

**Kiwi Saver, Annuities and Superannuation
Protection Association New Zealand Incorporated**



The Consumer Voice Protecting Your Retirement Income

www.kaspanz.com

Attached is the written submission from consumer group Kaspanz, on the review topic KiwiSaver. Kaspanz is an incorporated society which began in February 2013, as a voice on retirement income issues. Our website is www.kaspanz.com

If there are to be consultations arising from the review submissions, Kaspanz would certainly wish to participate in them.

KIWISAVER

There is a need to create and maintain a long term plan about the suitability of any retirement savings scheme. We strongly support the **two major policy instruments** under the current system, New Zealand Superannuation and KiwiSaver; noting proposed variation suggestions to date, lack overall substance. It is important that there is multi-party support for a stable savings regime, and finding ways and means to achieve this in the MMP environment would help to underpin consumer confidence for the current model.

Under current arrangements we have in the order of 2.5 million New Zealanders subscribing to KiwiSaver, at some level: contribution holidays are 125,000 or about 5% (31 March 2015 statistics). The Government has been at pains to explain that it does not underwrite the various commercially available KiwiSaver providers schemes, while continuing to promote

the scheme overall. Kaspanz believes there could be major confusion in this area: a Government promoting and partially funding a scheme that it does not underwrite. It would be of considerable social value to survey KiwiSaver members to see what level of understanding there is of their commercial exposure and, related to this, whether there is widespread belief, notwithstanding Government's efforts to try to negate this view, the belief that, in the final analysis, the Government underwrites the programme. We think the responses might be revealing.

Kaspanz makes the following comments

1. Kaspanz urges the review to propose that, if the Government was to make KiwiSaver compulsory, it must reasonably involve commitment by the Government to underwrite the security of members' savings. In this respect, NZ is one of the few OECD countries that does not insure or guarantee deposited savings, and thus weakening consumer confidence in retirement income policies.
2. As things stand, the nominal statistics for Kiwisaver paint a much more positive picture than the more qualified picture of actual contributing members. It is to be hoped that the review will get the balance right between nominal participants and ongoing contributors, and reasonably stating the actual level of continuing contributors to the scheme.
3. There is a need to consider what the real growth in added savings has been. Other savings and investment schemes are a factor here. Much of the membership growth is based on employers changing employee retirement funds in order to capture the benefits of the KiwiSaver regime. This is net substitution, not growth in funds.

4. We support the current tax credit provision. The high level of attrition in actual savings suggests the Government's reductions in savings incentives have come at a considerable cost to ongoing contributions. This is a proposition, however, that could be tested.
5. Current contributions deducted from pay are either 3%, 4% or 8%. We believe the first two options are too low. When coupled with tax at contributors' marginal tax rates the real gains to saving are considerably reduced. While recognizing the existing principle, a number of approaches could be adopted in this area, and requires attention and drafted options for discussion. One option, for example, would be to treat Kiwi Saver contributions as pre-tax savings along the lines of 'salary sacrificing' in Australia.
6. The issue of fees needs attention. Various indicators show that provider fees in New Zealand are higher than many other countries, and there is wide spread consumer concern. How to address the issue is unclear, current policy appears to be that if fees are made more transparent, thereby the investor will be more aware of overcharging practices and invest accordingly. Our suggestion is a more focused effort by industry groups and government spokespersons is required to address this issue, and to make this area visible, competitive and consistent with global standards.
7. We support the principle of a life-cycle investment strategy as the default mechanism for KiwiSaver, with the caveat that this would require underwriting of the scheme by Government.

8. We also support adopting a lower-cost management of funds, which will mitigate the current global trend of lower returns, with the crown negotiating lower management costs in this area.

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