25 November 2016

Mr David Boyle
Commission for Financial Capability
PO Box 106-056
Auckland City 1143

office@cffc.org.nz

Dear David,

Submission on the "Eight ideas for KiwiSaver – what would you do?"

A number of providers has been working together, as a "KiwiSaver working group" in order to achieve improved member outcomes in a number of areas.

We would like to take this opportunity to provide some feedback around the Commission for Financial Capability (CFFC) 'Eight ideas for KiwiSaver'.

There are some key messages to which we would like to specifically draw to CFFC's attention. Further detail on these points is set out in the attached Appendix I.

Key messages

1. We support the proposal to allow greater flexibility in employee contributions, and would propose a limited number of rates, with higher median and top options.
2. We are supportive of the ability to choose annual rises of 0.5% or 1% up to a cap.
3. We believe the aims of the suggestion to reduce rates to 1% or 2% for a limited time can be better achieved through other means, namely the proposed contribution holiday changes.
4. Providers have had the opportunity to provide feedback on including the total dollar amount of fees paid on a member's annual statement, through MBIE's recent Discussion Document submissions process.
5. We support the reduction of contribution holidays from five years to one year. We propose that the right to renew it yearly would need to be carefully managed.
6. We support the idea of letting people over 65 join – however it is not a high priority.
7. We are able to support one-off auto-enrolment when it happens.
8. We do not support allowing people to join multiple KiwiSaver schemes.

Publication of feedback

We are happy for our feedback to be used or published by CFFC.

About the KiwiSaver working group

The group was formed out of the 2015 Inland Revenue (IR) annual KiwiSaver meeting and includes representatives from the following KiwiSaver providers and industry participants:

- ANZ New Zealand Investments Limited
- AON
- BNZ
- Booster
- Kiwi Wealth
- Medical Assurance Society New Zealand Limited
- Mercer (N.Z.) Limited
- Milford Asset Management
- Guardian Trust
- Westpac New Zealand Limited / BT Funds Management (NZ) Limited
- Workplace Savings NZ

Contact for submission

We welcome the opportunity to discuss any of our feedback directly with CFFC representatives. Contact details for the working group if required, are:

Sarah Beauchamp
Sarah.beauchamp@anz.com
09 251 3844
021 799 581

Yours sincerely

Sarah Beauchamp

Senior Product Manager
ANZ New Zealand Investments Limited

Appendix I – Detailed feedback

1) **We support the proposal to allow greater flexibility in employee contributions.**
   - Average contribution rates in New Zealand already lag behind many other jurisdictions such as Australia (where rates are planned to increase from a current 9.5% to 12% in 2025). Initiatives designed to facilitate contributions at internationally comparable rates should be embraced.
   - Feedback received by scheme providers from their members seems to indicate that the jump from 4% to 8% is too big and so is a deterrent for members who wish to make higher contributions beyond 4% but under 8%. Having an option between the two may encourage more members to contribute more than 4%.
   - Thought was given as to whether an appropriate option might be to stipulate a minimum with no maximum and the member simply able to choose a contribution rate above that. However, too many choices may induce a level of paralysis. Continuing with a limited set of choices seems more likely to be helpful for a member rather than an ‘empty box’ approach or too many options. Defined steps can also provide guidance and an implicit recommendation. Initial discussions with some payroll software providers also indicated that the open-choice option would potentially be complex for both the software providers to implement, and for payroll administrators to work with.
   - Behavioral science experiments indicate that consumers are often drawn to a median option and so introducing a set series of options where the middle is set higher than the current middle option may prove effective in providing members with more for their retirement.
   - There may be an implication with the current three choices, that 8%, as the top rate, is the most that members need to contribute at to provide for a very comfortable retirement.
   - As a suggestion we would recommend set choices of 3%, 4%, 6%, 8% and 10%. This would close the gap between 4% and 8%, provide greater flexibility, a higher median option, a higher top option to align with other jurisdictions, but would not overload on choice.
   - Initial discussions with IR and some payroll providers indicated that low level change such as this would not cause any significant issues. Previous changes in contribution rates (such as the movement in the minimum from 4 to 2 to 3) have been absorbed relatively easily. Further consultation on the operational impact would be recommended.

