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ABSTRACT
This paper reports an exploratory study of influences on consumer choice of personal pension fund, based on focus group interviews with a sample of New Zealand consumers. The study reveals the most important influences on consumer choices, and the underlying reasons why most consumers choose conservative investment funds.

The New Zealand personal pension scheme KiwiSaver was introduced in 2007. More than half of the funds invested by the end of June 2011 were in conservative funds by default or choice. Concerns have been raised that too many consumers, particularly younger members, are stuck in low-risk, low-return conservative funds that do not match their age and risk profile. This study explores and identifies the major factors influencing consumers’ investment fund choices on a spectrum from conservative, through balanced, to growth.

Research into consumers’ financial planning for retirement is often framed in the context of two competing theoretical schools: first, the neoclassical theorists who would see consumers as rational, informed financial decision makers who have the cognitive ability to maximize their long-term wealth; and second, the behavioral finance followers who would see consumers as naïve, short on cognitive ability and willpower, nervous of financial risks and prone to following their friends, the defaults or the path of least resistance. Previous research has found consumers’ pension fund choices are influenced by the incentives on offer, the enrolment regime, the scheme’s default rules and by financial education programs, the latter two being most influential in consumers’ pension fund choices.

This exploratory study adopts a qualitative approach with data gathered from three focus groups, each homogeneous by age group. Nine themes are identified in the data, five of which appear the strongest influences on consumers’ pension fund choice – attitude to financial risk, perceived time until retirement, advice from family, friends and colleagues, information from providers and the media, and knowledge of investing. Three influences appear of lesser importance – involvement in financial products, ethical concerns and other assets. Overriding all these factors is the influence of the default investment scheme offered by pension providers.

Attitude to financial risk is the dominant influencing factor on consumers’ choice of pension fund. Risk was uppermost in the minds of consumers, in relation to both their pension decision and their financial planning generally. Consumers were evenly split on the topic with half having a negative attitude and half a positive attitude to financial risk.

Many consumers talk about financial planning for their retirement in terms of the stage they are at in their lifecycle. Consumers consider the proximity of their retirement – how close or how distant their retirement seems to them. Not surprisingly, the youngest consumers, the 20-35-year-olds, see retirement as well over the horizon.

Advice from family, friends and colleagues is a strong influencing factor. Consumers listen to the advice of family members and friends, or just talk things over with friends and work colleagues who are in a similar situation. Consumers find such advice aids decision making. Many consumers feel their choice of investment fund is influenced by information and recommendations from their employer, the media, the Government and pension providers. Many consumers have a negative view of pension providers’ ability to supply them with timely and useful information. Some feel they were poorly informed when they joined the pension scheme, but the most common source of dissatisfaction is with ongoing information and fund performance reporting supplied by their pension provider. Among the criticisms from consumers are that providers have not clarified where funds are invested; or the information being provided to consumers is too confusing and lacking detail; or the communications are infrequent and require too much effort to understand by the consumer.

Previous experience with investing – or the lack of previous experience – has a bearing on pension fund choice. Consumers in the 55+ age bracket are most talkative on the subject. Some younger consumers who have experience of investing feel that the volatility of the financial markets in recent years – coupled with the widespread failure of finance
companies in New Zealand – makes them wary of investing in shares. Younger consumers talk about their poor understanding of the financial markets, about not having a head for finance, and not being informed enough to take risks.

The strong influence of the pension’s default settings is evident, in that over half of the research participants chose their employer’s default pension provider. As one participant aged 55-plus put it: “I just placed my confidence in my employer – that someone had made a considered decision to go with Pension Fund X. I’m not into reading balance sheets.”

This paper provides insights into factors influencing consumer financial decision-making on pension funds. Many consumers rely on the default fund choice as a convenient cue rather than going through a more rational evaluation process to reach their decision. The paper offers suggestions on the design of pension schemes to better suit the needs of consumers. The paper also provides advice to pension fund providers regarding the extent and quality of information they provide consumers. The study also suggests that the influence of a consumer’s financial literacy on their choice of pension fund should be investigated further in future research.

EXTENDED ABSTRACT
The New Zealand personal pension scheme KiwiSaver was introduced in 2007. More than half of the funds invested at the end of June 2011 were in conservative funds by default or by choice. Concerns have been raised that too many KiwiSavers, particularly younger members, are stuck in low-risk, low-return conservative funds that do not match their age and risk profile. This study explores the major factors influencing consumers’ choice of pension fund.

Before the advent of KiwiSaver, superannuation was a wholesale business in New Zealand. Consumers seeking a personal pension scheme worked through an intermediary (an investment adviser or sharebroker) who would recommend schemes and asset classes that matched their circumstances and personal profile. KiwiSaver brought with it a new business model, turning superannuation investing into a retail environment.

