1. KIWISAVER - Recommendations: Change Today

1.1. Increase employer and employee contributions from 3% to 4%.

1.2. Automated option to increase member contributions up to a certain level.

1.3. Add 6% and 10% to increase the range of employee contribution rates options.

1.4. Decouple the age of access to KiwiSaver funds from NZ Superannuation and discuss appropriate eligibility age for KiwiSaver funds.

1.5. Allow people over 65 years to join KiwiSaver.

1.6. Change the name of ‘contributions holiday’ to ‘savings suspension’ and reduce the maximum time to one year.

1.7. KiwiSaver providers to disclose the total dollar cost of all fees on annual statements.

1.1. Increase employer and employee contributions from 3% to 4%.

- Annual automated increase of 0.25% per annum from 2018, allowing a gradual rise from 3% to 4% by 2021.
- Both employer and member contributions would increase from 3% to 4% resulting in a total contribution rate of 8%.

Raising the minimum contribution rates will result in a substantial increase to KiwiSaver account balances in the long-term. The minimum default rate has an important influence on people’s saving behaviour.

There is a risk the current minimum rate of 3% sends the signal it is sufficient to build the assets for the standard of living people want in retirement. Internationally, New Zealand has the lowest rate of minimum retirement savings in the OECD.

An increase in the employer contribution rate will boost the incentive to become a member and contribute 4% in order to receive the employer-matched 4%. In 2016, of current contributors via PAYE, 66% of KiwiSaver members were contributing at the minimum default rate of 3%, while 25% were on 4%, and 7% at 8%.

For someone earning $40,000 a year, a 0.25% increase would mean a $2.00 per week increase in KiwiSaver contributions in each of the four year steps.

Effect of 3% to 4% increase.

A 20-year-old earning $40,000 would increase their KiwiSaver balance over their working life by $82,767 to $362,142 by contributing at 4%, with a matching employer contribution, rather than at 3%.

A 30-year-old earning $50,000 would increase their KiwiSaver balance over their working life by $58,760 to $255,600 by contributing at 4%, with a matching employer contribution, rather than 3%.

Sorted.org.nz calculator assumptions.

1.2. Automated option to increase member contributions up to a certain level.

- Add an option to allow members to choose an automated annual increase in their contribution rate of 0.25%, 0.5% or 1% up to a capped maximum rate.
- Members will be able to set and step back from KiwiSaver knowing that their contributions and savings will increase over time.

This option provides an easy way to raise savings over time. It will help overcome inertia in setting and forgetting about members' levels of contributions. There are some operational details to address before implementation, along with the process for managing choices.

1.3. Add 6% and 10% to increase the range of employee contribution rate options.

- Adding 6% and 10% provides more choice in member contribution rates.
- This will provide member contribution rate options of 4%, 6%, 8% and 10%.

Adding more contribution rates gives members more flexibility and control over their saving. Many people have said the gap between 4% to 8% was too large. Higher contribution rates will boost long-term savings when people are able to save more than the minimum level.

1.4. Decouple the age of access to KiwiSaver funds from NZ Superannuation and discuss appropriate eligibility age for KiwiSaver funds.

- Provides a greater sense of ownership and certainty over access to members' KiwiSaver funds by disconnecting from the NZ Superannuation eligibility age.
- Members should have a clear line of sight to when KiwiSaver funds are available and the appropriate age requires further discussion. An earlier age than eligibility for NZ Superannuation provides people with more retirement options.
- In limited circumstances for people with defined physical and intellectual disabilities, earlier access to funds could be provided.

Decoupling the age of access to KiwiSaver from NZ Superannuation provides greater security of access to members' funds in the future. KiwiSaver provides a supplement to NZ Superannuation without being directly connected to it. This would address concern over changing eligibility rules for access to funds and would provide certainty.

There needs to be debate and further discussion over the appropriate age of access to KiwiSaver. In some limited circumstances, for people with defined physical and intellectual disabilities, an earlier access age would enable them to benefit from their savings. An earlier age of access would provide members more options for retirement, particularly if the age of eligibility for NZ Superannuation increases in the future.

1.5. Allow people over 65 years to join KiwiSaver.

- This would provide access to a lower-cost managed fund for those who have not previously joined.
- Those joining over age 65 would not be eligible for Member Tax Credits, as at present, while New Zealand Superannuation eligibility remains at 65.
- There is no need to require a five-year lock-in period as members joining over 65 are not eligible for any government contributions.