2) **We are supportive of the ability to choose annual rises of 0.5% or 1% up to a cap.**
   - This suggestion provides a logical way to increase contribution rates over the short and medium term.
   - The recent FMA white paper ‘Using behavioral insights to improve financial capability’ highlighted the power of a ‘save more tomorrow’ approach and showed the impact it has had previously in randomized control trials.
   - Utilizing the power of introducing a new default action where increases happen automatically could provide a step change in the approach many members take to investing.
   - Increased contribution flexibility beyond the current three rates may help facilitate any gradually stepped rising rate.
   - The complexity of implementation, in particular the question of who would manage the ongoing increases, should be taken into account in the final legislation. Under the current model, neither the IR nor providers would be

able to administer the required rate increases, as neither of these parties have visibility of contribution rates. Payroll providers would need to provide the necessary functionality for employers to administer this feature, however smaller employers and in particular those not using payroll systems, may struggle to administer the required rate increases.

- An alternative approach to implementation would be for IR to be legislated as central administrator for the contribution rates, allowing both providers and IR to also collect members' contribution rate data, and pass through the B2B message system to employers. This model would not only provide a solution for this proposed new feature, but would also increase transparency of rates amongst all industry participants, provide for a better member experience when choosing a contribution rate and make it easier for providers to engage with members about increasing contributions.
- There may also be concerns about adding complexity to the relatively straightforward proposition of KiwiSaver i.e. making the options too confusing for members, leading to lack of engagement. This could be overcome through education and would be worth addressing to achieve the outcome.
- There is existing scope for providers to engage the member at regular intervals throughout their KiwiSaver membership to encourage or suggest employee contribution rate increases. Again however as these changes require the member to engage with their employer, outside of any control from providers and IR, this is potentially not as effective as a 'default' rising rate.
- Members contributing via direct debit/direct credit may also be able to be engaged with at regular intervals to increase rates, or for those that choose a direct debit, a gradually increasing amount could potentially be automated.

3) **We believe the aims of the suggestion to reduce rates to 1% or 2% for a limited time can be better achieved through other means**
   - It can be hard to invest 3% of wages or salary and so the appeal of being able to contribute at a lower level for a limited period of time is clear.
   - Just like the previous suggestion the complexity around implementing seems significant. The burden of responsibility for administering and monitoring would fall on either payroll administrators and / or IR.
   - Equally this would broaden the contribution rate choice beyond the scope of the recommended five options, and so raises the same challenges inherent in that, namely increased complexity around changes to payroll systems, and an overabundance of choice for the member.
   - Also, whilst the full contributions holiday facility exists, those struggling to make payments seem more likely to choose to take a full holiday rather than a reduction.
   - If the aim is to allow a mechanism for reducing contributions for a limited period of time, then we would suggest focusing attention on implementing changes to the contribution holiday facility rather than introducing new, potentially complicated, alternatives (see answer to question 5 for recommendation on proposal for contributions holidays).

4) **Providers have had the opportunity to provide feedback on including the total dollar amount of fees paid on a member's annual statement, through MBIE's recent Discussion Document submissions process.**

5) **We support the reduction of contribution holidays from five years to one year. We propose that the right to renew it yearly would need to be carefully managed.**
   - In 2015, ANZ conducted research on a sample of nil-contributors and found that the vast majority of people not contributing to KiwiSaver were doing so for

good reasons, rather than apathy. 65% of people had affordability issues, with a clear theme in the verbatim comments being around financial hardship, focusing on covering daily expenses and paying off immediate debts first. Another 15% were either investing elsewhere or paying off their mortgage first. Only very few people (less than 3%) were not contributing because of reasons such as 'I'm too young to worry about retirement'. The results of this research support the idea of contribution holidays as part of the KiwiSaver model. However contribution holidays need to be carefully managed in order to balance the needs of people with affordability issues against the goal of encouraging people to save for their retirement. As such, the length of contributions holidays and how it is administered is crucial.