KiwiSaver is a second-tier, work-based retirement savings scheme in which members have personal pension accounts. By June 2011, it had attracted 1.75 million members. Members contribute a regular percentage if their gross pay into their accounts, typically two, four or eight percent. There are three ways to join KiwiSaver: through automatic enrolment when a person starts a new job, through an employer or through a KiwiSaver provider.

The architects of KiwiSaver decided that its default schemes would be based on a conservative investment approach, with 75-85 percent of default portfolios invested in assets such as cash and fixed income products. This would minimize costs for both pension providers and investors and reduce the risk of loss for members who had declined to actively choose an investment fund. However, concerns have been raised within the industry that when people either choose or default into conservative funds they could find their savings growth barely matching inflation (Ministry of Economic Development 2008). This study explores and identifies the major factors influencing consumers’ investment fund choices on a spectrum from conservative, through balanced, to growth.

LITERATURE REVIEW
Several models of consumer retirement investment choice have been produced in the consumer finance literature. One is the three-stage framework for retirement decision making developed by Harrison, Waite, and White (2006). In this model, the pension fund choice process comprises three distinct stages: pre-purchase, purchase and post-purchase. Harrison, Waite and White find consumers’ retirement plans are influenced at the pre-purchase stage by their overall attitudes towards and perceptions of retirement. At the purchase choice(selection stage, consumers are reluctant to seek expert advice but prefer to go to personal sources such as friends and relatives (File and Prince 1992; Murray 1991). In the post-purchase evaluation stage, many consumers feel unable to evaluate their choice of pension scheme adequately.

Another model is the retirement investment decision model of Joo and Grable (2000). This model focuses on three factors: a) environmental influences including a person’s employment, financial dependents and size of household, b) individual differences in demographic/socioeconomic characteristics such as age, gender, marital status, income and education level, and c) psychological processes including financial attitudes, retirement attitudes and risk tolerance.

A third model is the pre-purchase decision model of Rickwood and White (2009). The model focuses on the pre-purchase stage and the factors influencing consumers’ retirement financial planning.
decisions. These influences are presented as three sets of factors: internal factors, external factors and risk factors. Involvement level, motivation, needs and wants are identified as internal factors. Rickwood and White find consumers have a limited level of involvement in preparing financially for retirement, with the exception of married males aged 40-55. For most, retirement is not a topic for conversation among friends, and information is generally not actively sought. Age is the strongest influence on retirement savings. Most consumers say they need more information and more education, presented in an easily understood and straightforward manner. The major external factors influencing retirement planning are found to be family influence, marketer influence and competitive options. Family influence has the biggest impact on participants preparing for retirement. Marriage and children are also important. The Rickwood and White study suggests that saving for retirement is triggered by marriage. Advice from a family member is the most respected source of retirement savings information, while advice from respected media commentators can also be influential. Regarding marketer influence, most consumers mention some form of media for gathering information or triggering action. Four risk factors are found to be associated with retirement decision making – functional, financial, psychological and temporal (Murray and Schlacter 1990). The weakest influence is temporal. These risk factors have a negative impact on decision making as consumers typically doubt the safety and security of investing for their retirement.

Traditional economics theorists believe that people are rational when they make decisions. However, behaviorists argue people are in fact irrational when faced with important financial issues such as retirement savings planning. One of the earliest breaks from expected utility models was prospect theory (Kahneman and Tversky 1979). It shows that consumers treat gains and losses quite differently. 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.

Traditional economic theory holds that a wide range of choices is good for consumers, or at least leaves them no worse off, however behavioral research provides some evidence that people can get overloaded with too many options. 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 (Sethi-Iyengar, Huberman, and Jiang 2004). A study of participation rates in US pension schemes conducted by Sethi-Iyengar, Huberman, and Jiang (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 and Thaler 2003).

Retirement savings planning is characterized by passive decision-making, with employees doing whatever requires the least effort and choosing the ‘path of least resistance’ (Choi, Laibson, Madrian, and Metrick 2002). This would partly explain the popularity of choosing pension scheme default settings. When faced with difficult decisions, a very human response is to do nothing, which Samuelson and Zeckhauser (1988) label the status quo bias.

In circumstances where people are on familiar territory and are certain about their preferences, defaults are less important. As Sunstein and 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 flavors. 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 (Sunstein and Thaler 2003).

