balanced. I get monthly email report that gives a breakdown of every company I own shares in as well as charts showing the growth of my fund against the industry standard, and some commentary. There's plenty of information, I wouldn't need any more.⁰⁷⁰ (E-C).

HS: I'm with Tower in a conservative fund. But I haven't had any information from the provider since I joined two years ago.⁰⁷¹ (E-D).

KF: Tower in Conservative. I've received one communication from Tower. I'm just being lazy not checking.⁰⁷² (E-D)

Does it matter what kind of fund you're in?

HS: I think it does matter. If I'm reorganising my KiwiSaver investments I'd be thinking very carefully about what kind of fund, how they communicate, the ethical side to what they are investing in I think is really important, and people have to take that more into account these days.⁰⁷³ (G-A and D-B).

MF: In time this will be my second biggest asset after my house so it's important that you do look after it. I did some research before I joined Gareth Morgan, asking a family member and then looking online at the providers' websites because I did want to find the most ethical provider but there is not a lot of choice there.⁰⁷⁴ (GA and D-B).

Another factor is that in the end I will get an inheritance which is currently invested in a high risk portfolio with Fisher Funds, who are also a KiwiSaver provider. I'm a bit nervous about that because in the last couple of years my inheritance has halved, so I didn't want to put my KiwiSaver funds at the same level of risk.⁰⁷⁵ (D-A).

HS: I had a particular colleague at work who was very helpful.⁰⁷⁶ (C-B).

I found my employer was disappointing. I was just referred to the IRD website. I wasn't give enough information by the employer or providers, but if I had been proactive I could have found it.⁰⁷⁷ (E-B).

The media is much more interesting and informative than the providers themselves. They have a detachment.⁰⁷⁸ (E-A).

I felt uninformed but I don't blame anyone else. There is plenty of information. But when new employees start and are put into the scheme, or when people choose to opt in like I did I think the onus is on the providers to make sure that we are well informed.⁰⁷⁹ (E-D).

MF: I read Mary Holm's book and read her column in the business section. It gave me a good understanding about how Kiwisaver works.⁰⁸⁰ (E-A).

KF: I would have liked more information from my employer or provider. They give you general information but you have to decide for yourself.⁰⁸¹ (E-B).

MF: I felt sufficiently informed. I was able to go to the websites in search of their ethical statements. The IRD website had a table with a list of the main providers and some of the

various criteria on what each of the providers were offering. I also went to the websites of the providers I was considering. You just had to put in a bit of time.⁰⁸² (E-C).

How confident do you feel about making investment decisions generally?

HS:

Not confident, I wouldn't know how to go about it.

Did you spend longer on KiwiSaver or your cellphone?

SJ: cellphone

MF: KiwiSaver

HS: KiwiSaver

KF: KiwiSaver

TV: KiwiSaver

Did you try to avoid extremes?

HS: card 6

MF: card 5

SJ: 10

What are the risks with growth funds?

MF: Growth funds are predominantly in the sharemarket which has been quite volatile in the last few years.⁰⁸³ (B-C).

HS: If I was to invest in property I'd like to make that property choice. I don't want to have someone else making it. The property angle in growth funds is particularly unattractive for me. I don't want to invest in timeshare in Brisbane. That stuff's destroying the planet.⁰⁸⁴ (D-B).

KF: It's (growth funds) quite high risk and I don't like having to rely on other people to play with it.⁰⁸⁵ (B-B).

Are there risks with conservative funds?

TV: If it's 100% bank deposit then I think there is no risk.⁰⁸⁶ (B-C).

HS: I think there is a risk with 100% bank deposits but I perceive it to be a lot less risky. It might not grow much but it is still there.⁰⁸⁷ (B-B).

MF: I think the risk is lost opportunity.⁰⁸⁸ (B-A).

SJ: With any investment there is a risk.

Are there any guarantees with KiwiSaver?

HS: It took me a while to understand that there are no guarantees. I felt, 'Just give me the money and I'll put it in my own bank account'. It's marketed as a semi-state scheme which implies some kind of surety. I think a lot of people have been hoodwinked into the free market and that the money is being invested by the government into good stuff for Kiwis. So it would be hard to argue that those people had been armed with adequate information.⁰⁸⁹ (E-D).

MF: There are no guarantees unless the government decides to support the investors like they did with the finance companies.⁰⁹⁰ (F-B)

60% of members in conservative funds. Is that a good thing?

HS: Most of us think that the older we are, the higher risk we should be in. But sensible people see it as the younger you are and the longer you have before retirement, the more time you have for a volatile investment to go up and down but grow more strongly. You have plenty of time to lose money and recover. ⁰⁹¹ (A-C).

But if you are older like me when you join KiwiSaver, while the impulse might be to invest heavily in high risk stuff because you don't have much time, in fact you could be caught out at the bottom of a cycle when you turn 65. So it might be better to have your funds in a more conservative fund which is going to be less volatile. That's not an instinctive understanding that most people have. I think you might need to have some investment experience behind you for that. ⁰⁹² (A-C and B-B)

It's important to know how old someone is to say whether they should be in a conservative fund or not. I suspect a lot of people are in conservative funds by default and I think that's a tragedy. ⁰⁹³ (A-C)

Focus group 3

DB

(Chose balanced)

CARD 1: Attitude to risk

CARD 2: Age and other assets

CARD 3: Advice from workplace seminar, providers or the government.

That's what I chose four years ago. I'm a pretty conservative person and I would hate to go backwards - because of the age, I'm almost 57. ⁰⁹⁴ (B-B).

I don't want to lose anything but I also don't want to sit on the conservative. When I went into it I was 53 so I was looking at 12 years maximum. In terms of saving for retirement that was pretty short. I haven't got enough time for conservative and balanced might just get me there a bit faster. ⁰⁹⁵ (A-B).

Attitude to risk is my first card. That governs a lot of things in my life and not just KiwiSaver. I don't sit well with risk, I don't enjoy it I don't get a buzz out of it. It just worries me. My attitude to risk is that if you can't afford to lose it, don't risk it. ⁰⁹⁶ (B-D)

KiwiSaver is not our primary saving for retirement. There was nothing else so we got active years ago. It was a wonderful opportunity to make up a bit of ground. Attitude to risk governed everything. ⁰⁹⁷ (B-B)

The other important one is my age and how many years I have left to save. If I had been younger I might have gone with conservative because I'd have longer for it to build and have a capital gain. But I would never go with anything aggressive or high risk. ⁰⁹⁸ (A-B).

Other assets – we do have other things moving along, hardly anything we're going to get wealthy on but we did start on our own some years ago because the government wasn't looking like being there for us. ⁰⁹⁹ (A-D and D-A). I was comfortable with my decision and would still choose that today.

The information that was floating around at the time. We did do some research.

HM

(Chose Balanced card)

I'm in the conservative/balanced fund with ANZ which I think is 75 percent conservative and 25 percent balanced. I have opted here for balanced which I think is a representation of what I would do today. I'm different because I am self employed so I don't have any employer contribution.

I'm an avid reader of Mary Holm in the Herald. She kept saying that it was a wonderful and no-one should miss out on it so I listened to that and I joined about a year after KiwiSaver was instituted because I was a little bit concerned with the change of Government – and felt that if I didn't get in there could be some problems in terms of what could happen to the scheme. ¹⁰⁰ (E-A).

What I did was a bit eeny meeny miney mo. I have a minor superannuation policy that I started about 20 years ago. I haven't been wildly happy with the way that has performed over that time, but I've not been unhappy enough to take my money out. ¹⁰¹ (D-A). My reasoning with KiwiSaver was that I would put in the same amount of money that I was putting into that fund and just watch how the two of them pan out together.

CARD 1: Attitude to risk

I'm pretty risk averse. I was always told by my parents, 'If you want to buy anything have all the money first', and I find it very hard to deviate from that. ¹⁰² (B-D).

CARD 2: Past experience with investing.

I did lose some money with a finance company. I had money in a number of finance companies at one stage and I managed fortunately to get most of it out but I did lose some, and I'm very interested in a court case that is going on at the moment. ¹⁰³ (F-B).

CARD 2: My age and other assets.

KiwiSaver is not something I'm going to be reliant upon, just like you, but I believe in what the Government is trying to do in terms of preparing New Zealanders for retirement. I felt why not be part of it. ¹⁰⁴ (A-D).

