



NZQA Assessment Support Material

Unit standard		28095			
Title	Analyse personal financial investment options				
Level	2	Credits	3	Version	3

Assessor guidelines

Assessors need to be very familiar with the outcome being assessed by the unit standard. The evidence requirements and the explanatory notes contain information, definitions, and requirements that are crucial when interpreting the standard and assessing learners against it.

Over the weeks prior to this assessment, learners should have had sufficient learning opportunities to be familiar with the following:

- Features of individual personal financial investment options such as:
 - Term deposits
 - Property
 - Shares
 - Business ownership
 - Managed funds
 - Bonds
 - KiwiSaver
- Suitability of investment options to individual investor profiles.

AWARD OF GRADES



- For award with **Achieved**, learners must analyse personal financial investment options in terms of their features for an individual investor profile.
- For award with **Merit**, learners must analyse personal financial investment options in terms of their features, making links to the suitability of the investment options for an individual investor profile.

AWARD OF GRADES - CONTINUATION



- For award with **Excellence**, learners must analyse personal financial investment options in terms of their features including links to and justification of the suitability of the investment options for an individual investor profile.

CONDITIONS OF ASSESSMENT



This is an **open book assessment**. Learners can use class materials and independent research to complete this assessment. Answers must be in their own words.

Assessment activity

This assessment activity has one task.

For a given individual investor profile, the task requires the learner to:

- Analyse two (2) suitable personal investment options in terms of:
 - cost(s)
 - length of time
 - deposit and/or contribution options
 - risk(s)
 - reward(s).
- Explain and make links to the suitability of the investment options for the individual investor profile.
- Justify the suitability of the investment options for the individual investor profile.

Resources

Resources that may help with this are:

- Prospectuses of different investment options;
- Financial Markets Authority, www.fma.govt.nz;
- Sorted Your independent money guide, <https://www.sorted.org.nz/calculators/investment-planner>;
- Young Enterprise Trust KiwiSaver Resource Package;
- Mary Holm (2007) "*KiwiSaver – How to make it Work for You*". Auckland: Random House, 2007, available at www.maryholm.com/KiwiSaver.php
- <http://www.KiwiSaver.govt.nz/>;
- Commission for Financial Capability, <http://www.cffc.org.nz/>;
- The New Zealand Network for Financial Literacy, <http://www.financialliteracy.org.nz/>;
- Inland Revenue Te tare Taake <http://www.ird.govt.nz/>;
- *Skint to Mint* – the game of calculated risks and rewards, <http://www.rbnz.govt.nz/>.
- Bamzonia Personal Financial Education, <http://www.bamzonia.co.nz>.

Assessment Schedule

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Task	Evidence/Judgements for achievement	Evidence/Judgements for achievement with merit	Evidence/Judgements for achievement with excellence
Outcome 1 ER 1.1 Tasks 1-3	<p>Learner analyses at least two personal financial investment options, relevant to the investor profile, in terms of their features. Investment options include KiwiSaver and one other.</p> <p>Descriptions must be factually accurate.</p> <p>See sample answers for one option only for Question 1.</p>	<p>Analysis includes links to the suitability of the investment options to the investor profile.</p> <p>See sample answers for one option only for Question 1.</p> <p>See sample answers for Question 2</p>	<p>Analysis includes a justification of the suitability of the investment options for the investor profile.</p> <p>See sample answers for one option only for Question 1.</p> <p>See sample answers for Question 2 and 3.</p>

Final grades will be decided using professional judgement based on a holistic examination of the evidence provided against the criteria in the unit standard.



Scenario

Read the scenario below. You will be required to analyse two (2) investment options, (**KiwiSaver** and **one other** from the following list) that would suit the investor profile:

- Term deposits
- Property
- Shares
- Business ownership
- Managed funds
- Bonds

Susanna is in her late forties and has three teenage children. She purchased a house in her early twenties and has now nearly finished paying off the mortgage.

She is a chef, earning above the average wage for her experience and has satisfactory job security. Susanna joined a private superannuation scheme about five years ago. She wants to save seriously for her retirement.

She has \$10,000 in a general savings account, \$3000 of which she doesn't intend to use for investing. She has a balanced budget where she saves \$175 a week, after her expenses.

Susanna realises that she is likely to experience some ups and downs with the value of returns and capital value of her investments. However, given that she expects to have approximately twenty years to save for her retirement, she is prepared to accept a certain level and amount of risk.

She has looked at various types of investments and knows that, without some risk, returns are likely to be low. Susanna is keen to earn at least moderate returns.

She has been on the internet and assessed herself to have been a conservative investor, and is interested in exploring higher growth options.



Task

1. Complete the table to analyse the features of KiwiSaver and one other personal financial investment option you have chosen.

