Introduction

This paper aims to provide a simple description of KiwiSaver for the purposes of understanding the policy and aiding well-informed discussion.

KiwiSaver was introduced in 2007 and is administered by Inland Revenue, the Treasury, and the Ministry of Business Employment and Innovation [MBIE]. It is the joint responsibility of the Ministers of Revenue, Finance, and Commerce and Consumer Affairs.

KiwiSaver is a voluntary, opt-out, portable retirement savings scheme that operates mainly through contributions the employer deducts directly from salary and wages and sends to Inland Revenue. (Non-salary and wage earners can also enrol directly with a scheme). Contributions are placed in managed funds and are accessible after the age of 65 or in limited specific circumstances, such as a deposit for a first home, or in cases of serious financial hardship.

Some employers offer registered superannuation schemes, which means some or all of their employees are not auto enrolled into KiwiSaver, but this paper does not cover those schemes.

The OECD refers to retirement income schemes as either tier 1, 2, or 3 schemes based on the objectives they aim to achieve (covered further in part two of this paper). Tier 1 benefits aim to protect from poverty in old age (NZ Superannuation is classified as a Tier 1 benefit). KiwiSaver is a Tier 3 benefit, a voluntary scheme that aims to raise the individual income replacement rate in retirement. There is no Tier 2 scheme in Aotearoa New Zealand – these are mandatory workplace schemes.

This paper is structured in two parts. Part one covers the operation of KiwiSaver, and outlines the eligibility criteria, enrolment process, default providers, the regulator, and who makes contributions and how. Part two covers the policy framework and settings and it explains the classification and purpose of KiwiSaver, outlines the distribution of members and balances, and considers the settings for under 18s. It then examines the criteria for pre-65 withdrawals and what happens at age 65 before identifying the assumptions underlying the policy settings and the implications for savers.

Part One

ELIGIBILITY

Anyone who lives in New Zealand as a citizen or with a resident class visa is eligible to join KiwiSaver. People on temporary visas (such work, student, or visitor visas) are not eligible to join (Inland Revenue, 2021a).

There is no restriction on age, however those under 18 years of age can only join KiwiSaver directly through a scheme provider. Even if they are in paid work they cannot join through an employer. Those under 16 require the consent of all their legal guardians, and those aged 16 and 17 require at least one legal guardian to co-sign their application (Inland Revenue, 2021a).

An individual can only have one KiwiSaver account (i.e., be a member of only one KiwiSaver scheme). However, it is possible to split the investment within that KiwiSaver scheme across a variety of funds (i.e., a percentage in conservative, a percentage in growth).

ENROLMENT

One way of enrolling is auto-enrolment, which occurs when a person aged over 18 starts a new job that is either full-time, permanent part-time, a contract of more than 28 days, or casual agricultural work of more than 3 months. The employee will be enrolled into the employer's chosen scheme, if they have one, or into one of the default KiwiSaver providers (Inland Revenue, 2021a).

An employee may opt-out of KiwiSaver between the end of week 2 and week 8 of starting paid work and being auto-enrolled[1]. An employee may also change their KiwiSaver provider at any time (Inland Revenue, 2021a).

When a person with KiwiSaver account starts a new job, their KiwiSaver 'follows them', and their employee and employer contributions will continue to be made into their existing KiwiSaver account.

Another way of enrolling is directly with a KiwiSaver provider (for example, if they are not in paid work, or they are self-employed). Payments can be made either directly to the provider or through Inland Revenue (Inland Revenue, 2021a).

There were 3,090,631 KiwiSaver members in New Zealand at 31 March 2021 (FMA, 2021:2).

DEFAULT AND NON-DEFAULT PROVIDERS

KiwiSaver funds are either 'default' funds or non-default funds. Default funds are those into which people are automatically enrolled if they are not already a KiwiSaver member when they start work (MBIE, 2021).

Only certain providers can offer default funds and these providers are chosen by the Government. Default fund providers are also able to offer non-default funds. Both default and non-default KiwiSaver funds invest in a range of assets but vary by type of investment, investment strategy, and fee structure.

Nine default fund providers were introduced from 1 July 2014 for a 7-year term with a stated purpose to provide stable returns for KiwiSaver members and build confidence in KiwiSaver while members actively consider the best funds for their individual circumstances. These default schemes had a conservative investment approach, which included up to 15 to 25 per cent allocation to growth assets. These providers were AMP, ANZ, ASB, BNZ, Grosvenor, KiwiBank, Mercer, Fisher Funds, and Westpac (MBIE, n.d.1).