HT

(Chose growth card)

I'm currently in balanced. But I'm thinking of shifting it to either growth or maybe even aggressive. I just need to consider a bit more, mainly because I've been in KiwiSaver for only a few years and there's only a little bit of money there. ¹⁰⁵ (B-A).

When you look at the other assets I've got – the main other assets are property and some fixed interest, but mainly property. So it may be worth having a bit of a test - or gambling a little bit – to see what does happen over a period because I still have a bit more time and just see how that works against a balanced portfolio. ¹⁰⁶ (B-A and A-A).

CARD 1. Age and other assets.

I've got time to see what a growth or aggressive might do so with the other assets I have (property) have done reasonably well in terms of the Auckland market, and by comparison there's quite a bit of superannuation investment made in those, whereas there's only a little bit in KiwiSaver, so it's an opportunity to see it grow. ¹⁰⁷ (A-A).

CARD 2: Attitude to risk.

My attitude to risk has probably been more conservative than it needed to be.. Perhaps there's an opportunity to be a bit more risky. But at the end of the day, still in

growth is a reasonable portion of fixed interest as well as the mix of shares and property. Shifting from balanced to growth might not be such a risky move.¹⁰⁸ (B-A).

I have been in growth funds before, about 10 years ago and it was volatile. It went up and down and I looked at it over a period of a year. If you were in a market that was growing nicely it was great. But when the share market went down again you would lose money. You could see money you'd put in disappearing, which made a difference in terms of how you approached it.¹⁰⁹ (B-B). I think there's time (with KiwiSaver) to overcome that issue.

CARD 3: Advice from family, friends, colleagues.

BS

(Chose growth card)

I think I'm in a growth fund but that's definitely what I would choose now. I'm in early 50s so I don't have a great many years left so it has to grow big.¹¹⁰ (A-B).

I chose Milford. I originally went with ING – they are Dutch and so am I, and they had a fantastic marketing campaign. When I joined I didn't make a conscious decision but it turned out my default provider was ING and I was happy with that. And then ING got into the news with some problem investments and that looked pretty bad. So I realised that the KiwiSaver fund was somewhere else in something different and nothing would probably go wrong with that, but still it felt a bit iffy.

So there was negative publicity and I looked at the performance of my fund and it wasn't doing that fantastic so I started to talk to friends and Hulich was suggested to me, and I heard Carmel Fisher regularly on the radio.¹¹¹ (E-A).

Gareth Morgan was aggressively promoting himself and then I came across Milford and Brian Gaynor who seemed very knowledgeable. I did my own research on various websites and Milford was doing very well.¹¹² (E-C).

CARD 1: I was unhappy with the default provider and I wanted to be in a more secure and better performing one.

CARD 2: Research and analysis of the top performers. I don't have many years to go.

CARD 3: What I learned through the media.

BM

(Chose growth card)

I've chosen growth because I'm an optimist and I only have a few years to be in KiwiSaver. So who cares. So I'm paying in 8% at the moment.¹¹³ (B-A).

CARD 1: Age and other assets.

I've had a Sovereign superannuation scheme for 7 years and I've got \$15000 in it. I've got a house and a bit of land that I'll have to sell eventually.¹¹⁴ (A-B).

CARD 2 Past experience with investing.

I like playing with money. I lost money in the 87 share market crash. I like taking risks. Risk doesn't worry me. It's a bit of fun. I'm an optimist.¹¹⁵ (B-A and F-B).

CARD 3 Attitude to risk.

I took no notice of what anybody else was doing and chose ASB, which turned out to be one of the defaults. But I'd had dealings with ASB and was happy with them.

TP

(Chose conservative/moderate card).

CARD 1 My attitude to risk.

CARD 2 I like to avoid extremes

CARD 3 My age and other assets.

I don't have much time to go so I don't want to lose anything. I want to be on the safe side. It's not necessarily going to make me a lot of money, I know, but avoids the possibility of losing. ¹¹⁶ (B-B).

I joined the scheme as soon as I could and I joined a balanced fund because it seemed the most sensible.

How good is your Provider's information and reporting?

DB

I'm with Tower because I didn't make any conscious decision. **I didn't really have the time or the interest things. My employer was going with Tower and that seemed fine to me.** ¹¹⁷ (E-B). **Tower's communication stopped a while ago when it all went online. You have to be quite proactive to login and I very rarely do that because it doesn't really matter to me at the moment.** ¹¹⁸ (E-D). It will become more important as I get closer to retirement.

HM

ANZ is mine. I get an annual tax summary including some information about the scheme. ¹¹⁹ (E-C).

HT

With AXA and pretty similar. Just the occasional thing in the mail and you have to be proactive and go online. I haven't been following it too closely. ¹²⁰ (E-D).

BS.

I was with ING and once a year I got a glossy folder with information in there that I didn't understand. ¹²¹ (E-D). **I went to Milford and every month I get a nice newsletter. I get an insight into how the fund is performing.** ¹²² (E-C).

Does it matter what fund you're in?

HM:

If you were putting money in for a child or a grandchild you would be pretty cautious. ¹²³ (B-B).

DB:

If I was going into this and I was 25 I'd be going for conservative. Because you'd be putting a lot of money in over a lifetime and it might be your major retirement fund and so I wouldn't be taking any risks at all. I can understand what you mean Allison about 'it's not a lot, it's only close to the end of your working life and you can afford to gamble a little bit. For me the younger I was the more conservative I would be. ¹²⁴ (A-C and B-B).

What sources of information did you use?

DB:

The media was buzzing with Kiwisaver. ¹²⁵ (E-A).

TP:

It was such a good deal, you didn't have to think about it much. ¹²⁶ (G-C).

DB:

It was a no brainer; you just had to be in it. Even if you only had 5 more years to work. ¹²⁷ (G-C). **After talking to friends I did a lot of research. I came up with four providers and**

researched them, looking at news reports.¹²⁸ (C-B). **AUT had quite a few seminars.**¹²⁹ (E-B).

Was there enough information?

HM:

There was an element of suck it and see. It didn't really matter if you started off and felt you'd made a mistake, you could change to another provider or another fund. The main thing was to be in the scheme.¹³⁰ (G-C and F-B).

BS:

Wouldn't it be fantastic if the govt provided a site where with a single click you can compare the performance of all of them. Because right now you have to look at each of the individual ones.¹³¹ (E-D).

BM:

I think there's a bit of inertia about changing for some people.¹³² (F-B).

DB:

It's just like changing queues at the supermarket.¹³³ (F-B).

Which did you put more time and effort into: your KiwiSaver fund choice or choosing your current cellphone?

DB: cellphone.

HM: Kiwisaver.

HT: Kiwisaver.

BS: Kiwisaver

BM: cellphone

TP: cellphone.

Do you like to avoid extremes when you make choices?

TP

For me it's got a lot to do with the person I'm married to. He'll say, Let's go with that we'll make a fortune. When it came to reviewing our superannuation, he was We've only got so much time left, so we need to go full out to make lots of money. I'm saying, no you don't and I try to put more sense into it.¹³⁴ (B-B).

BM:

I'm on my own so it doesn't matter. If I make a stupid mistake it will only affect me.¹³⁵ (B-A).

What risks are associated with conservative funds?

DB

(The risk is) that you could have put your money somewhere else and got a much better return. We're all looking for the optimum return with the least amount of risk.¹³⁶ (B-C).

TP

My kids are 19 and 23 and they both went in at 8% contributions.

What guarantees are there with KiwiSaver?

DB: I just placed my confidence in my employer – that someone had made a considered decision to go with Tower. I'm not into reading balance sheets. I don't understand it and it bores me to tears. So I'll just go with my employer.¹³⁷ (G-B and E-B and F-A).

Is it good that 60% of KiwiSaver members in conservative funds?

HM:

I get sick of the Government whinging that people don't save enough money. This is an indication that most people are making rational, sensible decisions about not necessarily their retirement but about how they need to save more. They are doing it in a systematic and responsible way. No one is rushing out there at the moment and putting a lot of money in the sharemarket for example, which also occasions whinging which I can't be bothered with.¹³⁸ (A-D).

