

New Zealand KiwiSaver: Automatic Enrolment Experiences - Lessons for the UK

Susan St John

Retirement Policy and Research Centre

Auckland Business School, University of Auckland

Friends Life London

13th February 2014

New Zealand small economy

- Similar geographical size and population to Ireland.
- Fiscal pressures and an ageing population
- Cripplingly high exchange rate
- Net external liabilities 70% GDP
- Major earthquake rebuild

BUT New Zealand not suffered too much in GFC
Housing bubble has not burst **(yet)**

The Economist house-price index

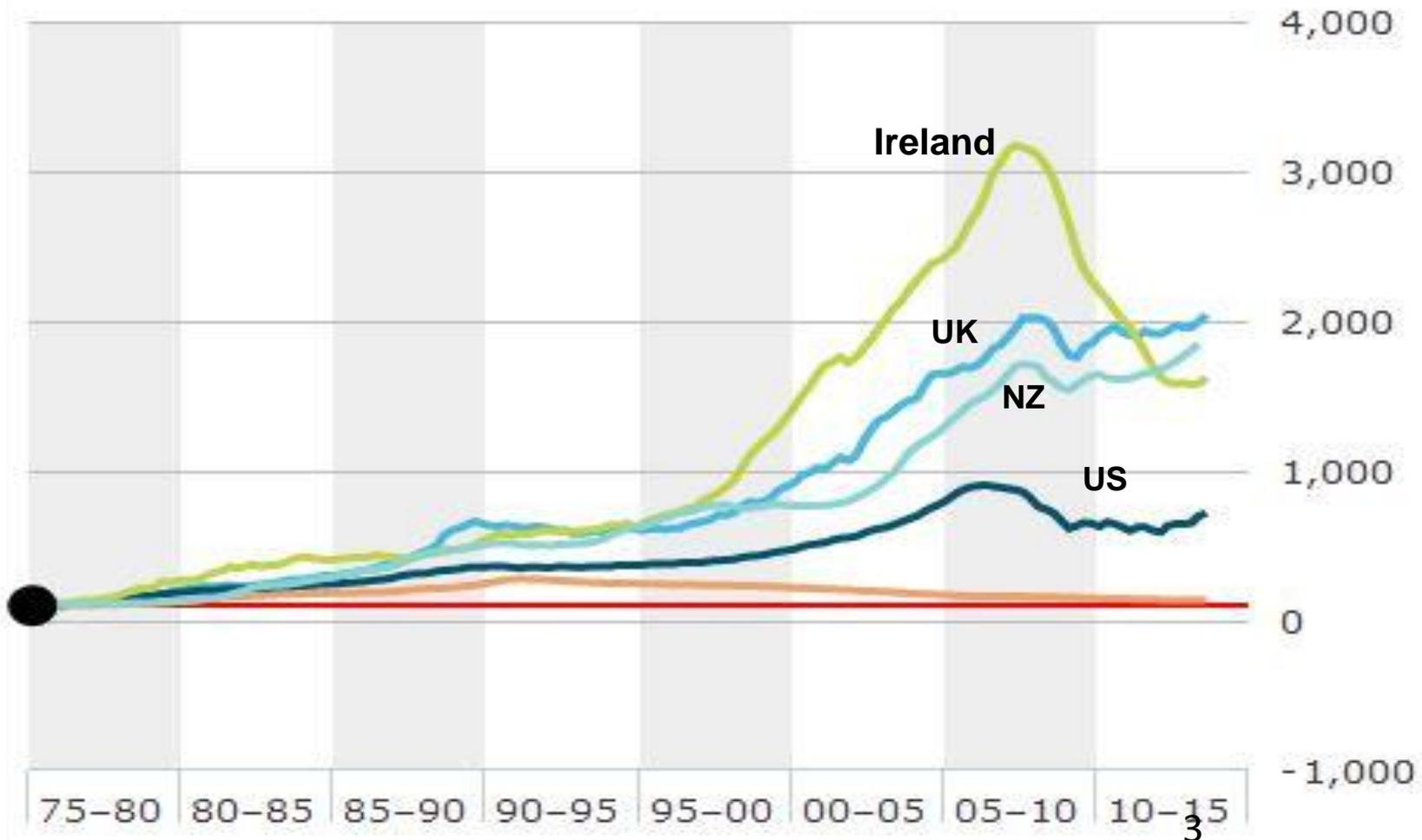
House-price index

Prices in real terms

Prices against average income

Prices against rents

Q1 1975=100



New Zealand retirement system

- Simple and adaptable *Potentially* sustainable, integrated and coherent
 - PAYG first tier: **New Zealand Superannuation**
 - No mandatory second tier
 - **Auto-enrolment national savings scheme**



Foundation: NZ Superannuation

- **Universal, flat rate, taxable state pension**
 - Light residency requirement of only 10 years
 - Coverage 95+% of the 65+ group
 - Non-contributory basis
 - Linked to prices and a wage floor
 - 33% net average earnings (married person)
 - higher rates for single, sharing
- **No disincentive to earn**
 - Prototype of a basic income
 - High and growing labour force participation of 65+

NZ Superannuation

- **Achieves a stable and secure basic lifetime income**
 - with home ownership high, prevents poverty for most .
 - underlying egalitarianism
 - everyone gets it as an *individual*
 - taxed in a modestly progressive tax rate structure
 - those with highest other incomes get 76% of what someone with no other income gets
- **But by itself offers low income replacement rate for middle and high earners**
 - All tax concessions for private saving abolished 1990
 - Falling coverage of work-based retirement schemes
 - NZ led way with demise of Defined Benefit schemes

KiwiSaver supplements NZS



Wide coverage and uptake

- **Not just a work-based** scheme
- includes children and non- employees
- membership rapidly increased now 2.15 million (55%)
