

An introduction to KiwiSaver

SUMMARY

The paper provides a simple description of KiwiSaver for the purposes of understanding the policy situation. It aids well-informed discussion of KiwiSaver by outlining the details of the policy. While NZ Superannuation is the key component of the retirement income framework, KiwiSaver is an additional element, but its financial impact is yet to be fully understood.

KEY POINTS

- KiwiSaver is a retirement savings scheme designed for those people not in a position to enjoy standards of living in retirement similar to those in pre-retirement.
- We are yet to see the difference that KiwiSaver makes to retirement, but the scheme has now been in place long enough for significant balances to be accumulated, although data on actual balances are scant.
- Options for decumulation, or how to draw down from KiwiSaver over the whole period of retirement, are yet to be fully developed.
- Over 1.2 million of the 3 million KiwiSaver members are not currently contributing to their funds. Many people do not contribute while they are not in paid work (such as stay-at-home parents and students) and many low-income earners take 'savings suspensions' (breaks) and self-employed people have little financial incentive to use KiwiSaver (there is no employer matching of their contributions only the government contribution).

MAIN MESSAGE

More data is needed to understand actual KiwiSaver balances held by individuals and determine whether any policy responses (such as education and information or changes to design features) are needed to provide New Zealanders with more retirement savings.

KiwiSaver provides additional retirement savings for those who contribute, but for those people who take breaks from making contributions (particularly for caring) or who are not incentivised to use KiwiSaver (such as the self-employed), other forms of savings may be required to provide additional retirement income





NZ Super myth-busting

I'm too young to think about KiwiSaver!	MYTH	The earlier we start saving, the more we can expect to have by the time we retire, especially with compounding interest and returns over a long period.
KiwiSaver funds are guaranteed by the government	MYTH	KiwiSaver funds are managed by the provider, who must act in the interest of their members, but the funds are not guaranteed. The value of a KiwiSaver fund will go up (and possibly down) based on the investments it holds. However, should the provider face financial difficulty, your KiwiSaver funds cannot be used to cover their debts.
A KiwiSaver balance should always go up – never down	MYTH	A KiwiSaver balance can go down as well as up, as the value of the investments change, but it should have a trend of increasing. Remember it's a long-term investment and will change over time.
The government could take some or all of my KiwiSaver funds	MYTH	Your KiwiSaver fund belongs to you. It couldn't be taken by a government.
The government will get my KiwiSaver when I die	MYTH	KiwiSaver is an asset like any other and will form part of your estate. It's important you specify who should receive any KiwiSaver funds in your will.
My ex-partner can't get any of my KiwiSaver	MYTH	KiwiSaver can be part of a settlement after relationship breakdown.
KiwiSaver isn't a good investment	MYTH - BUT CHECK YOUR KIWISAVER FUND IS RIGHT FOR YOU	KiwiSaver funds vary in terms of investment returns and fees charged. Funds can be compared using Sorted's Fund Finder or Smart Investor tools.
KiwiSaver funds are all the same	MYTH	There are a variety of fund types (defensive, conservative, balanced, growth, aggressive). Providers charge different fees and make different investment decisions. The results of investing in each fund will be different.
KiwiSaver is going to replace New Zealand Superannuation	MYTH	There are no plans to replace New Zealand Superannuation with KiwiSaver.
The more you save into KiwiSaver the better	KIWISAVER IS JUST ONE WAY OF SAVINGS – A MIX OF SAVINGS IS GOOD	People on low incomes need to balance what they are giving up now by saving for the future. This applies to KiwiSaver in particular, as those funds are generally 'locked in' until age 65, unlike savings in a bank account or other managed fund.
KiwiSaver is too difficult to bother with	MYTH	KiwiSaver is one of the simplest investment schemes. In the case of employees, the employer will take care of their KiwiSaver contributions: the employee just needs to check they're in the right fund for their needs.
KiwiSaver entrenches inequality	IN SOME WAYS	KiwiSaver simply reflects existing labour market conditions. As this includes gender and ethnic pay gaps and a wide range of incomes, KiwiSaver balances will vary between different people. KiwiSaver is intended to provide a standard of living in retirement similar to that experienced pre-retirement: this is what the labour market link achieves.