HT:

I'm a bit surprised so many people are choosing conservative and not risking more because they have got a lot of years to get there. At a younger age you're able to risk a lot more and recover. Whereas going to conservative is something I'll choose at some stage. You don't want to risk it all. But it's kind of counter-intuitive. A lot of people don't understand how it works.¹³⁹ (A-C and B-A).

BM:

Maybe there should be an incentive to get people into the higher growth funds. People read about the failure of the finance companies.¹⁴⁰ (B-A).

HM:

They (young people) are probably getting advice from their parents who are saying to their kids 'it's a great idea to join KiwiSaver but whatever you do don't put your money into one of the riskier options.'¹⁴¹ (A-C and B-B).

BS:

I think it's a bad thing that a high proportion of people are in conservative funds. They are robbing themselves, it's so easy to make more even with balanced funds. The incentive is you double your money. I don't see it as a gamble. But it's bad for the economy too. We need to invest more in industry rather than the banks. The share market is not providing a thriving market for New Zealand.¹⁴² (B-A).

Appendix 7. Focus Group Codes and Themes

Focus group codes and themes

Participants' comments from the focus group transcripts are categorised in this document into codes and themes. Each participant comment is followed by a coding string, for example:

“Because of this I chose growth. I have more than 20 years before I retire but I won't stay in growth for all that time.”⁰⁶⁷ TV M (36-54)

“067” – The superscript reference identifies a comment. Some comments are assigned to more than one code.

“TV” – This two-letter reference represents a participant

“M” – Comments listed under each code are counted to establish the frequency/prevalence of viewpoints. A weighting is applied to these scores that reflects the strength of opinion being expressed based on two factors: the specificity of the comment (is it based on personal experience backed with detail, or is the comment abstract and lacking detail?); and the conviction/intensity of the comment (to what extent does the speaker communicate a strongly held opinion?)

L – comment is brief and/or very general or abstract in nature; or it is said with little conviction/intensity (scores 1);

M – comment is average in terms of strength of opinion, intensity and/or specificity (scores 2);

H – comment is extensive or detailed/specific in nature, reflecting a personal experience; or is said with conviction/intensity (scores 3).

Most comments are assessed as M and score 2. The summary graphic in Figure 5.1 summarises the codes and themes that emerged from the focus group meetings.

A more detailed explanation of the data analysis, including the issue of quantifying the focus group comments, is given in chapter 3.

(36-54) – This age group reference indicates which focus group meeting the comment came from, (20-35), (36-54) or (55+00).

Tracing and merging of comments

A comment in this document can be traced back to the transcript using the superscript reference. This allows the reader to check whether a comment has been allocated to any other codes. Similarly, in the transcript document it is transparent how comments have been allocated to codes in this document – a coding reference, such as <A-C>, appears after every quote used in the transcript.

There are instances where two and occasionally three quotes from the transcript have been run together into a single bullet point in this document. This merging of comments is significant because it has an impact on the measurement of frequency discussed in the methodology section. The researcher has provided an explanation in the following pages for every instance of where comments have been merged. In almost every case it is because the speaker is making/repeating the same point in each quote and there is either a degree of repetition or the speaker is expanding on the point.

AGE/YEARS TO RETIREMENT

DESCRIPTOR: Participants' choice of KiwiSaver fund is influenced by their life stage and their perceptions about how close (or how far off) they are to their own retirement, as well as by their broader opinions on the relationship between an individual's age and what would be an appropriate fund choice. Participants' view of their own retirement is affected by their general attitudes to retirement and retirement policy.

Perceive a long time to save/invest for retirement <A-A>

DESCRIPTOR: Participants perceive that their own retirement is a long way off and that this extended time period is influencing their choice of KiwiSaver fund.

- I've got 40 years to retirement which is a long time and I back myself to end up better off then following a growth approach than taking a conservative outlook. ⁰⁰⁷ KB M (20-35)
- Mainly because I'm looking to save and go overseas so I'm not looking to retire any time soon. Any extra cash I have I want to save and put away. ⁰⁰⁸ OJ M (20-35)
- I might have gone more conservative but because I'm relatively young, things are not that tight and I don't have many dependencies. ⁰¹⁴ SV M (20-35)
- I've got at least 40 years of contributions. If the retirement age goes up – I wouldn't be surprised if it was 70 by the time I retired. That's a massive amount of time so if anything stuffs up I've got plenty of time to get it fixed or to play it safe. Even if I end up playing it safe for 20 years that's still half of the time I have. It seems pretty straightforward to me to pick something that's going to earn the most money starting from now. ⁰²⁰ KP M (20-35)
- I tend to live in the now a lot. Retirement seems far too distant to really comprehend. ⁰⁴³ KB L (20-35)
- I've gone with a growth fund, that money goes away and it's managed by someone else and it can just tick over in 30-40 years. ⁰⁴⁴ KB M (20-35)
- *Because of this I chose growth. I have more than 20 years before I retire but I won't stay in growth for all that time.* ⁰⁶⁷ TV M (36-54)
- *When you look at the other assets I've got – the main other assets are property and some fixed interest, but mainly property. So it may be worth having a bit of a test - or gambling a little bit – to see what does happen over a period because I still have a bit more time and just see how that works against a balanced portfolio. I've got time to see what a growth or aggressive might do so with the other assets I have (property) have done reasonably well in terms of the Auckland market, and by comparison there's quite a bit of superannuation investment made in those, whereas there's only a little bit in KiwiSaver, so it's an opportunity to see it grow.* ¹⁰⁶⁺¹⁰⁷ HT H (55+00)

Perceive a short time to save/invest for retirement <A-B>

DESCRIPTOR: Participants perceive that their own retirement is not far off and that this limited time period is influencing their choice of KiwiSaver fund.

- At my age I need to be a bit more conservative than high risk. ⁰⁵⁸ HS L (36-54)
- I prefer to be safe. I think with my age I still want to have some growth so that when I retire I can have more money. I want something that will grow more than a bank deposit. ⁰⁶² KF M (36-54)
- I have 26 years to retirement. That's not long. So I need to go for something that gives me a better return. I don't have a house. Given my age (40s) I should be taking more risks. I'm saving 8%. ⁰⁵⁵ SJ M (36-54)
- I don't want to lose anything but I also don't want to sit on the conservative. When I went into it I was 53 so I was looking at 12 years maximum. In terms of saving for retirement that was pretty short. I haven't got enough time for conservative and balanced might just get me there a bit faster. ⁰⁹⁵ DB M (55+00)
- The other important one is my age and how many years I have left to save. If I had been younger I might have gone with conservative because I'd have longer for it to build and have a capital gain. But I would never go with anything aggressive or high risk. ⁰⁹⁸ DB H (55+00)
- I think I'm in a growth fund but that's definitely what I would choose now. I'm in my early 50s so I don't have a great many years left so it has to grow big. ¹¹⁰ BS M (55+00)
- I've had a Sovereign superannuation scheme for 7 years and I've got \$15000 in it. I've got a house and a bit of land that I'll have to sell eventually. ¹¹⁴ BM L (55+00)

Attitude to age and fund choice <A-C>

DESCRIPTOR: Participants have broader opinions on the relationship between an individual's age and what would be an appropriate fund choice, and believe that the age/fund choice relationship is a significant issue for members.

- Most of us think that the older we are, the higher risk we should be in. But sensible people see it as the younger you are and the longer you have before retirement, the more time you have for a volatile investment to go up and down but grow more strongly. You have plenty of time to lose money and recover. But if you are older like me when you join KiwiSaver, while the impulse might be to invest heavily in high risk stuff because you don't have much time, in fact you could be caught out at the bottom of a cycle when you turn 65. So it might be better to have your funds in a more conservative fund which is going to be less volatile. That's not an instinctive understanding that most people have. I think you might need to have some investment experience behind you for that. ⁰⁹¹⁺⁰⁹² HS H (36-54)
- It's important to know how old someone is to say whether they should be in a conservative fund or not. I suspect a lot of people are in conservative funds by default and I think that's a tragedy. ⁰⁹³ HS M (36-54)
- If I was going into this and I was 25 I'd be going for conservative. Because you'd be putting a lot of money in over a lifetime and it might be your major retirement fund and so I wouldn't be taking any risks at all. I can understand what you mean Allison about 'it's not a lot, it's only close to the end of your working life and you can afford to gamble a little bit. For me the younger I was the more conservative I would be. ¹²⁴ DB M (55+00)
- I'm a bit surprised so many people are choosing conservative and not risking more because they have got a lot of years to get there. At a younger age you're able to risk a lot more and recover. Whereas going to conservative is something I'll choose at some stage. You don't want to risk it all. But it's kind of counter-intuitive. A lot of people don't understand how it works. ¹³⁹ HT M (55+00)

- They (young people) are probably getting advice from their parents who are saying to their kids ‘it’s a great idea to join KiwiSaver but whatever you do don’t put your money into one of the riskier options.’¹⁴¹ HM M (55+00)

Attitude to retirement <A-D>

DESCRIPTOR: Participants have attitudes to their own retirement or to retirement policy which may have a bearing on their financial planning.