Policy makers and providers designing the default settings for pension schemes have a great deal of influence over the outcomes for scheme members. Even though employees can opt out of such defaults, studies show that few actually do so (Beshears, Choi, Laibson and Madrian 2009). Recent empirical work in a range of settings highlights the attractiveness of the default option: in choosing internet privacy settings (Johnson, Hershey, Meszaros, and Kunreuther 1993); in choosing car insurance (Johnson et al. 1993); and on savings choices in retirement plans (Madrian and Shea 2001). For a pension scheme, default settings have been shown to increase participation rates significantly (Choi et al. 2002; Madrian and Shea 2001; Beshears et al. 2009). Due to the pivotal role of the default settings in pension scheme investment choice, Gallery, Gallery, and Brown (2004) argued for a government-regulated universal default fund in Australia to protect those who are unable or unwilling to make choices themselves.
Based on previous studies, several factors could be influencing consumers’ KiwiSaver fund choice (see Figure 1). Individual differences 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 and colleagues), the availability of information either sought out (voluntary) or passively received (involuntary) from providers, and the way providers have structured fund options and how these are presented in option menus. Risk factors span the 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 behavior.

The framework in Figure 1 serves as a starting point for design and planning of the fieldwork, and is used as a guide to plan lines of enquiry in the focus group research.

**METHODOLOGY**

A qualitative strategy was used to explore factors influencing the investment fund choices being made by members of KiwiSaver. The fieldwork was guided by a shortlist of potential factors that emerged from the literature (Figure 1). The research aimed to view the pension fund choice issue through the eyes of scheme members, to understand how they perceive influences, and how they make sense of and articulate their fund choice decision. Focus group interviews were conducted for three reasons. First, focus groups are an appropriate technique for probing motivating factors, in this case understanding why KiwiSaver members have made particular choices (Bryman and Bell 2007). Second, focus groups allow participants to bring forward issues that they deem to be important, with their ideas challenged by other participants more effectively than is the case 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 and Bell 2007, 512). Previous studies into financial services decision making have used focus groups (Harrison et al. 2006; Rickwood and White 2009). 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.

**RECRUITMENT OF GROUPS**

Purposive sampling was used to recruit focus group participants (Patton 2002). The criteria for this study were that participants had to be members of KiwiSaver; in addition, diversity was sought in gender and age as there is evidence age and life stage are factors influencing retirement financial planning decisions (Holm 2009; Joo and Grable 2000; Petkoska and Earl 2009; Prenda and Lachman 2001; Rickwood and White 2009). Groups were formed on the basis of age, as homogenous groups are often more productive because participants are 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.

Snowball sampling was used to recruit group members. Email invitations were sent to the researchers’ networks. Recipients of the email were asked to on-send the invites to their networks. This process continued until a total of 17 respondents was recruited, comprising the three groups.

**FOCUS GROUP MEETINGS**

Each focus group lasted approximately an hour, and was audio-recorded. Discussion was promoted around a series of discussion topics (Morgan 1997). Participants were first asked to provide written answers to three introductory questions. The first question was: if you were choosing a KiwiSaver investment fund tonight, which would you choose? Participants 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. The second asked participants to think about the factors that may have influenced their choice of fund. The third asked participants to rank the top three factors influencing their choice of pension fund. Much group discussion followed each question. At the conclusion of the focus group meetings the audio recordings were transcribed. A thematic analysis procedure was used to search for and identify common themes in the transcript (Bryman and Bell 2007; Gomm 2004).

**CODING PROCEDURE**

The data coding procedure drew on Ritchie and 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 followed was open coding involving “breaking down, examining, comparing, conceptualizing and categorizing data” (Strauss and Corbin 1990). 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.

**MEASURING FREQUENCY AND STRENGTH OF OPINION**

Qualitative sampling does not generate a statistically representative set of responses or participants, thus expressing results in terms of frequencies can be misleading (Pope, Ziebland and Mays 2000). However, qualitative researchers will sometimes quantify aspects of their data (Bryman and Bell 2007; Miles and Huberman 1984; Silverman 2006) to help understand the phenomenon under study. As Bryman and Bell (2007) 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, 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 sub-theme in the coding process. Miles and Huberman (1984) recommend that after comments in the interview transcript have been categorized by theme; a contact 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 and Clark 2006; Silverman 1984; Rabiee 2004). One method is to count the number of speakers who articulated the theme or sub-theme (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 (Breen 2006; Rabiee 2004). In this study the prevalence of opinions expressed under each code was measured (frequency) and weightings were applied to comments that reflected the strength of opinion being expressed. This quantitative assessment of codes contributed to the importance of themes in the final model.

