## Module 7 - KiwiSaver Hardship Withdrawal Guidelines

<https://www.moneyhub.co.nz/kiwisaver-hardship.html>

**10 Essential must-knows for any KiwiSaver Financial Hardship Application (MoneyHub New Zealand)**

1. Unless you have an overdue mortgage or medical needs, the definition of 'Minimum Living Expenses' will make or break your application.

We estimate, based on discussions with KiwiSaver providers, that at least 80% of significant financial hardship applications are based on insufficient money for living costs, i.e. the inability to meet 'minimum living expenses'.

To determine if you qualify for a KiwiSaver withdrawal, your financial records and application form details will be examined in detail. Using the framework provided by Workplace Savings and the IRD, your KiwiSaver provider will assess your circumstances. This means their team will compare your expenses to what it considers to be 'minimum living expenses'.

The purpose is to determine whether you cannot meet (or are unlikely to be able to meet) minimum living expenses. If your expenses are seen as 'discretionary', i.e. non-essential, then there is less of a chance your application will be approved. For example, if you have a history of spending at restaurants then this will count against your application - we outline this in more detail below.

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1. Your assets, debts and bank statement spending will be examined in extreme detail.

Your assets are key factors in determining if you are in financial hardship. Significant factors include how many cars and/or homes you own, your mortgage details, what you spend on groceries, whether children attend public or private schools, what you spend on clothing, credit card transactions and medical bills.

If the KiwiSaver provider believes you could cut back on expenditure, such as groceries or general credit card spend on non-essentials, your application is at a higher risk of being refused.

​We talked to one former KiwiSaver provider team member who has assessed hundreds of hardship applications. The process saw him and his team routinely deny applications where there was a transaction history of luxuries such as restaurants, spa and health treatments, TAB, online Lotto and high supermarket bills. If you share the same expenses, there is a risk that your application may be refused.

The assessment guidance below indicates what your KiwiSaver provider looks for when determining if you are in a state of financial hardship, with certain facts supporting an application or working against an application.

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| --- | --- | --- |
| **Financial Detail** | **Supports Application** | **Works Against Application** |
| Car | Required for workNo cheaper/public alternative Repair/replace sole car (for work) | Multiple cars ownedWishes to replace (working) vehicle​Large/expensive make/model |
| House or Property | Family home Repairs necessary Upgrade due to changed circumstance (e.g. fitting wheelchair ramp)​Has investigated refinancing mortgage | Investment propertyHoliday homeMortgage/house value far exceeds member’s income/needs‘Renovations’ desired (as opposed to repairs)​No investigation into refinancing mortgage ​ |
| School Expenses | Annual (public) school fees Uniform costsStationery costs  | Private school fees‘Unnecessary’ school trip/camp expenses proposed |
| Credit Card Debt | Building up from paying essential daily expenses | Ongoing ‘luxury’ purchases |
| Food and Groceries | Less than $100 per week, per person in household | More than $100 per week, per person in household  |
| Landline Broadband Mobile | Reasonable costsBroadband access (of itself) generally acceptable as a minimum living expense | High costs |
| Sky TV subscription | Generally does not support application, however may support if applicant is from an area not serviced by digital TV via Freeview. | Generally does not support Application |
| Life insurance | Life insurance is condition of mortgage (with favourable rates)  | Unusually high levels of life insurance disproportionate to obligations |
| Superannuation & KiwiSaver | Contributions suspended | Contributions continuing |
| Childcare | Usually taken at face value to support application | Usually taken at face value to support application ​ |
| GasElectricity WaterBusTrainPetrol | Usually taken at face value to support application ​Usually taken at face value to support application | Usually taken at face value to support application ​Usually taken at face value to support applicationUse of a large vehicle (with no good reason) may mean that petrol costs are inflated |
| Hire Purchase Payments | Being used to replace broken and necessary item (e.g. washing machine) | Being used to purchase ‘luxury’ item (e.g. plasma TV)​Being used to replace working and necessary item (e.g. wanting a newer washing machine) |
| Clothing | Less than $50 per person per month | More than $50 per person per month |
| Medical Expenses | Usually taken at face value to support application | Usually taken at face value to support application |
| Bank Account Balances | Balance is less than one month’s expenses | Balance is more than one month’s expenses (or transaction history shows transfer to other accounts not detailed in the Statement of Financial Position) |

1. You will be assessed on many financial choices and constraints, some of which will be outside your control.

The guidance outlines that you may be suffering (or likely to suffer) significant financial hardship if:

* your 'justifiable' expenses exceed income; or
* your liabilities are more than three times income; or
* you spend more than 30% of your income on housing; or
* your justifiable expenses have increased, but your income hasn’t;
* your income has decreased, but your (justifiable) expenses have not decreased; or
* you have incurred (or need to incur) a large, one-off expense – brought about (in the latter case) by circumstances beyond your control.

The guidance also states that you will almost certainly be suffering significant financial hardship if your bank has presented you with an arrears notice on a mortgage. Your application will be assessed on everything you submit in your application - the table below indicates what facts are more likely to indicate significant financial hardship, and what facts work against an application.