- I’m thinking about it and planning for it, but the hard part is knowing how much will be there based on my investments right now.⁰⁴¹ BO M (20-35)
- I hope that I can retire before my 60s. It’s a long time away but you’ve got to make arrangements for it.⁰⁴² KP M (20-35)
- I’ve thought about it in terms of the percentage of my income going in. I do have some other priorities and you have to think how much of my income can I put towards this. It’s so far away and you want to buy a house and things like that.⁰⁴⁵ KB M (20-35)
- Other assets – we do have other things moving along, hardly anything we’re going to get wealthy on but we did start on our own some years ago because the government wasn’t looking like being there for us.⁰⁹⁹ DB M (55+00)
- KiwiSaver is not something I’m going to be reliant upon, just like you, but I believe in what the Government is trying to do in terms of preparing New Zealanders for retirement. I felt why not be part of it.¹⁰⁴ HM M (55+00)
- I get sick of the Government whinging that people don’t save enough money. This is an indication that most people are making rational, sensible decisions about not necessarily their retirement but about how they need to save more. They are doing it in a systematic and responsible way. No one is rushing out there at the moment and putting a lot of money in the sharemarket for example, which also occasions whinging which I can’t be bothered with.¹³⁸ HM H (55+00)

ATTITUDE TO RISK

DESCRIPTOR: Participants' choice of KiwiSaver fund is influenced by their attitude to risk taking. Some are averse to risk taking, either in terms of their personality or relating to financial matters, while others are comfortable with or tolerant of risk. Participants see volatility as the main risk factor associated with growth funds, and low rates of return as the risk factor with conservative funds.

Attitude to financial risk taking (positive) <B-A>

DESCRIPTOR: Participants are comfortable with risk taking in financial matters.

- I don't mind taking risks and I don't mind doing the research to make informed decisions, and I back myself to take that risk. ⁰⁰⁵ KB M (20-35)
- I've got at least 40 years of contributions. If the retirement age goes up – I wouldn't be surprised if it was 70 by the time I retired. That's a massive amount of time so if anything stuffs up I've got plenty of time to get it fixed or to play it safe. Even if I end up playing it safe for 20 years that's still half of the time I have. It seems pretty straightforward to me to pick something that's going to earn the most money starting from now. I've got a mixed portfolio but I think I'll switch into growth. I know it will take few hits but I'm not worried about that. ⁰²⁰ KP M (20-35)
- It's a pretty small proportion of my total assets. I'm tempted to choose the aggressive but I'm not sure what shares and property the investments are going into. My attitude towards risk ties into this. It's a small portion of my entire pool so I'm comfortable with the risk. The majority of my assets are outside of KiwiSaver so I feel comfortable risking quite a bit there. ⁰²³⁺⁰²⁶⁺⁰²⁴ BO M (20-35)
- A growth fund is generally more volatile. Like any cyclic activity, over a long period of time you're going to have some peaks and troughs but you've got to hope that you'll get a bigger increase over that time period. At the end of the day you can still self manage those things yourself. If the growth fund is not doing very well for a 3-4 year period you can swap into a conservative or balanced option and minimize your risk. When the growth fund is doing better you can swap back into growth. The danger with a growth fund is that if you jump ship at the bottom (of a cycle) and go into something else you run the risk of losing out when the steep growth happens on the other side. ⁰³⁴⁺⁰³⁷⁺⁰³⁸ KB H (20-35)
- A growth fund may have its ups and downs but overall it grows at a faster rate for say 30 years then you are going to be in a better position. From my point of view, the risk is well worth taking. The biggest risk is that there is a massive dip when you want to get your money out when you reach retirement, but I guess you can mitigate that risk to some degree closer to that time. ⁰³⁵⁺⁰³⁶ KP M (20-35)
- I've got a mixed portfolio but I think I'll switch into growth. I know it will take few hits but I'm not worried about that. ⁰⁴⁶ KP L (20-35)
- I think the risk (with conservative funds) is lost opportunity. ⁰⁸⁸ MF M (36-54)
- I'm currently in balanced. But I'm thinking of shifting it to either growth or maybe even aggressive. I just need to consider a bit more, mainly because I've been in KiwiSaver for only a few years and there's only a little bit of money there. When you look at the other assets I've got – the main other assets are property and some fixed interest, but mainly property. So it may be worth having a bit of a test - or gambling a little bit – to see what does happen over a period because I still have a bit more time and just see how that works against a balanced portfolio. ¹⁰⁵⁺¹⁰⁶ HT H (55+00)

- My attitude to risk has probably been more conservative than it needed to be. Perhaps there's an opportunity to be a bit more risky. But at the end of the day, still in growth is a reasonable portion of fixed interest as well as the mix of shares and property. Shifting from balanced to growth might not be such a risky move. ¹⁰⁸ HT M (55+00)
- I'm a bit surprised so many people are choosing conservative and not risking more because they have got a lot of years to get there. At a younger age you're able to risk a lot more and recover. Whereas going to conservative is something I'll choose at some stage. You don't want to risk it all. But it's kind of counter-intuitive. A lot of people don't understand how it works. ¹³⁹ HT M (55+00)
- I've chosen growth because I'm an optimist and I only have a few years to be in KiwiSaver. So who cares. So I'm paying in 8% at the moment. I like playing with money. I lost money in the 87 share market crash. I like taking risks. Risk doesn't worry me. It's a bit of fun. I'm an optimist. I'm on my own so it doesn't matter. If I make a stupid mistake it will only affect me. ¹¹³⁺¹¹⁵⁺¹³⁵ BM M (55+00)
- Maybe there should be an incentive to get people into the higher growth funds. People read about the failure of the finance companies. ¹⁴⁰ BM M (55+00)
- I think it's a bad thing that a high proportion of people are in conservative funds. They are robbing themselves, it's so easy to make more even with balanced funds. The incentive is you double your money. I don't see it as a gamble. But it's bad for the economy too. We need to invest more in industry rather than the banks. The share market is not providing a thriving market for New Zealand. ¹⁴² BS H (55+00)

Attitude to financial risk taking (negative) <B-B>

DESCRIPTOR: Participants are averse to risk taking in financial matters.

- I don't really have a head for finance and I'm not one for taking risks. ⁰⁰¹ NF M (20-35)
- I'm just not informed enough to take risks. ⁰⁰⁴ NF L (20-35)
- I'm hoping my money is really safe. ⁰⁴⁰ OJ L (20-35)
- Not necessarily because of the risks in the funds but because I know very little about investing. So it would be a risk for me to just jump in anywhere. I'm avoiding extremes because I know very little. Until I knew more I wouldn't want to make an extreme decision. ⁰¹¹⁺⁰¹² SV M (20-35)
- At my age I need to be a bit more conservative than high risk. ⁰⁵⁸ HS M (36-54)
- Since KiwiSaver is a Government recommended scheme, with not only your own contribution by also from the Government and your employer. So I think safety is the most important thing. I don't want to lose my money. ⁰⁶³ KF M (36-54)
- It's (growth funds) quite high risk and I don't like having to rely on other people to play with it. ⁰⁸⁵ KF L (36-54)
- But if you are older like me when you join KiwiSaver, while the impulse might be to invest heavily in high risk stuff because you don't have much time, in fact you could be caught out at the bottom of a cycle when you turn 65. So it might be better to have your funds in a more conservative fund which is going to be less volatile. That's not an instinctive understanding that most people have. I think you might need to have some investment experience behind you for that. I think there is a risk with 100% bank deposits but I perceive it to be a lot less risky. It might not grow much but it is still there. ⁰⁸⁷⁺⁰⁹² HS H (36-54)
- I'm a pretty conservative person and I would hate to go backwards - because of the age, I'm almost 57. KiwiSaver is not our primary saving for retirement. There was nothing else so we got active years ago. It was a wonderful opportunity to make up a bit of ground. Attitude to risk governed everything. ⁰⁹⁴⁺⁰⁹⁷ DB M (55+00)
- I have been in growth funds before, about 10 years ago and it was volatile. It went up and down and I looked at it over a period of a year. If you were in a market that was

growing nicely it was great. But when the share market went down again you would lose money. You could see money you'd put in disappearing, which made a difference in terms of how you approached it. ¹⁰⁹ HT H (55+00)