- We know from behavioural insights that people go with a 'default' option – therefore it is more socially responsible to force a decision on a more regular basis.
- Five years out is too far out for people to predict their financial situation.
- We assume a reduction in term would be administered in the same way as currently, i.e. the IR notify the member when the contribution holiday is ending and there is an option to start another contribution holiday. We would caution making the renewal process too much of a 'default' option, i.e. there should be a decision and action involved, to avoid the 'default' behavioural response. People should be making an active decision based on their financial circumstances in the next year, and their plans for retirement.
- We agree that there should continue to be an unlimited number of repeated contribution holidays allowed.
- We would also like to propose that a notification be sent to providers by IR when contribution holidays end. Currently an end date is included in the initial contribution holiday B2B message, however it would be a useful to receive notification of the member coming off contribution holiday when it actually occurs. This would enable providers to easily obtain an accurate picture of numbers of members on contribution holidays, so that they can more easily be part of the member engagement, support and education process.
- We are open to a discussion about providers owning the contribution holiday communications to members however it would be interesting to first understand more about IR's current experience with respect to member behaviour and the nature of the interactions before reaching a final decision.

6) We support the idea of letting people over 65 join – however it is not a high priority

- This would be a nice-to-have however it is not a huge priority. We are mindful that many New Zealanders' confidence in KiwiSaver as an initiative is being undermined by the perceived tinkering by the Government. It should also be noted that such a change would cause a high degree of change in providers' communications and collateral – with portions of these costs (depending on the provider) potentially being passed onto members.
- We support giving retirees access to a low-fee managed fund – broadening the perceived availability of investment options to New Zealanders. Particularly in the low interest environment, investing in a KiwiSaver scheme could be beneficial compared to investing in Term Deposits. The strength of the KiwiSaver brand could be of benefit – with the media coverage it receives and the higher degree of customer understanding as a result.
- Opening the scheme to retirees fits with the purpose and mechanics of KiwiSaver schemes, which are designed for retirement and decumulation, with a wide range of funds and regular withdrawal facilities.
- We assume that opening up to over 65s would not change the rules for the MTC payment (i.e. they would not be eligible if they joined over the age of 65). We would also assume that the scheme would be open, i.e. no initial lock-in

period.

7) We are able to support one-off auto-enrolment when it happens

- We are aware that earlier this year the Government postponed the auto-enrolment initiative, due to budgetary constraints. We can confirm that providers are in a position to support one-off auto-enrolment if and when the Government decides to do this.

8) We do not support allowing people to join multiple KiwiSaver schemes

- This would follow the Australian model, which is not one to aspire to – i.e. issues with people losing contact with their providers and their funds going into 'lost super'.
- The IR would need to implement a brand new 'lost super' model and process.
- If the intention is to provide diversification or more choice, this can be facilitated through individual schemes, because most if not all KiwiSaver providers offer a range of well diversified funds based on asset class and geography.
- Some KiwiSaver providers also supply funds from other KiwiSaver providers through funds-of-funds investment approaches. Effectively giving those people that want it, the opportunity to be in more than one KiwiSaver scheme.
- Complex for the central administrator, for providers and for members.
- Each provider would have more customers but with lower balances, which would add cost and administrative complexity – causing upward pressure on fees.
- A big plus for the KiwiSaver system as it works now is the fact that it is very competitive as transferring from scheme to scheme is simple, with the onus on the new provider to administer the transfer from the old scheme. If multiple schemes were implemented, this model would no longer work, making it in fact harder to transfer from scheme to scheme.
- In the same vein, the proposal also doesn't provide an enhanced level of 'safety' by spreading risk across providers. This is already provided for in the current legislative and regulatory model, with all KiwiSaver managers have a supervisor and are regulated by FMA. Assets of KiwiSaver schemes are held in trust for customers, entirely separate from the assets of the provider. So, if a scheme was closed for any reason, members' funds would be transferred to another KiwiSaver scheme.
- Members would pay multiple member fees.
- In summary, high cost and high complexity with little gain.