**TRIANGULATION OF DATA SOURCES**

Patton (2002) refers to examining the consistency of information from different data sources as triangulation of sources. On completion of the fieldwork, the researchers had three data sources available, allowing for a degree of triangulation. The first source was the transcripts of the focus groups. The second source was participants’ written answers to the introductory questions. The third source was
data from a short questionnaire completed by focus group participants: details regarding participants’ actual KiwiSaver scheme, their method of joining the scheme (active choice or default) and their current fund choice.

**FINDINGS AND DISCUSSION**

Nine themes are identified in the data, five of which appear the strongest influences on consumers’ pension fund choice – attitude to financial risk; perceived time until retirement; advice from family, friends and colleagues; information from providers and the news media; and knowledge of investing (see Figure 2). Three influences appear to be of lesser importance – involvement in financial products, ethical concerns and participants’ other assets. Overriding all these factors is the influence of the default investment scheme offered by pension providers.

**ATTITUDE TO RISK**

Attitude to financial risk is likely the dominant factor influencing consumers’ pension fund choice decisions. Risk was uppermost in the minds of the focus group participants, in relation to both their pension fund decision and their financial planning in general. Participants were evenly split on the topic with half having a negative attitude and half a positive attitude to financial risk. Negative attitudes to financial risk were voiced in all three groups. The younger consumers 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.

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. (55+)

Positive attitudes to financial risk were more prevalent in both the 20-35 and 55+ age groups than they were in the 36-54 age bracket. Participants who welcomed risk saw it as a route to faster funds growth.

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. (55+)

**PERCEIVED TIME TO RETIREMENT**

Consumers regard their age and life stage as important factors when they weigh up their fund choice options. Many consumers talk about financial planning for retirement in terms of their current life stage. Consumers consider the perceived proximity of their retirement – how close or how distant their retirement seemed to them. Not surprisingly, the youngest focus group, the 20-35-year-olds, saw retirement as well over the horizon.

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. (20-35)

Just one participant from the 36-54 year old group and one in the 55+ group believed they still had a long time to save and invest for retirement, and both had again chosen a growth fund. Interesting views were expressed in broader comments 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”.

WORD-OF-MOUTH ADVICE
Advice from family, friends and colleagues is a strong influencing factor. 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 process.
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. (20-35)

INFORMATION SOURCES
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. Many participants had a negative view of pension 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.
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. (20-35)

The role of the media as an information source was acknowledged. Views expressed on the media were strongly positive with most regarding the media as an important or helpful source of information. There was little discussion on how well employers were doing in terms of providing information. 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.

KNOWLEDGE OF 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. Some younger consumers 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. Younger participants 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. (20-35)

IN Volvement
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. 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.

ETHICAL CONCERNS
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. (36-54)

OTHER ASSETS (PROPERTY, SHARES)
Participants who had other assets such as property or shares said they had taken these other investments into account when choosing their KiwiSaver fund.

EMPLOYER DEFAULT SETTINGS
The strong influence of KiwiSaver’s default settings is evidenced by the fact nine of the 17 participants opted to go with their employer’s default KiwiSaver provider. These nine participants were distributed across the three focus groups. 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.”

IMPLICATIONS
The research findings suggest a number of practical implications for policy makers and pension fund providers. First, the government could require pension fund providers to offer multiple default funds based on a life stage investment approach (Rajkumar and Dorfman 2010). Where new recruits decline to make an active choice of KiwiSaver fund, they could be drafted into an age-appropriate default fund with an appropriate asset mix to match their risk profile. Second, the government could require default providers in future to offer a comprehensive education and advice service to their KiwiSaver clients, perhaps in partnership with employers. Thus, pension fund providers would shoulder some of the responsibility for consumers making wise decisions on retirement investment. Third, coordination could be improved between those government agencies that have an interest in financial literacy. Fourth, pension scheme providers should report their fund performance information in plain English to consumers through a centrally-run and unbiased website.

LIMITATIONS AND FUTURE RESEARCH
This study offers insights into the influences on consumer choice of pension fund. The fieldwork based on focus groups is exploratory in nature, and the general limitations of using focus groups apply. 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.

The findings that emerged from the study are consistent with past research. The influencing factors found in this study could be tested using several alternative methods in the future: in a further round of focus groups that involve more diverse consumers; in a series of one-to-one interviews with KiwiSaver members exploring their motivations in greater depth; or in a wider quantitative survey using a deductive strategy to test the impact of influencing factors on fund choices. Financial literacy levels are clearly a major issue; further research is required into how well consumers understand their pension schemes (Toder and Khitatrakun 2006). 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 pension scheme providers, in terms of presenting their fund options and reporting their performance. Research on these and similar themes will give pension fund providers and policy makers valuable insights into improving pension schemes for the benefit of consumers.

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