- I don't have much time to go so I don't want to lose anything. I want to be on the safe side. It's not necessarily going to make me a lot of money, I know, but avoids the possibility of losing. ¹¹⁶ TP M (55+00)
- If you were putting money in for a child or a grandchild you would be pretty cautious. They (young people) are probably getting advice from their parents who are saying to their kids 'it's a great idea to join KiwiSaver but whatever you do don't put your money into one of the riskier options. ¹²³⁺¹⁴¹ HM M (55+00)
- If I was going into this and I was 25 I'd be going for conservative. Because you'd be putting a lot of money in over a lifetime and it might be your major retirement fund and so I wouldn't be taking any risks at all. I can understand what you mean Allison about 'it's not a lot, it's only close to the end of your working life and you can afford to gamble a little bit. For me the younger I was the more conservative I would be. ¹²⁴ DB H (55+00)
- For me it's got a lot to do with the person I'm married to. He'll say, Let's go with that we'll make a fortune. When it came to reviewing our superannuation, he was 'We've only got so much time left, so we need to go full out to make lots of money'. I'm saying, no you don't and I try to put more sense into it. ¹³⁴ TP H (55+00)

Attitude to financial risk taking (neutral) <B-C>

DESCRIPTOR: Participants see themselves taking a middle position on the fund choice spectrum, thus taking a neutral position on investment risk.

- I'm not wanting to take a lot of risk. But I don't want to be very conservative either, so I'm in the middle. Growth funds are predominantly in the sharemarket which has been quite volatile in the last few years. ⁰⁵²⁺⁰⁸³ MF M (36-54)
- I prefer to be safe. I think with my age I still want to have some growth so that when I retire I can have more money. I want something that will grow more than a bank deposit. ⁰⁶² KF M (36-54)
- When I first joined KiwiSaver I went into conservative because of the 2008 world financial crisis. Last year I moved to balanced and then in February this year I changed again to growth. If it's (conservative funds) 100% bank deposit then I think there is no risk. ⁰⁶⁶⁺⁰⁸⁶ TV M (36-54)
- If you're of my parents' generation not so much, but for the younger generations you've got a longer time until you can access that money, giving you a longer time to increase the reward and take some hits during that period. I think it comes down to whether people want to endure the risk or not, or whether they just want to play it safe. ⁰³² KB M (20-35)
- (The risk is) that you could have put your money somewhere else and got a much better return. We're all looking for the optimum return with the least amount of risk. ¹³⁶ DB M (55+00)

***Attitude to risk taking in general* <B-D>**

DESCRIPTOR: Participants express their attitudes towards risk taking in a general.

- I'd rather be safe than sorry. ⁰¹⁰ OJ L (20-35)
- Attitude to risk is my first card. That governs a lot of things in my life and not just KiwiSaver. I don't sit well with risk, I don't enjoy it I don't get a buzz out of it. It just worries me. My attitude to risk is that if you can't afford to lose it, don't risk it. ⁰⁹⁶ DB M (55+00)
- I'm pretty risk averse. I was always told by my parents, 'If you want to buy anything have all the money first', and I find it very hard to deviate from that. ¹⁰² HM M (55+00)

WORD-OF-MOUTH ADVICE

DESCRIPTOR: Participants' choice of KiwiSaver fund is influenced by the word-of-mouth advice they get from those who are close to them – their family, friends and work colleagues. They say they can “trust” or “rely on” that advice, or that they have found that advice helpful.

Advice from family, friends, colleagues who are highly trusted <C-A>

DESCRIPTOR: Participants say they can “trust” or “rely on” the word of mouth advice they get from those who are close to them – their family, friends and work colleagues.

- Because I trust people like my parents and my partner. I trust their judgement because they know more about it than I do. ⁰⁰² NF M (20-35)
- My dad has worked in finance forever, so I can rely on advice from him. I also take advice from people I've worked with. ⁰⁰⁶ KB M (20-35)
- They are the people I trust the most so I like to hear what their opinions are. ⁰¹⁸ KP L (20-35)
- You got to get advice from the people you trust. What they recommend for you is not necessarily what you may decide may be the best scheme for you. But you trust that they will be able to explain things for you, and interpret things in a way that you can understand. ⁰²⁸ KP M (20-35)
- My past investing experience has come from my father and I trust him because he's invested for a long period of time. ⁰³¹ BO M (20-35)

Advice from family, friends, colleagues is helpful <C-B>

DESCRIPTOR: Participants turned to their family, friends and work colleagues for advice and found that advice helpful.

- They will help you make a good decision. They are not necessarily going to push you in a particular direction, but they will point out good opportunities when they see them. ⁰²⁹ KP M (20-35)
- Most of my advice has come from family and friends. ⁰¹³ SV L (20-35)
- I feel my family and friends know enough about it. I listened to friends who were in the same situation. ⁰⁰⁹ OJ M (20-35)
- I chose Gareth Morgan on the advice of a family member. ⁰⁵⁴ MF L (36-54)
- I turn to people who know more than me and ask them what I should do. I have a sense of personal hopelessness in this area, it's not one of my skills. ⁰⁵⁷ HS M (36-54)
- I had a particular colleague at work who was very helpful. ⁰⁷⁶ HS L (36-54)
- I learned from my colleagues. ⁰⁶⁸ TV L (36-54)
- After talking to friends I did a lot of research. I came up with four providers and researched them, looking at news reports. AUT had quite a few seminars. ¹²⁸ DB M (55+00)

ETHICAL CONCERNS

It's important to be in an ethical fund <D-B>

DESCRIPTOR: It is important to participants that their KiwiSaver account is invested in an ethical fund, and some report that there are few ethical options on offer from providers.

- An ethical scheme because I didn't want to be investing in tobacco or armaments companies. But I've found it very difficult to find a provider that excluded companies that I didn't want to invest in. I'm with Gareth Morgan and I see that I've got shares in Pepsi Cola and McDonalds which I would rather not. But there isn't a provider that excludes takeaway and soft drink companies. If there was I would choose that provider. In my view soft drink companies aren't ethical. ⁰⁵³ MF H (36-54)
- It's interesting that you raise the ethical issues. Previously I only considered whether my money was growing and that it was legal. If you look at Warren Buffet's investment strategy, Coca Cola is a company he has held for a long time. ⁰⁶¹ KF M (36-54)
- I would also be influenced by my ethical concerns. The ethical side to what they are investing in I think is really important, and people have to take that more into account these days. ⁰⁶⁰⁺⁰⁷³ HS M (36-54)
- I did want to find the most ethical provider but there is not a lot of choice there. ⁰⁷⁴ MF L (36-54)
- If I was to invest in property I'd like to make that property choice. I don't want to have someone else making it. The property angle in growth funds is particularly unattractive for me. I don't want to invest in timeshare in Brisbane. That stuff's destroying the planet. ⁰⁸⁴ HS M (36-54)

**OTHER ASSETS
(PROPERTY,
SHARES)**

Other assets important factor in fund choice <D-A>

DESCRIPTOR: Participants who have other assets and investments (such as property or shares) have taken these into account when choosing their KiwiSaver fund, for example by spreading their total portfolio across several asset classes.

- Another factor is that in the end I will get an inheritance which is currently invested in a high risk portfolio with Fisher Funds, who are also a KiwiSaver provider. I'm a bit nervous about that because in the last couple of years my inheritance has halved, so I didn't want to put my KiwiSaver funds at the same level of risk. ⁰⁷⁵ MF H (36-54)
- Other assets – we do have other things moving along, hardly anything we're going to get wealthy on but we did start on our own some years ago because the government wasn't looking like being there for us. ⁰⁹⁹ DB M (55+00)
- What I did was a bit eeny meeny miney mo. I have a minor superannuation policy that I started about 20 years ago. I haven't been wildly happy with the way that has performed over that time, but I've not been unhappy enough to take my money out. ¹⁰¹ HM M (55+00)

INFORMATION SOURCES

DESCRIPTOR: Participants' choice of KiwiSaver fund is influenced by information they get from the media, from their employer and from their provider. Many participants are not satisfied with the ongoing information and fund performance reporting they are getting from their provider.