Features	Option 1: [Term Deposits]	Option 2: KiwiSaver
Description	<p>Money deposited for a set time at a financial institution, such as a bank, by the depositor for a specified rate of interest.</p> <p>In general, you don't break term deposits unless you really need the money as there are financial penalties to do so, so access during the term is generally nil.</p>	
Cost(s)	<p>No entry fee and no end of deposit fees. There may be a penalty if you want to access the money before it matures. Breaking a term deposit may lead to a loss of any interest earned, or a 'break fee' and reduced rate of interest may be applied for early withdrawals.</p>	<div style="border: 1px solid black; padding: 5px; text-align: center;"><p>Sample answers for one option only are provided. Sample answers for option 2 KiwiSaver will need to be developed by the assessor</p></div>
Length of time (Term)	<p>30 days - 5 years</p> <p>Generally the longer the term the higher the rate of interest it attracts. Some 'specials' with higher interest rates may be available for particular investment terms/durations.</p>	

Deposit and/or contributions options	Minimum deposits may apply, and the amount of funds to be deposited cannot be added to throughout the term of the deposit. The rate of interest can be dictated by the amount deposited as well as the term selected.	
Risk(s)	Low, particularly if depositing with a bank. Little or no protection for an investor in a failing bank.	
Reward(s)	Interest payments made to the investor at the end of the term of the deposit, or sometimes may be paid quarterly. Returns generally at the low end of the scale for investment products. Investors know what they are getting and there is no ongoing involvement required.	

2. Explain why these personal financial investment options are suitable for the investor profile.

Use actual examples to show your reasoning

Susanna shows characteristics of having been a conservative investor, but is interested in exploring higher growth options. Growth investors aim for higher than average returns and capital growth over the long term. This also means potential higher losses in bad years than those you would experience with lower risk options.

In the past, when she has been setting herself up with a home and initial savings plan, she has tended to focus on safe, secure term deposits. However, there is a long time-frame that she can anticipate between now and retirement, so she can accept some more risky investments than she has previously.

She could spread the risk and return by investing in a combination of term deposits, and a KiwiSaver managed fund scheme in the following proportions:

Higher risk/return investments 70%
e.g. Higher risk, higher return, long time frame investments such as shares:

Lower risk/return investments 30%
e.g. Lower risk, lower return, short time frame investments:
i.e. cash/(term deposits)

or opt for a more balanced KiwiSaver or managed fund with say a 60:40 mix of growth and cash/income investments, alongside retaining access to some funds invested in term deposits.

Susanna has indicated she wants to keep an accessible reserve of \$3,000, and has \$7,000 in savings to invest. With a growth investment strategy, she could initially invest \$4,500- \$5,000 in a KiwiSaver managed fund scheme (if she is certain she won't need the funds before retirement), focussing on the right risk level for her and to take advantage of the annual 'member tax credit' paid by Government. This would be a good way to start, and give her a feel for how managed funds work. The rest of the funds (\$2,000 - \$2,500) could be put into term deposits then, as these fall due, she could reflect on her current circumstances and either reinvest in a term deposit or increase her investment in a managed fund (KiwiSaver or other - either in lump sum or regular payments).

(Sample answers related to awarding Merit)

3. Using the details from the scenario, justify the suitability of the investment options for the individual investor profile.

Because Susanna is exploring options for a growth investor with a long time-frame - about 20 years - to retirement, she can afford to take some risk. As a growth investor she can look to high returns and be prepared to take on a higher rate of risk than moderate and conservative investors. At this stage in her life she can expect to focus on the growth of her funds rather than focus on rewards (as she intends to when she is retired).

She can justify putting 70% of her money ear-marked for investment into KiwiSaver managed funds at the chosen risk level for her. While she may choose a high-risk scheme, her time frame allows her to justify that, as she has time on her side for volatility to work its way through the value of her investments. A high-risk KiwiSaver managed fund scheme will provide the best option for growth with reinvested earnings. Shares are traditionally the best option for growth, and are generally a significant part of a growth scheme in a managed fund. Meeting minimum contributions to a KiwiSaver managed fund scheme, focussing on the right risk level for her, will allow her to take advantage of the annual 'member tax credit' paid by Government (currently \$521.43).

In addition to the KiwiSaver managed fund, she may also choose to keep some funds invested in term deposits in case circumstances change and she requires them before retirement age, as there are restrictions on when she can access her KiwiSaver savings. It is wise to have some investment in less risky products such as cash/term deposits. In the case of a growth investor, the proportion of higher risk/return products to lower risk/return products should be about 70:30. So putting about 30% into lower risk/return investments as a means of diversification is wise in case the high risk/reward investments all go bad. She could also plan to revisit this proportion of investments as her total investment funds increase with her \$175 savings per week (which may increase as her earnings increase over time), and she can adjust her choice of KiwiSaver managed fund scheme to take advantage of the market trends and scheme performance.

If she invests mainly in term deposits, she would be missing out on long time-frame growth opportunities. The rewards over the long time-frame would be lower, reducing her income earning opportunities and she would likely miss out on increases in the potential value of her investments over a 20-year period.

She needs high returns within the broad spectrum of her risk range to provide her with the best possible retirement funding. She is more interested in growth than in income at this stage of her life. She already has invested in a private company superannuation scheme and this will be part of her total investment mix.

(Sample answers related to awarding Excellence)