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| **More likely to be****Significant Financial Hardship** | **Less likely to be** **Significant Financial Hardship** |
| Burial costs for a dependantBank demanding overdue mortgage payments | International travel for a relative’s funeralPurchasing an investment property |
| Repairing the sole family car so that the ‘breadwinner’ can get to work | Buying a new car |
| A new baby and reduced work hours for the breadwinner/s | Private school fees need to be paid |
| Essential repairs to the house – e.g. leaking roof, bathroom repairs ​ | Home renovations – i.e. adding on a sundeck, upgrading the kitchen |
| Change of job or lowering of hours/overtime leads to a lower income | Big increase in expenses after buying a holiday home ​ |
| Drives a 20 year old car | Drives a two year old car ​ |
| Change of circumstances leads to higher costs – e.g.: divorce/separation | No change in circumstances but more is being spent |
| Member is off work for six months, recovering from an accident | Member wants (non-essential) cosmetic surgery |
| The member is made redundant | The member is changing jobs or leaving a job to study (their choice) |

1. ​ You will be assessed as to whether alternatives to funding expenses have been 'fully exhausted'

Your KiwiSaver may go into detail with the terms and conditions of your ongoing debts (i.e. credit cards, hire purchase etc) and investigate the contracts and obligations. Secondly, the Workplace Savings guidance states that KiwiSaver providers must not make moral judgments about past wastefulness and use this as a reason to reject an application. This means bad choices can't be held against you. For example:

* 1. if you have previously purchased items on hire purchase and now cannot afford the repayments, and
	2. cannot sell the items as it would breach the agreement with the retailers, then
	3. your application is still valid despite the past money mistakes and it will be assessed on the usual grounds, but
	4. continuing ‘luxury/wasteful’ spending is a different matter and affects applications.

In the example above, the Workplace Savings guide suggests an application should only be approved if reasonable alternatives for funding the existing commitments (i.e. hire purchase payments) have been fully explored or exhausted, and there is no way of getting out of the ‘luxury’ financing commitments. But if there is a way to get out of the financing without penalty, the items should be returned.

Whatever debts you have, it is a good idea to see if they can be reduced by selling whatever the items are that caused them. If you can't sell them, be as detailed as possible as to why.

1. High-interest debt and the effects of sudden redundancy are both regular features of hardship applications.

We spoke to KiwiSaver providers and many reported that the most common debts causing financial distress (not necessarily 'financial hardship') included:

* consumer finance (Hire purchase, Q Card, GEM Visa)
* personal loans via bank and P2P lending (i.e. Harmoney)
* utility bills, phone bills and SKY TV
* credit card bills
* mortgage debt
* payday loans
* car financing
* school fees (including private school fees).

All of your debts are important:

* 1. All of the debts you list on your hardship application form are assessed individually; a detailed transactions history is crucial to determine the likelihood of repayment
	2. KiwiSaver providers reported seeing many hardship applications that have arisen due to a redundancy followed by no adjustment to lifestyle demands. If you have recently lost your job, cutting back on non-essentials and taking on a temporary position will immediately strengthen your financial position and avoid severe financial hardship.​

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1. Seeing a budget advisor/budget service will help your hardship application and your financial situation in general.

We estimate at least 95% of hardship applications are submitted without the help of free budgeting advice services. Given the paperwork involved and process of making a hardship application to the KiwiSaver provider in general, we believe that meeting up with such a service BEFORE submitting a hardship application is essential. This free service is available all over New Zealand, and a budgeting expert can help you complete the hardship application form as well as guide you to get your finances back on track right away.

1. It doesn't matter if you have applied before and been rejected - your current situation is what is assessed.

Each KiwiSaver provider is obliged to assess Significant Financial Hardship at the time of the application; prior applications (whether successful or not) may be considered in the assessment but are not a defining factor. If you have applied before and been rejected, your current financial situation may now meet the requirements and a part-payment or full payment of your KiwiSaver balance could be available.

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1. Your KiwiSaver scheme's supervisor makes the final decision.

Your KiwiSaver scheme's assessment team will put together a worksheet, notes, and in some cases (but not all), a recommendation to the scheme's supervisor who then does the analysis and determination against their benchmarks. Even if the assessment team has recommended rejecting the claim based on the information available, the supervisor has the final say.

KiwiSaver managers cannot decline an application; that is the job of the supervisor; you will only hear from the KiwiSaver scheme if they need more information to support your application.

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1. The application process is stressful; please remember your KiwiSaver scheme's staff are people too.

Applications for significant financial hardship can become emotionally involving for a KiwiSaver scheme. The team responsible for your application will try to find the best solution, both in the short-term and the long-term. We have spoken to employees of KiwiSaver schemes that say the stress caused by the sensitive issues when assessing applications can affect their work and general well-being.

Your KiwiSaver scheme is there to help you but you will have to be patient while the application is assessed. We have heard from KiwiSaver providers about staff being threatened with violence - this doesn't help anyone and only adds to the stress levels of everyone involved.

And remember, the supervisor for each KiwiSaver scheme is the one responsible for making the decision, not the KiwiSaver scheme manager.

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1. If your application is not successful, you have other options (and the right to complain).

If you don't receive the full amount, your KiwiSaver provider will inform you of the specified amount you have been approved for. If this happens, they must provide reasons as to why only a reduced amount will be released.

If your application is declined, the KiwiSaver provider will give reasons why, and provide further options available.

Possible Alternatives to Help with Financial Hardship:

* talk to your lenders, who offer Financial Hardship applications which can stop interest and repayments until you are financially better off
* contact a Budgeting Service for an appointment
* talk to WINZ about your issues as in some cases they may be able to help
* read our Debt Help guide to see more options available.

You have the right to complain if you're not happy with the process or outcome

Your KiwiSaver supervisor will be part of a disputes resolution scheme. You can complain if you disagree about the outcome of your application (i.e. it was declined), or you are unhappy with any aspect of the procedure followed by the supervisor or the manager.

You will need to contact your KiwiSaver provider for the details of their disputes resolution provider. If you are then unsatisfied, you have the right to raise the issue with the Financial Services Council who will assess the claim and make a determination as to whether the supervisor followed due process. We estimate that this could take up to two months.