News media as information source <E-A>

DESCRIPTOR: Participants follow media coverage of the KiwiSaver scheme, most regarding it as an important or helpful source of information.

- What I've learned from the media is a factor. ⁰¹⁵ SV L (20-35)
- What I've learned from the media because my job is in the media and I read a lot. ⁰⁰³ NF L (20-35)
- I don't trust too much of what's reported in the media. You have a lot of people saying a lot of different stuff. Sometimes you can't tell whether people are really qualified to comment, or whether it's purely marketing to talk up their scheme. ⁰²¹ KP M (20-35)
- I've learned most of what I know about KiwiSaver through the media and not through the Government or workplace seminars. ⁰⁵⁹ HS L (36-54)
- What I have learned from media about the finance companies and others who will cheat investors. ⁰⁶⁴ KF M (36-54)
- The media is much more interesting and informative than the providers themselves. They have a detachment. ⁰⁷⁸ HS M (36-54)
- I read Mary Holm's book and read her column in the business section. It gave me a good understanding about how KiwiSaver works. ⁰⁸⁰ MF L (36-54)
- I'm an avid reader of Mary Holm in the Herald. She kept saying that it was a wonderful and no-one should miss out on it so I listened to that and I joined about a year after KiwiSaver was instituted because I was a little bit concerned with the change of Government – and felt that if I didn't get in there could be some problems in terms of what could happen to the scheme. ¹⁰⁰ HM M (55+00)
- The media was buzzing with Kiwisaver. ¹²⁵ DB L (55+00)
- So there was negative publicity and I looked at the performance of my fund and it wasn't doing that fantastic so I started to talk to friends and Hulich was suggested to me, and I heard Carmel Fisher regularly on the radio. ¹¹¹ BS M (55+00)

Employer as information source <E-B>

DESCRIPTOR: Participants looked to their employer for information about the KiwiSaver scheme. Their reports were mixed on what they received.

- I was working for Fairfax when I first joined about three years ago and they had a lot of information about their provider. I looked at that and the FAQs and I talked to colleagues. ⁰²⁷ NF M (20-35)
- I found my employer was disappointing. I was just referred to the IRD website. I wasn't given enough information by the employer or providers, but if I had been proactive I could have found it. ⁰⁷⁷ HS M (36-54)

- I would have liked more information from my employer or provider. They give you general information but you have to decide for yourself. ⁰⁸¹ KF M (36-54)
- I didn't really have the time or the interest things. My employer (AUT) was going with Tower and that seemed fine to me. AUT had quite a few seminars. I just placed my confidence in my employer – that someone had made a considered decision to go with Tower. I'm not into reading balance sheets. I don't understand it and it bores me to tears. So I'll just go with my employer. ¹¹⁷⁺¹²⁹⁺¹³⁷ DB M (55+00)

Providers (helpful) <E-C>

DESCRIPTOR: Participants are satisfied with their provider in terms of ongoing information and reporting about the scheme and the performance of their fund.

- Gareth Morgan we get a monthly email and it's really easy with graphics showing what your fund has done since you joined. I find my provider's information is easy to navigate and to understand. ⁰⁴⁸ NF M (20-35)
- Fisher Funds is been really good, the standard of communication is excellent with monthly newsletters, or you can log in at any time. ⁰⁴⁹ KP M (20-35)
- I felt sufficiently informed. I was able to go to the websites in search of their ethical statements. The IRD website had a table with a list of the main providers and some of the various criteria on what each of the providers were offering. I also went to the websites of the providers I was considering. You just had to put in a bit of time. ⁰⁸² MF M (36-54)
- Gareth Morgan, balanced. I get monthly email report that gives a breakdown of every company I own shares in as well as charts showing the growth of my fund against the industry standard, and some commentary. There's plenty of information, I wouldn't need any more. ⁰⁷⁰ MF M (36-54)
- ANZ is mine. I get an annual tax summary including some information about the scheme (ANZ). ¹¹⁹ HM L (55+00)
- I went to Milford and every month I get a nice newsletter. I get an insight into how the fund is performing. Gareth Morgan was aggressively promoting himself and then I came across Milford and Brian Gaynor who seemed very knowledgeable. I did my own research on various websites and Milford was doing very well. ¹¹²⁺¹²² BS M (55+00)

Providers (not helpful) <E-D>

DESCRIPTOR: Participants are not satisfied with their provider in terms of ongoing information and reporting about the scheme and the performance of their fund.

- I'm not sure what shares and property the investments are going into, so I think it would need to be clearer where my money is actually going. ⁰²³ BO M (20-35)
- There's a website but it doesn't have very much information at all. It itemises contributions but I really have no idea what the funds are investing in. ⁰⁵⁰ BO M (20-35)
- The default providers can be lazy and still get the numbers. ⁰⁵¹ KB M (20-35)
- Mercer, in a balanced fund. I find the information I get (from Mercer) is very confusing. I'm not particularly good with figures. ⁰⁶⁹ SJ M (36-54)
- Tower in Conservative. I've received one communication from Tower. I'm just being lazy not checking. ⁰⁷² KF L (36-54)
- There is plenty of information. But when new employees start and are put into the scheme, or when people choose to opt in like I did I think the onus is on the providers to make sure that we are well informed. I'm with Tower in a conservative fund. But I haven't had any information from the provider since I joined two years ago. ⁰⁷¹⁺⁰⁷⁹ HS M (36-54)

- It took me a while to understand that there are no guarantees. I felt, ‘Just give me the money and I’ll put it in my own bank account’. It’s marketed as a semi-state scheme which implies some kind of surety. I think a lot of people have been hoodwinked into the free market and that the money is being invested by the government into good stuff for Kiwis. So it would be hard to argue that those people had been armed with adequate information. ⁰⁸⁹ HS H (35-54)
- Tower’s communication stopped a while ago when it all went online. You have to be quite proactive to login and I very rarely do that because it doesn’t really matter to me at the moment. ¹¹⁸ DB M (55+00)
- With AXA and pretty similar. Just the occasional thing in the mail and you have to be proactive and go online. I haven’t been following it too closely. ¹²⁰ HT L (55+00)
- I was with ING and once a year I got a glossy folder with information in there that I didn’t understand. ¹²¹ BS L (55+00)
- Wouldn’t it be fantastic if the govt provided a site where with a single click you can compare the performance of all of them. Because right now you have to look at each of the individual ones. ¹³¹ BS M (55+00)

INVESTMENT KNOWLEDGE

DESCRIPTOR: Participants’ choice of KiwiSaver fund is influenced by their previous experience with investing.

Limited knowledge or experience with investing <F-A>

DESCRIPTOR: Participants have little or no previous experience with investments or fund choice decisions.

- I don’t really have a head for finance and I’m not one for taking risks. I’m just not informed enough to take risks. ⁰⁰¹⁺⁰⁰⁴ NF M (20-35)
- Not necessarily because of the risks in the funds but because I know very little about investing. So it would be a risk for me to just jump in anywhere. I’m avoiding extremes because I know very little. Until I knew more I wouldn’t want to make an extreme decision. ⁰¹¹⁺⁰¹² SV M (20-35)
- I have a poor understanding of the financial markets and how they work, but I’m aware of the volatility and that puts me off. I haven’t received much professional advice and I don’t have much past experience with investing. ⁰¹⁶⁺⁰²² SV M (20-35)
- I was aware that the my provider couldn’t guarantee a return or profit, but I wasn’t aware that they couldn’t guarantee to give you your money back. That surprised me. ⁰³⁹ SV M (20-35)
- I just placed my confidence in my employer – that someone had made a considered decision to go with Tower. I’m not into reading balance sheets. I don’t understand it and it bores me to tears. So I’ll just go with my employer. ¹³⁷ DB M (55+00)

Some knowledge or experience with investing <F-B>

DESCRIPTOR: Participants have had previous experience with investments or fund choice decisions.