In 2021 MBIE reviewed the default KiwiSaver provider arrangements and a number of changes were made. From 1 December 2021, default funds are balanced funds, which have more growth assets than conservative funds. Fees were reduced, with an emphasis on simplicity and transparency, and default providers are now required to engage with their members to help them make informed decisions about their retirement savings at key points. Investment in fossil fuels and illegal weapons are now excluded from default funds. After a competitive tender process, default providers were changed to BNZ, Booster (formerly Grosvenor), Kiwi Wealth (an investment entity formed by KiwiBank), Simplicity, Smart Shares, and Westpac (MBIE, 2021).

REGULATION AND DOCUMENTATION

KiwiSaver schemes are not government guaranteed but regulations ensure that the FMA monitors KiwiSaver providers closely to make sure they meet the required standards and act with investors' best interests in mind.

KiwiSaver funds are managed investment schemes [MIS]. All managed investment schemes are regulated by the Financial Markets Authority [FMA]. The Financial Markets Conduct Act 2013 ('the FMC Act') requires that all MIS managers must be licensed by the FMA and have a licensed supervisor. MIS managers are responsible for the investment strategy of the fund. A series of obligations apply to all MIS, including statutory duties of care on supervisors and managers, and acting in the best interests of investors. MIS that are KiwiSaver schemes have additional obligations.

1 There are also provisions to opt-out later in specific circumstances, such as relevant documentation not being provided, circumstances beyond the employee's control to provide their opt-out notice within eight weeks, or if auto-enrolment should not have occurred.

To be licensed, KiwiSaver schemes must meet the requirements for registration in s128 of the FMC Act (which include for example, requirements to be a New Zealand trust with a purpose of providing retirement benefits, and that fees are set in accordance with cl 2 of the KiwiSaver rules). KiwiSaver scheme applicants also need a certificate from the FMA that the FMA is satisfied that the scheme complies with those additional requirements.

During operation, MIS managers of KS schemes have additional obligations set out in the KiwiSaver Act 2006. In summary, these obligations include the need to:

- prepare statistics-based annual returns and lodge these with the FMA
- provide members with annual personalised statements with details of contributions, balances and total fees expressed in dollars (in line with the FMA's methodology notice PDF and guidance note Fee disclosure by managed funds for how to calculate fees).
- lodge copies of amendments to the trust deed on the Disclose Register
- follow the processes outlined in the FMC Act when a scheme is wound-up
- provide quarterly and annual fund updates

Default KiwiSaver providers must also meet obligations as set out in their Instrument of Appointment. The FMA reviews default providers against these obligations on a six-monthly basis.

CONTRIBUTIONS

As an employee

When the KiwiSaver member is an employee, contributions may be made by the employee, their employer, and the government.

Employees can contribute at either 3%, 4%, 6%, 8% or 10% of their gross (before tax) salary and wages and contributions are taken through wage deductions (Inland Revenue, 2021b). Employees are also able to make further contributions at any time directly into their KiwiSaver fund.

As an employer

Employers must make a compulsory minimum contribution of 3% towards their employees' KiwiSaver funds. Employers then pay both employee deductions and employer contributions to Inland Revenue with all other payroll deductions (Inland Revenue, 2021b). The employer is not required to make these contributions after the employee turns 65 (Inland Revenue, 2021c).

Employers are required to calculate the amount of employer superannuation contribution tax [ESCT] that Inland Revenue will need to deduct from their employer contributions to employees' KiwiSaver. The ESCT rates reflect the current individual marginal tax rates of 10.5%, 17.5%, 30%, 33% and 39% (Inland Revenue, 2021d). The impact of ESCT is that the actual amount of employer contribution received into their employees' KiwiSaver is 3% of gross wages less the employee's marginal tax rate.

Government

If an individual has contributed at least $1,042.86 of their own money to their KiwiSaver fund during the year 1 July to 30 June the government will make a contribution of $521.43. If an individual contributes a lesser amount, a government contribution is 50 cents for every dollar contributed. KiwiSaver providers apply for this government contribution on behalf of their members. The government ceases to contribute once the member reaches the age of 65 (Inland Revenue, 2021e).

Total remuneration

The employer's compulsory minimum KiwiSaver contribution is on top of the salary or wages of the employee. However, some employers adopt a 'total remuneration' approach, whereby all cash and non-cash benefits (such as gym memberships and KiwiSaver) are included in determining gross pay. In these cases, the employer's contribution may be offset against the employee's gross pay, reducing the amount of take-home pay received.