 - Most members (67%) have opted in
 - New employees auto-enrolled
 - Opt out between 2- 8 weeks. Net opt out rate low
 - Auto-enrolment most affects the 18-24 group
 - After 12 months can take contributions holiday up to 5 years, and then roll it over

Kiwisaver Accumulations

- Minimum member contribution 3% gross pay
- Employer compulsory contribution 3% gross pay (Taxable)
- Additional personal lump sum contributions
- Government subsidies
 - Kickstart NZ \$1000
 - Member tax credit Up to NZ \$520
- Investment returns Less fees and tax

As at Sept 2013: KS NZ\$19 billion (€12 bin)
KS is 22% of \$88 bn (€54bn) total managed funds.

How did New Zealand get KiwiSaver?

- **Role of the visionary politician**
 - Hon Michael Cullen was obsessed by current account deficit, national saving issues and fiscal prudence
 - Set up Savings Product Working Party 2004
 - Budget 2005
 - Implementation 2007
- **Intention**
 - Extend advantage of work-based savings scheme
 - Increase national savings
- **Budget surplus in 2007**
 - Allowed scope for attractive KiwiSaver subsidies
 - Reduced the pressures for tax cuts

Key players in KiwiSaver

- **Financial Markets Authority**
 - Replaced former ad hoc light-handed approach to regulation
- **Inland Revenue Department**
 - Central clearing house
- **Employers**
 - Auto-enrolment, education role, compulsory contributions
- **Providers**
 - 28 offer 45 schemes, wide investment choice fees
- **Government**
 - Tweaks the scheme with frequent changes
- **Retirement Commission and journalists**
 - Financial literacy , comparisons of funds, promotion of KiwiSaver

Importance of branding, financial literacy and advice



About us

Financial literacy



Our vision:
Financially sorted Kiwis



KiwiSaver Fund finder

Compare funds

Find the right type of fund for you

Check your current fund

Your watchlist

Must-knows of KiwiSaver

Fund types

Fees

Service

Returns

Switching

How this tool works

KiwiSaver Fund finder

KiwiSaver providers offer hundreds of funds. How do they compare?

Choose one that works for you.

1 Find the right type of fund for you.

What suits you best?