This move would remove a current policy inequity, provide another investment option for those over 65, and would allow employers to voluntarily make contributions for all employees over 65. There is no apparent reason for those over 65 not being able to join.

1.6. Change the name of 'contributions holiday' to 'savings suspension' and reduce the maximum time to one year.

- The maximum period allowable to stop contributions to be one year, reduced from the current five years.
- Members' contributions will automatically resume after one year, unless members have renewed another one-year opt-out.

Stopping contributions for five years has a significant impact and disrupts long-term savings. For many people five years is likely to be longer than necessary and a one-year renewal provides a prompt to reconsider their position and contributions annually.

As at June 2016, 127,360 KiwiSavers were on a contribution holiday and 84% of these were for five years, which is the default period unless another time is specified. The proposed name change removes the positive connection with a holiday and better reflects what occurs. The reduced period would continue to be administered the same way as presently and allow an unlimited number of renewals.

1.7. KiwiSaver providers to disclose the total dollar cost of all fees on annual statements.

- The total dollar cost of all fees paid each year by a member to be disclosed on their annual statement.
- This would be the total of all administration and management costs, including any underlying management or performance fees.

There are a variety of approaches by providers to the disclosure of fees for KiwiSaver funds. Some already provide a dollar fee, which is easier for most people to understand than percentages or basis points. Disclosing fees in dollars would improve transparency and trust.

Policy work has already begun on regulations requiring schemes to provide members with actual fees paid in dollar terms, along with additional important information such as the projected future balance. This will also enable easier comparison between different schemes and promote competition.

1. KIWISAVER - Recommendations: Change Tomorrow

More work required on:

1.8. Non-contributing members and Member Tax Credits.

1.9. Increasing the coverage of KiwiSaver.

In the future:

1.10. Align KiwiSaver participation information and data reporting.

1.11. Membership of more than one KiwiSaver scheme.

1.12. Default funds.

1.13. Decumulation options.

1.14. Total remuneration approach disincentive.

More work required on

1.8. Non-contributing members and Member Tax Credits.

About 1.1 million of 2.3 million eligible KiwiSaver members did not receive their full member tax credits because they did not contribute up to $1,043 in the past year. 580,000 members made no contribution at all during the past year.

More work is required to understand the reasons why people are not contributing when the government provides a 50-cent credit for every dollar members contributed up to $1,043. While affordability is recognised as a key reason, it is not fully clear why such a large number have made no contribution at all.

In the year to June 2016 the government contributed $640 million by way of KiwiSaver member tax credits. This was a 10% increase on the previous year and a 40% increase over the past three years. More policy work is also required on whether this crown contribution could be better targeted to provide more incentive for people on lower incomes to contribute.

As part of the work on member tax credits the name should be considered as it is generally not well understood. ‘Government contribution’ or ‘KiwiSaver credit’ are possible alternatives.

1.9. Increasing the coverage of KiwiSaver.

KiwiSaver auto-enrolment has achieved a coverage rate of around 75% of the working age population. This success has been largely built on auto enrolment for those starting new jobs via the PAYE system. Those who are self-employed and contractors are two groups of people outside the workplace-based system.

Inland Revenue work on new payment methods for provisional tax for self-employed may provide an easier way to make KiwiSaver contributions. More work is required on options to further extend the coverage and benefit of KiwiSaver to these groups and others who are not in work.

Work undertaken by the Commission has revealed a number of factors related to those who are not KiwiSaver members. They are more likely to be over 50 years of age and live in provincial areas than active KiwiSaver members. Not being in work or being able to afford contributions to KiwiSaver were key reasons for not joining KiwiSaver, along with changes to government contributions and distrust of changes to the scheme.

In the future

1.10. Align KiwiSaver participation information and data reporting.

The two primary data sources on KiwiSaver are the Financial Markets Authority (FMA) and Inland Revenue (IR). Both agencies have specific statutory and regulatory requirements to report KiwiSaver information. An identified issue is a difference in reporting years, with FMA reporting on the year ended March and IR reporting to the year ending in June. A simple fix could be aligning the reporting periods in regulation to the KiwiSaver year ended June, rather than the tax year ending in March. This alignment would enable same year comparisons of data.