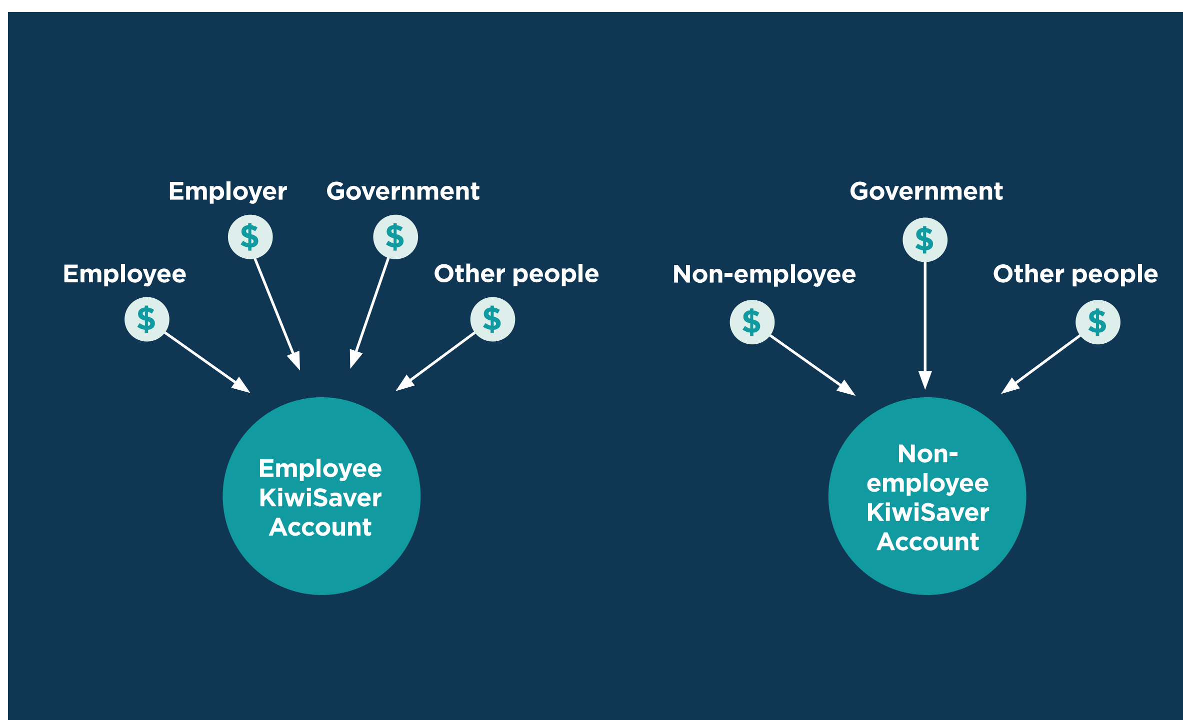
As a non-employee

When the KiwiSaver member is not an employee, because they are self-employed or not in paid work, contributions may be made by the member and the government. Members can contribute any amount, at any time, directly to their provider. If the member has contributed at least $1,042.86 during the year, as outlined above, the government will make a contribution of $521.43.

To other people's KiwiSaver

It is possible to make contributions into someone else's KiwiSaver account – not just into one's own KiwiSaver account. One example is contributions made by parents or grandparents into a child's or grandchild's account. Contributions must be made directly to the KiwiSaver provider.

Figure 1. Kiwisaver Contributions



Previous contribution rules

When KiwiSaver was introduced, an initial government contribution of $1000 (called a 'kickstart') and a fee subsidy of $40 per year were available to members. In addition, the government provided tax credits that matched contributions of $20 per week, up to a maximum of $1040 a year. Employer contributions were initially set at 1% with plans to increase over 4 years to 4% by 1 April 2011 (Treasury, 2007).

The 2011 budget made some changes to KiwiSaver contributions. The maximum available tax credit was reduced to $521.43 for the year ending 30 June 2012 and beyond (Beehive, 2011) and the Employer Superannuation Contribution Tax was introduced (PSC, 2012).

The kickstart payments ceased on 21 May 2015 (Beehive, 2015a). Employer contributions have been held at 3%.

TAXATION

KiwiSaver operates under a 'TTE' system of taxation where 'T' refers to taxed and 'E' refers to exempt. The first 'T' refers to the fact that contributions are made 'after tax', such as from salary or wages that are subject to PAYE withholding, and the second 'T' refers to the fact that profits are taxed within the KiwiSaver fund itself. The 'E' denotes that any withdrawal from KiwiSaver is not subject to taxation.