2 Select the type of fund you'd like to look at.

Aggressive funds



What we mean by types of funds

3 Use these buttons to sort the funds in three important ways.

Fees i
lowest first



Services i
more first



Returns i 2.51%
highest first average

Warning about returns!

These show how funds performed in the past, but that's not a good guide to how they'll perform in the future. Don't switch funds based on past returns alone. [Learn more.](#)

Role of Incentives

- **Sweeteners VERY modest initially**
 - Kickstart and small fees subsidy
 - Visible, tangible, seen as fair
- **6 weeks before start govt subsidies vastly expanded**
 - Too good to miss
 - Increased interest and enrolment, but simple - product design and employer role also important.
- **Subsidies dramatically reduced, 2009-2011**
 - Limited, *unindexed* flat rate KickStart \$1,000
 - Matching *unindexed* 50% subsidy up to \$520 pa
 - Perverse* impact if saving is to maximise subsidy

Flexibility and choice

- Lump-sums may be contributed at any time
- Existing schemes may be KiwiSaver compliant and get some of government subsidies
- Ability to switch Provider and funds
- Choice of contribution rate 3%, 4%, 8%
- Contributions holidays- unlimited after 12 months
- Withdrawals for financial hardship
- Use for first home purchase with additional government grants
 - Modest targeted subsidies up to \$5,000
 - Mortgage diversion scheme abandoned

Hugely important clearing house role of the Inland Revenue Department

- PAYE system used rather than new infrastructure
- Big factor in trust and acceptance
- Each KiwiSaver member has one provider regardless of job changes- unique identifier is IRD number
- Compliance is achieved through ordinary channels of check-ups and education
- BUT IRD and employers struggled in 2007 with timeframe
- Biggest administration problem for IRD is opt-out

Employers reasonably happy

- Managed implementation well because KiwiSaver uses existing infrastructure
- Staggered contributions at first offset by tax subsidy
- Compliance good
- Can contribute more if they choose
- May play more educative role in future
- Some employers exempt, but it is not clearly necessary
- Total remuneration approach possible but not popular
 - Is employer contribution critical feature?

BUT Employers would resist compulsion

Improved Regulatory regime

- **Prior to KiwiSaver**

- regulation too light handed and under policed
- Background of collapse of 45 finance companies 2006-2011- loss of faith