- When KiwiSaver first started I might have picked an aggressive fund. But the experiences of the last couple of years, of ups and downs in the financial markets, I'd go for growth rather than aggressive. I've done a lot of research into KiwiSaver myself around the rules, when I can withdraw my funds etc. ⁰¹⁷⁺⁰¹⁹ KP M (20-35)
- I've invested probably 40% of my assets in shares over the last decade. So I know what I'm getting into with this. ⁰²⁵ BO M (20-35)
- I wonder if some people are hesitant to join KiwiSaver because of what they have observed with the finance companies, and they see KiwiSaver as an extension of that whole dubious industry. ⁰³⁰ KP M (20-35)
- I have worked for a finance company. I have held some stock and found that I always bought at the top price and sell at a low price. You can easily lose all your profits. It's not something that everyone can do. ⁰⁶⁵ KF M (36-54)
- There are no guarantees unless the government decides to support the investors like they did with the finance companies. ⁰⁹⁰ MF M (36-54)
- I did lose some money with a finance company. I had money in a number of finance companies at one stage and I managed fortunately to get most of it out but I did lose some, and I'm very interested in a court case that is going on at the moment. ¹⁰³ HM M (55+00)
- There was an element of suck it and see. It didn't really matter if you started off and felt you'd made a mistake, you could change to another provider or another fund. The main thing was to be in the scheme. ¹³⁰ HM M (55+00)
- It's (changing funds) just like changing queues at the supermarket. ¹³³ DB L (55+00)
- I think there's a bit of inertia about changing for some people. ¹³² BM L (55+00)
- I like playing with money. I lost money in the 87 share market crash. I like taking risks. Risk doesn't worry me. It's a bit of fun. I'm an optimist. ¹¹⁵ BM M (55+00)

INVOLVEMENT

DESCRIPTOR: Some participants feel that the KiwiSaver fund choice is an important decision because it will have consequences for the growth of their retirement savings. Others are not concerned about what fund their savings are invested in. A couple of participants think that just being in the scheme is what matters.

It matters what fund you're in <G-A>

DESCRIPTOR: Participants feel that the KiwiSaver fund choice is an important decision that will have consequences for the growth of their retirement savings.

- I think it does matter. If I'm reorganising my KiwiSaver investments I'd be thinking very carefully about what kind of fund, how they communicate, the ethical side to what they are investing in I think is really important, and people have to take that more into account these days. ⁰⁷³ HS M (36-54)
- In time this will be my second biggest asset after my house so it's important that you do look after it. I did some research before I joined Gareth Morgan, asking a family member and then looking online at the providers' websites because I did want to find the most ethical provider but there is not a lot of choice there. ⁰⁷⁴ MF M (36-54)

It doesn't matter what fund you are in <G-B>

DESCRIPTOR: Participants are either not concerned with what KiwiSaver fund their savings are in or they are prepared to accept their employer's default fund.

- I'm not too concerned about what fund I've chosen until I start to see losses. Any gain you make is still a gain. KiwiSaver was sold to me by family purely on the kick start, it's free money. ⁰³³ SV M (20-35)
- I'm pretty sure I'm in a deeply conservative fund. Like a lot of people I ended up in a default fund. I just haven't got round to investigating and evaluating this and deciding exactly where I want to put my money. ⁰⁵⁶ HS M (36-54)
- I just placed my confidence in my employer – that someone had made a considered decision to go with Tower. I'm not into reading balance sheets. I don't understand it and it bores me to tears. So I'll just go with my employer. ¹³⁷ DB M (55+00)

Being in KiwiSaver important, irrespective of fund choice <G-C>

DESCRIPTOR: Participants felt the most important or obvious choice was to be in the scheme.

- It was such a good deal, you didn't have to think about it much. ¹²⁶ TP L (55+00)
- It was a no brainer; you just had to be in it. Even if you only had 5 more years to work. ¹²⁷ DB M (55+00)
- There was an element of suck it and see. It didn't really matter if you started off and felt you'd made a mistake, you could change to another provider or another fund. The main thing was to be in the scheme. ¹³⁰ HM M (55+00)

Appendix 8. Results of the Stimulus Card Exercise

STIMULUS CARD EXERCISE RESULTS (FOCUS GROUP PARTICIPANTS' FUND CHOICE AND TOP INFLUENCING FACTORS)

Card 1: Participants choose between five KiwiSaver investment funds:

Conservative
Conservative/Moderate
Balanced
Growth
Aggressive

PARTICIPANT CHOICES (Raw data)

FG1 (aged 20-35)

NF	Conservative
KB	Growth
OJ	Conservative
SV	Balanced
KP	Growth
BO	Growth

FG2 (aged 36-54)

MF	Balanced
SJ	Growth
HS	Balanced
KF	Conservative/Moderate
TV	Growth

FG3 (aged 55+)

DB	Balanced
HM	Balanced
HT	Growth
BS	Growth
BM	Growth
TP	Conservative/Moderate

SUMMARY OF PARTICIPANTS' FUND CHOICES

All participants

Conservative	2
Conservative/Moderate	2
Balanced	5
Growth	8
Aggressive	0

FG1 (aged 20-35)

Conservative	2
Conservative/Moderate	0
Balanced	1
Growth	3
Aggressive	0

FG2 (aged 36-54)

Conservative	0
Conservative/Moderate	1
Balanced	2
Growth	2
Aggressive	0

FG3 (aged 55+)

Conservative	0
Conservative/Moderate	1
Balanced	2
Growth	3
Aggressive	0

Cards 2-12: Participants choose their top influencing factors

Participants were given a series of 'factor cards' and asked to rank them. Each card contained a potential influencing factor on their choice of fund (eg My Attitude to Risk). They were also given blank cards on which to write any other factors important to them. Participants were asked to select and rank their top 3 influencing factor cards.

The factor cards were:

- Past experience with investing
- Attitude to risk
- What I've learned from the media
- Professional financial advice
- Advice from family, friends, colleagues
- Avoiding extremes when making choices
- Age and other assets
- Advice from workplace seminar, provider or Govt
- Any other factor?
- Any other factor?
- Any other factor?

PARTICIPANTS' TOP 3 INFLUENCING FACTORS (Raw data)

FG1 (aged 20-35)

NF (Conservative)

1. Advice from family, friends, colleagues
2. What I've learned from the media
3. Attitude to risk

KB (Growth)

1. Attitude to risk
2. Advice from family, friends, colleagues
3. Age and other assets

OJ (Conservative)

1. Age and other assets
2. Advice from family, friends, colleagues
3. Professional financial advice

SV (Balanced)

1. Attitude to risk
2. Avoiding extremes when you make choices
3. Age and other assets

KP (Growth)

1. Advice from family, friends, colleagues
2. Age and other assets
3. Attitude to risk

BO (Growth)

1. Age and other assets
2. Past experience with investing
3. Attitude to risk

FG2 (aged 36-54)

MF (Balanced)

1. Attitude to risk
2. Any other factor – I would like to choose an ethical scheme
3. Advice from family, friends, colleagues

SJ (Growth)

1. Your age and your other assets
2. Any other factor – choice
3. Advice from workplace seminar, your provider or the Government

HS (Balanced)

1. Advice from family, friends, colleagues
2. Age and other assets
3. What I've learned from the media

KF (Conservative/Moderate)

1. Attitude to risk
2. What I've learned from the media
3. Past experience with investing

TV (Growth)

1. Attitude to risk
2. Age and other assets
3. Advice from workplace seminar, your provider or the Government

FG3 (aged 55+)

DB (Balanced)

1. Attitude to risk
2. Age and other assets
3. Advice from workplace seminar, your provider or the Government

HM (Balanced)

1. Attitude to risk
2. Past experience with investing
3. Age and other assets

HT (Growth)

1. Age and other assets
2. Attitude to risk
3. Any other factor – made money from growth funds

BS (Growth)

1. Any other factor – unhappy with default provider
2. Any other factor – analysis of top performers
3. What I've learned from the media

BM (Growth)

1. Age and other assets
2. Past experience with investing
3. My attitude to risk

TP (Conservative/Moderate)

1. Attitude to risk
2. Avoiding extremes when you make choices
3. Age and other assets

Summarising factor ranking data:

A factor ranked 1st by a participant was given 3 points

A factor ranked 2nd by a participant was given 2 points

A factor ranked 3rd by a participant was given 1 points

INFLUENCING FACTORS (all participants)

Attitude to risk	30
Age and other assets	27
Advice from family, friends, colleagues	14
Past experience with investing	7
What I've learned from the media	6
Avoiding extremes	4
Advice from workplace, provider or Govt	3
Professional financial advice	1

Extra factors:

"Unhappy with default provider"	3
"Analysis of top performers"	2
"I want to choose an ethical scheme"	2
"Choice"	2

Influencing factors FG1 (aged 20-35)

Advice from family, friends, colleagues	10
Age and other assets	10
Attitude to risk	9
Avoiding extremes	2
Past experience with investing	2
What I've learned from the media	2
Professional financial advice	1
Advice from workplace, provider or Govt	0

Influencing factors FG2 (aged 36-54)

Attitude to risk	9
Age and other assets	7
Advice from family, friends, colleagues	4
What I've learned from the media	3
Advice from workplace, provider or Govt	2
Past experience with investing	1
Avoiding extremes	0
Professional financial advice	0

Extra factors:

"I want to choose an ethical scheme"	2
"Choice"	2

Influencing factors (aged 55+)

Attitude to risk	12
Age and other assets	10
Past experience with investing	4
Avoiding extremes	2
What I've learned from the media	1
Advice from workplace, provider or Govt	1
Professional financial advice	0
Advice from family, friends, colleagues	0

Extra factors:

"Unhappy with default provider"	3
"Analysis of top performers"	2
"Made money from growth funds"	1

PARTICIPANTS CURRENT KIWISAVER MEMBERSHIP

9 of 17 participants are in their employer's default scheme

FG1 (aged 20-35)

NF	Active choice/ Gareth Morgan/ Balanced
KB	Active choice/ Gareth Morgan/ Balanced
OJ	Active choice/ ASB/ Conservative
SV	Employer default/ Tower/Default
KP	Active choice/ Fisher Funds/Growth
BO	Employer default/ Tower/Mixed

FG2 (aged 36-54)

MF	Active choice/ Gareth Morgan/ Balanced
SJ	Employer default/ Mercer/Balanced
HS	Employer default/ Tower/Default
KF	Employer default/ Tower/Mixed
TV	Employer default/ Tower/Mixed

FG3 (aged 55+)

DB	Employer default/ Tower/Balanced
HM	Active choice/ ANZ/ Mixed
HT	Active choice/ AXA/ Balanced
BS	Active choice/ Milford/ Growth
BM	Employer default/ Tower/Growth
TP	Employer default/ Tower/Balanced

Appendix 9. Participant Case Studies

CASE STUDY 1

DEMOGRAPHICS

Gender:	M
Age bracket	20-35
Occupation:	Media operator
Highest qualification:	Bachelor's degree
Children living at home:	None
Income bracket:	\$20,000-\$40,000

KIWISAVER

Provider:	ASB
Did you choose provider?	Yes
Fund choice	Conservative

CASE STUDY 2

DEMOGRAPHICS

Gender:	F
Age bracket	20-35
Occupation:	Media researcher
Highest qualification:	Bachelor's degree
Children living at home:	None
Income bracket:	\$40,000-\$60,000

KIWISAVER

Provider:	Gareth Morgan
Did you choose provider?	Yes
Fund choice	Balanced

CASE STUDY 3

DEMOGRAPHICS

Gender:	M
Age bracket	20-35
Occupation:	Property consultant
Highest qualification:	Bachelor's degree
Children living at home:	None
Income bracket:	\$60,000-\$80,000

KIWISAVER

Provider:	Gareth Morgan
Did you choose provider?	Yes
Fund choice	Balanced

CASE STUDY 4

DEMOGRAPHICS

Gender:	M
Age bracket	20-35
Occupation:	Geotechnical engineer
Highest qualification:	
Children living at home:	None
Income bracket:	\$40,000-\$60,000

KIWISAVER

Provider:	Fisher Funds
Did you choose provider?	Yes
Fund choice	Growth

CASE STUDY 5

DEMOGRAPHICS

Gender:	M
Age bracket	20-35
Occupation:	Lecturer
Highest qualification:	Master's degree
Children living at home:	None
Income bracket:	\$60,000-\$80,000

KIWISAVER

Provider:	Tower
Did you choose provider?	No (employer)
Fund choice	Balanced

CASE STUDY 6

DEMOGRAPHICS

Gender:	M
Age bracket	20-35
Occupation:	Lecturer
Highest qualification:	Master's degree
Children living at home:	None
Income bracket:	\$60,000-\$80,000

KIWISAVER

Provider:	Tower
Did you choose provider?	No (employer)
Fund choice	Balanced

CASE STUDY 7

DEMOGRAPHICS

Gender:	F
Age bracket	36-54
Occupation:	Assistant accountant
Highest qualification:	Bachelor's degree
Children living at home:	Two
Income bracket:	\$40,000-\$60,000

KIWISAVER

Provider:	Tower
Did you choose provider?	No (employer)
Fund choice	Balanced

CASE STUDY 8

DEMOGRAPHICS

Gender:	M
Age bracket	36-54
Occupation:	Designer
Highest qualification:	Bachelor's degree
Children living at home:	None
Income bracket:	\$60,000-\$80,000

KIWISAVER

Provider:	Mercer
Did you choose provider?	No (employer)
Fund choice	Balanced

CASE STUDY 9

DEMOGRAPHICS

Gender:	F
Age bracket	36-54
Occupation:	Management accountant
Highest qualification:	Master's degree
Children living at home:	Two
Income bracket:	\$40,000-\$60,000

KIWISAVER

Provider:	Tower
Did you choose provider?	No (employer)
Fund choice	Conservative

CASE STUDY 10

DEMOGRAPHICS

Gender:	M
Age bracket	36-54
Occupation:	Lecturer
Highest qualification:	Master's degree
Children living at home:	Two
Income bracket:	\$60,000-\$80,000

KIWISAVER

Provider:	Tower
Did you choose provider?	No (employer)
Fund choice	?

CASE STUDY 11

DEMOGRAPHICS

Gender:	F
Age bracket	36-54
Occupation:	Health management
Highest qualification:	Graduate Diploma
Children living at home:	One
Income bracket:	\$100,000+

KIWISAVER

Provider:	Gareth Morgan
Did you choose provider?	Yes
Fund choice	Balanced

CASE STUDY 12

DEMOGRAPHICS

Gender:	M
Age bracket	55+
Occupation:	Lawyer
Highest qualification:	PhD
Children living at home:	Two
Income bracket:	\$100,000+

KIWISAVER

Provider:	AXA
Did you choose provider?	Yes
Fund choice	Balanced

CASE STUDY 13

DEMOGRAPHICS

Gender:	F
Age bracket	55+
Occupation:	Lecturer
Highest qualification:	Master's
Children living at home:	Two
Income bracket:	\$100,000+

KIWISAVER

Provider:	Tower
Did you choose provider?	No (employer)
Fund choice	Balanced

CASE STUDY 14

DEMOGRAPHICS

Gender:	F
Age bracket	55+
Occupation:	Lecturer
Highest qualification:	PhD
Children living at home:	No
Income bracket:	\$80,000-\$100,000

KIWISAVER

Provider:	ASB
Did you choose provider?	Yes
Fund choice	Growth

CASE STUDY 15

DEMOGRAPHICS

Gender:	M
Age bracket	55+
Occupation:	Lecturer
Highest qualification:	Master's
Children living at home:	One
Income bracket:	\$60,000-\$80,000

KIWISAVER

Provider:	Milford
Did you choose provider?	Yes
Fund choice	Growth

CASE STUDY 16

DEMOGRAPHICS

Gender:	F
Age bracket	55+
Occupation:	Administrator
Highest qualification:	Bachelor's
Children living at home:	One
Income bracket:	\$60,000-\$80,000

KIWISAVER

Provider:	Tower
Did you choose provider?	No (employer)
Fund choice	Balanced

CASE STUDY 17

DEMOGRAPHICS

Gender:	F
Age bracket	55+
Occupation:	Journalist
Highest qualification:	Bachelor's
Children living at home:	One
Income bracket:	\$100,000+

KIWISAVER

Provider:	ANZ
Did you choose provider?	Yes
Fund choice	Conservative/Balanced