The definition of a non-contributing member also varies. It is proposed the definition of a non-contributing member is ‘not having made a contribution in one year’.

The Commission welcomes the addition of reporting by Inland Revenue of KiwiSaver membership by region. This provides a picture of the national coverage of KiwiSaver.

Ethnicity of KiwiSaver members is not recorded. While this gap has been identified previously there does not appear to be any simple mechanism to address this issue. KiwiSaver providers do not usually collect this information and there is no requirement for them to report on the ethnicity of KiwiSaver members.

1.11. Membership of more than one KiwiSaver scheme.

Terms of reference for the review asked the Commission to consider the policy setting which allows membership of only one KiwiSaver scheme. It is difficult to assess whether this limitation has impacted on KiwiSaver membership. However, among non-KiwiSaver members surveyed by the Commission it was not raised as a reason for not joining.

There are a number issues that allowing membership of multiple schemes would raise. It would increase the complexity of KiwiSaver administratively for providers, employers and members. There would be complications as to which scheme contributions from employers and members were directed. It would also mean that members have to track multiple schemes to keep across changes to their total balance. The ability to be a member of multiple schemes in Australia has contributed to a large number of 'lost accounts'. Multiple administrative fees would also apply.

Membership of more than one scheme would not reduce provider risk. This is because funds are invested in underlying assets and not connected to the financial strength of KiwiSaver providers. In addition, Trustees oversee investment allocations and hold client funds. Diversification of assets to spread risk depends on the type of fund and asset classes, which are subject to different market price factors.

A potential benefit of membership of more than one scheme could be from the diversification of management style and assets. Splitting KiwiSaver funds between different fund types can spread risks over asset classes and allocations. A few KiwiSaver providers offer funds from other providers through a fund-of-funds investment option. This approach may appeal to more sophisticated investors with larger balances who want greater investment fund choices.

At this point in the growth of KiwiSaver the Commission does not view membership of multiple schemes as a priority. KiwiSaver providers are innovating and providing greater variety and flexibility in fund allocations and options to invest in other providers' funds.

1.12. Default funds.

Nine default scheme providers were appointed for a seven-year term in 2014.These appointments were made with the expectation that communication and financial capability information would be provided to default members to enable them to make active decisions on their fund choice. The first year of reporting to the FMA has shown variable results, with default funds reporting between 1% and 22% of members making active decisions. The expectation is that these results would improve with more effort directed to supporting informed active decision-making.

A 2015 Treasury review that looked at KiwiSaver fund allocations noted the current portfolio of assets, weighted towards conservative funds, could lead to less than optimal future retirement incomes. This underlines the importance of raising levels of financial capability and the provision of information to assist members' active decision-making on fund types.

1.13. Decumulation options.

A forum on decumulation during the review discussed a range of existing options for older people to use their savings and assets to provide income and meet their retirement needs. The review found that New Zealanders take a conservative approach to risk and use of their assets when they get to age 65.

Decumulation has been raised as an issue due to the past lack of annuity products available in the New Zealand market to provide older people with a regular income and help managing their assets. The launch of a new annuity product in February 2016 provides an investment option for retirement income.

In time, as KiwiSaver balances and demand increase, it is expected that KiwiSaver providers will innovate and offer more drawdown options for members.

1.14. Total remuneration approach a disincentive for KiwiSaver

A point of concern is the disincentive towards KiwiSaver membership created by a total remuneration payment approach. The intent of KiwiSaver legislation is that compulsory employer contributions are paid on top of gross salary or wages. This approach creates a genuine incentive to join KiwiSaver and make contributions in order to receive matching employer contributions. Total remuneration packages erode this benefit.

The review finds that the ability to make contractual agreements that disregard compulsory employer contributions on top of gross wages or salary requires more detailed investigation. In 2011 the Savings Working Group recommended not allowing a total remuneration approach.

A national employers wage and salary survey of almost 300 companies, by the Employers and Manufacturers Association in 2015, found that that 28% of senior manager had total remuneration packages and 20% of all other staff.

An increase in the number of companies offering total salary packages, rather than paying KiwiSaver on top of gross salary, has potential long-term implications for retirement savings. The 'casualisation' of work and the increase in self-employed or contract workers could have the effect of reducing KiwiSaver membership. Analysis of employment practices and payment of KiwiSaver requires more work to better understand the effects of allowing a total package approach in regard to the intent of KiwiSaver legislation.