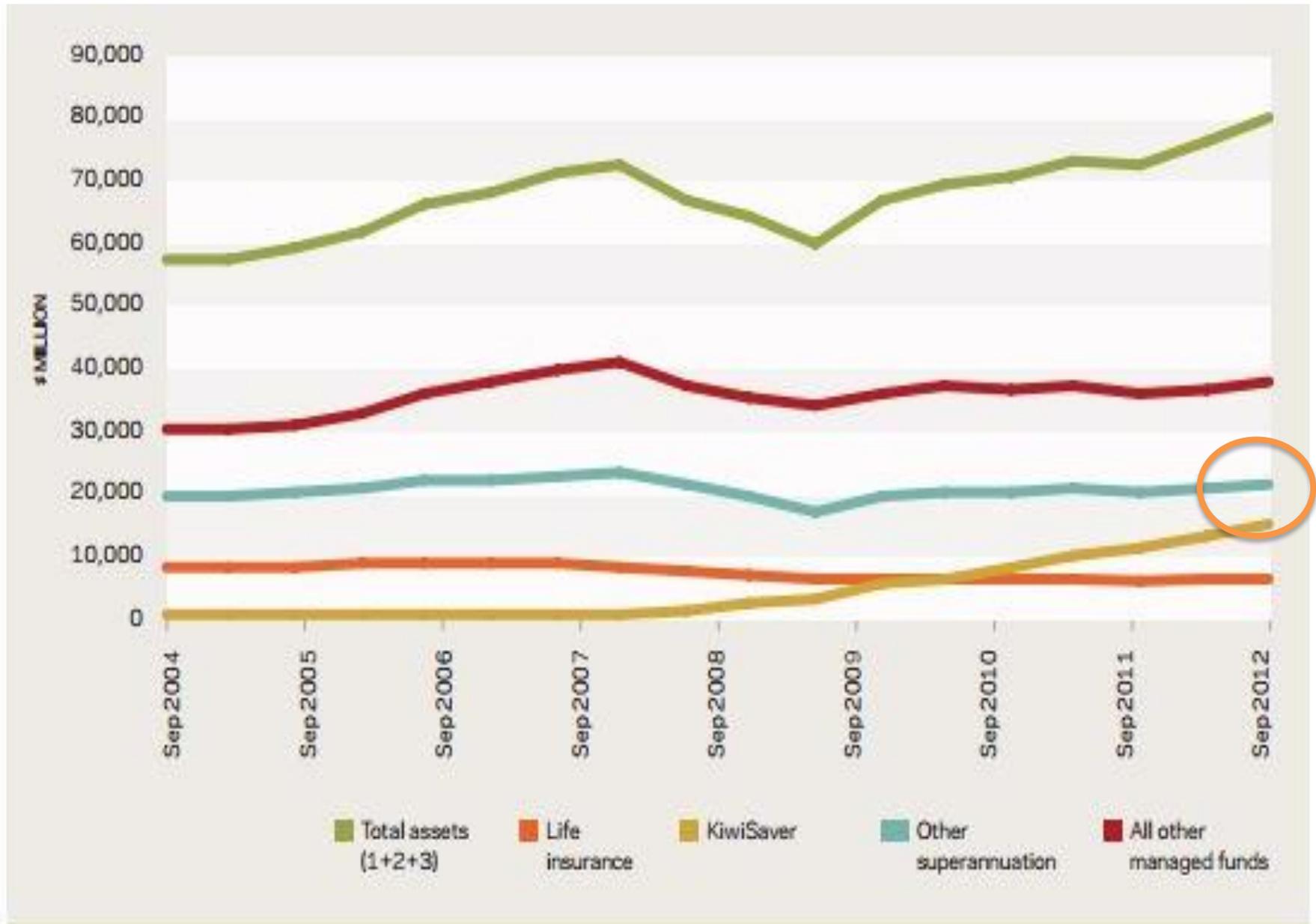
- **Need to enhance the public confidence**

- New crown entity: Financial Markets Authority 2011
 - manage mergers, registrations, closures, exits
 - monitor disclosure, appoint independent trustees
 - Public education
 - Reporting
 - Hands-on approach

Role of KiwiSaver in the industry

- **Not supposed to supplant other schemes**
 - Appears to be doing so
 - Accelerating demise of occupational superannuation schemes but DB had already almost disappeared
 - Also maybe growing at expense of retail managed funds
- **Very hard to see if KiwiSaver**
 - increases personal saving *or*
 - increases national saving

KiwiSaver in the Managed Funds space



Lack of attention to decumulation

Serious problem

Need to keep the eye on the purpose of the scheme which is to produce secure income supplementation for low and middle income people

- It is a ***distraction*** to worry about national saving
- Decumulation needed attention at the start
- With no intervention of any kind under the 'pure' New Zealand approach ***private annuity markets*** disappear
- Opportunity now to design a subsidised but ***limited*** annuity, maybe with long-term care insurance
 - New Zealand has unique chance to get this product right

Future of KiwiSaver

- Established part of landscape
- Possible changes
 - Auto-enrolment/holidays
 - Consolidation: fewer providers over time
 - Default schemes questioned
- **Decumulation**
 - **now MUCH more difficult to address in a voluntary regime**
- Lack of clarity of purpose leads to ad-hoc changes
 - political uncertainty
 - eg around compulsion, possible use of KiwiSaver to fund early retirement
 - Risks to universal NZS: offsets, means tests?

Main lessons for UK



- Helps to have a comprehensive tier 1
- Branding important- *KiwiSaver*
- Central clearing house and trusted oversight critical
- Little point in including children or housing
- **Get decumulation right from the beginning**
- Financial literacy programmes may help but are not the total answer
- Fees are important, but transparency best, default providers resented
- Incentives may be useful short term
- Clarity of objectives needed to prevent ad hoc changes
- **Political meddling to be avoided**

