PEOPLE FOCUS

March 2011 Willis New Zealand Ltd

PEOPLE RISK &EMPLOYEE BENEFITS UPDATE

Welcome to the March 2011 edition of our People Risk & Employee Benefits publication – PEOPLE FOCUS

IN THIS EDITION...

In this edition of PEOPLE FOCUS we discuss:

- The new Financial Adviser Regulations
- KiwiSaver:
  - How the first home buyer assistance works
  - Some further changes to KiwiSaver regulations
- Insurance- how Income Protection insurance works

THE NEW FINANCIAL ADVISER REGULATIONS

The Financial Advisers Act 2008 has been introduced "to promote the sound and efficient delivery of financial advice and to encourage public confidence in the professionalism and integrity of financial advisers."

Key aspects of the new regulations are:

- Financial Advisers must provide a disclosure that enables consumers receiving personal financial advice to make informed decisions about whether to use a particular adviser.
- Financial Advisers must have the competency to provide financial advice.
- Financial Advisers will be held accountable for any financial advice that they give.

From 1 April 2011 those individuals and organisations providing financial services must be registered with the government.

Individuals providing financial advice will be registered either as an RFA (Registered Financial Adviser) or an AFA (Authorised Financial Adviser). An RFA may provide advice on what are called Category 2 products including insurance products and a range of cash or bank deposit and credit arrangements. An AFA may provide advice on Category 1 products which includes securities, futures contracts and investment linked insurance contracts.

An RFA may provide financial advice to wholesale clients or provide a class service, being service which is not personalised.

Financial advice that is personalised by being given to a named person, taking into account that person's particular financial situation and goals, may only be provided by an AFA.

Willis New Zealand Limited is registered as a financial services provider. The individuals working within Willis who provide financial services in respect of Category 2 products will all be registered as RFAs by 1 April 2011.

Willis New Zealand Limited will provide access to personal financial advice on investment products through registered AFA advisers under a referral arrangement with a reputable firm of professional financial advisers. Further details of this service will be announced shortly.

The assistance provided to our clients by Willis People Risk in respect of insurance, superannuation and KiwiSaver will continue as at present. The processes already adopted by Willis are consistent with many of the requirements of the new legislation. The services we provide are in respect of Category 2 products or are wholesale or class advice. We will enhance these services with the proposed provision of access to personal financial advice through professional advisers with the required AFA registration.

KIWISAVER

First Home Assistance

Now that KiwiSaver has been in place for more than three years, access to first home assistance will be possible for many KiwiSaver members. The following is a summary of how this assistance works.

KiwiSaver includes two features designed to assist people buying either their first home or the land on which their first home will be built. There are two parts to the assistance:

1. First Home Deposit Subsidy

This is an additional amount provided by the government through Housing New Zealand, subject to satisfaction of the eligibility criteria. The key criteria are:

- Membership of KiwiSaver for at least three years during which time contributions have been made at least at the minimum levels required. The three year period does not have to be consecutive.
- Age at least 18
- Not received a deposit subsidy before.
- A combined annual income of $100,000 or less
- Buying a house that you will live in and that is within the price caps for the area.

The amount of the deposit assistance is $1000 for each year of contributing to KiwiSaver, up to a maximum of $5000 per person i.e. a couple can receive a maximum of $10,000.

2. KiwiSaver First Home Withdrawal

This is a withdrawal of some of the funds in your KiwiSaver account. It is permitted after three years membership of KiwiSaver. The funds that can be withdrawn are your own savings, your employer's contributions and the investment returns on these funds. None of the government contributions being the $1000 kick-start and the tax credits are able to be withdrawn.

New KiwiSaver Regulations on the Way

The Financial Markets (Regulators and KiwiSaver) Bill proposes changes that will impact on the following two areas of KiwiSaver schemes:

1. Easier comparison of KiwiSaver schemes through standardised reporting on Fees and Investment Returns

Regulations will impose standard forms of reporting on fees and returns under KiwiSaver schemes. It is being proposed that all KiwiSaver fees be expressed as percentages and that a Total Expense Ratio ("TER") be shown that reflects all costs except transaction costs. A standard template is proposed as the means or presenting all fees and returns for KiwiSaver schemes.

A standard method of reporting on returns, known as GIPS (Global Investment Performance Standards) is being considered. The matter of whether returns should be published net or gross of fees and tax is also under discussion.

The Bill containing the new regulations is expected to take effect around July 2011 with new mandatory reporting from 2012/2013.

2. Clarification of KiwiSaver Managers' and Trustees' Duties

This proposed legislation makes some fundamental changes to the roles of trustee and KiwiSaver scheme manager. The intention is to position the manager as the issuer of membership interests and the trustee as statutory supervisor.

Under the proposed changes a scheme manager is responsible for all the day to day requirements such as issuing annual reports, annual member statements and authorising withdrawals- except for those for financial hardship and serious illness which remain with the trustee. A manager will be remain subject to the "prudent person" standard in relation to investment decisions whilst trustees will be required to exercise the care, diligence and skill that a prudent professional trustee would exercise in "acting as the trustee of a KiwiSaver scheme." The outcome of the proposed changes is that trustees will have a more limited role than is the case at present.

Further information on First Home Assistance can be found at:
www.kiwisaver.co.nz or **www.hnzc.co.nz**

INSURANCE - HOW DISABILITY INCOME INSURANCE WORKS

Income Protection Insurance also referred to as Salary Continuance protects your greatest asset- your power to earn. This insurance cover provides a regular monthly income so that normal daily expenses such as mortgage repayments can still be met in the event of a period of total disablement be it either short or long term.

Two out of five people will be, at some time during their lifetime, unable to work for at least six months or more because of sickness or accident. What's more, you are more likely to be disabled by illness than by accident so contrary to popular belief, you cannot rely on accident compensation in all situations. Of disabilities lasting six months or more only one in 20 are related to accidental causes.

The key aspects of an Income Protection policy are:

1. Waiting period

This is the period of time before payment of a claim commences. Typically this will be 30, 60, 90 or 180 days. Longer waiting periods result in lower premium costs.

2. Maximum Benefit Period

This is the maximum period of total disablement during which a benefit will be paid. Typical maximum benefit periods are 2 or 5 years or to age 65. Some insurers are now offering benefits to age 70. Longer maximum benefit periods result in higher premiums.

3. Definition of total disablement

This is the criteria to be met for a claim to be payable. The options are for either total disablement from any occupation for which the insured is suited by education training or experience or total disablement from the insured's own occupation.

An own occupation policy has a higher premium than the any occupation policy.

4. Partial Disability

Income protection policies include a benefit payable in the event of partial but not total disablement. However they will require a period of total disablement before a partial disablement benefit will be payable. The intent is that the partial benefit assists with rehabilitation following a period off work.

5. Benefit Indexation

Most income protection policies include the provision for the benefits in payment to be linked to movements in the CPI up to a maximum increase of 5% per annum. This is particularly important for longer benefit periods.

Insurers' policies for Income Protection generally follow a similar approach. Important differences can arise in policy definitions for total disablement and partial disablement and in the level of benefit payable based on pre-disability income. The Willis People Risk team is experienced in assessing the merits of insurers' policies and premium terms and can establish which insurer's offering best meets your particular needs. We will also assist you in deciding on the mix of waiting period and benefit period options that are most suited to your personal situation.

CONTACT

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