Part Two – Policy framework

KIWISAVER CLASSIFICATION

Retirement income schemes are classified by the OECD as either a tier 1, 2, or 3 scheme based on the objectives they aim to achieve. Tier 1 aims to protect from poverty in old age, tier 2 aims to ensure the adequacy of retirement income, and tier 3 aims to raise the individual income replacement rate.

NZ Super is classified as tier 1 and KiwiSaver as tier 3. Tier 2 schemes are mandatory savings schemes: there is no tier 2 pension in Aotearoa New Zealand. A full explanation of pension classification, including consideration of how our retirement income policies compare against other pensions within the OECD, is provided in an earlier Retirement Commission Policy Paper – OECD Comparisons (Te Ara Ahunga Ora, 2021).

PURPOSE

According to section 3 of the KiwiSaver Act 2006 (PCO) the purpose of KiwiSaver is as follows:

> *'to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits.'*

This purpose statement makes it clear that KiwiSaver is designed to support people in their retirement. It also highlights a particular cohort of people as its intended audience – those who 'are not in a position to enjoy standards of living in retirement similar to those in pre-retirement'. This is likely to be the majority of the population, who have been in some form of paid work for some part of their life, but not include the very wealthy, or those who have spent long periods in receipt of some form of main benefit. The former group are assumed to be able to make their own arrangements, should they want more than NZ Superannuation and KiwiSaver, and the latter group will have their pre- and post-retirement income smoothed by moving to NZ Superannuation.

By making KiwiSaver contributions during their pre-retirement, people should have increased funds available for retirement, the balance of which will depend on several factors. These include the amount of the contributions made but also on fees charged and returns achieved. Returns will be linked to the fund chosen, which should reflect the risk profile and investment time frame of the individual, with earlier investment and longer retention within the fund generally providing the greatest balance at retirement.

There is also a trade-off to consider, particularly for those on lower incomes, whether to retain funds to provide a standard of living in pre-retirement or to increase savings for retirement.

To enable assessment of retirement income policy, the Retirement Commissioner developed and released a purpose statement last year, which can be found below and our website here.

A stable retirement income framework enables trust and confidence that older New Zealand residents can live with dignity and mana, participate in and contribute to society, and enjoy a high level of belonging and connection to their whānau, community and country.

To help current and future retirees to achieve this, a sustainable retirement income framework's purpose is twofold:

1. To provide NZ Superannuation to ensure an adequate standard of living for New Zealanders of eligible age. NZ Super is the Government's primary contribution to financial security for the remainder of a person's life.

2. To actively support New Zealanders to build and manage independent savings that contribute to their ability to maintain their own relative standard of living.

The retirement income system sits within the broader government provision of infrastructure also needed to enable older New Zealanders to live well, such as health care, housing, and transport.

The purpose statement captures KiwiSaver as one way of building and managing independent savings that will help people maintain their own relative standard of living in retirement.

DISTRIBUTION

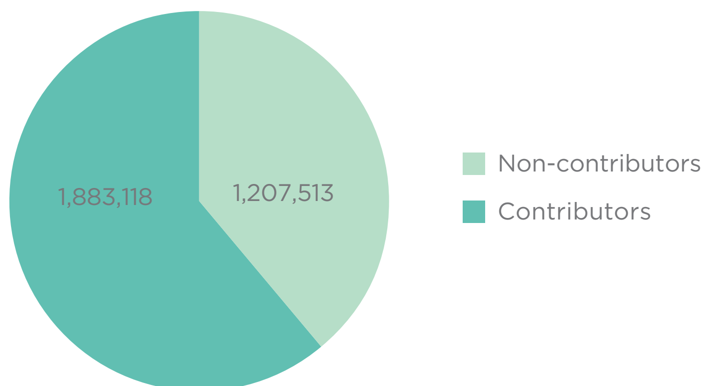
There are a little over three million KiwiSaver members in New Zealand, and the average balance is $26,410 (FMA, 2021:2). However, the average (mean) does not necessarily tell us how much individuals have actually saved, or the spread across the population of low or high balances. More detailed figures are not currently published.

The split by sex is approximately 51% female to 49% male with 1,563,293 KiwiSaver members identifying as female and 1,507,914 identifying as male (FMA, 2021:20). Details on ethnicity of KiwiSaver members is not published (this information is not held by KiwiSaver providers).

Although there are more than three million KiwiSaver members, not everyone is currently contributing to their KiwiSaver, with 1,207,513 non-contributors (FMA:2021:19).

Overall, there is currently very little public data on KiwiSaver members and their balances, which presents challenges for those seeking to determine the future benefit KiwiSaver is likely to provide.

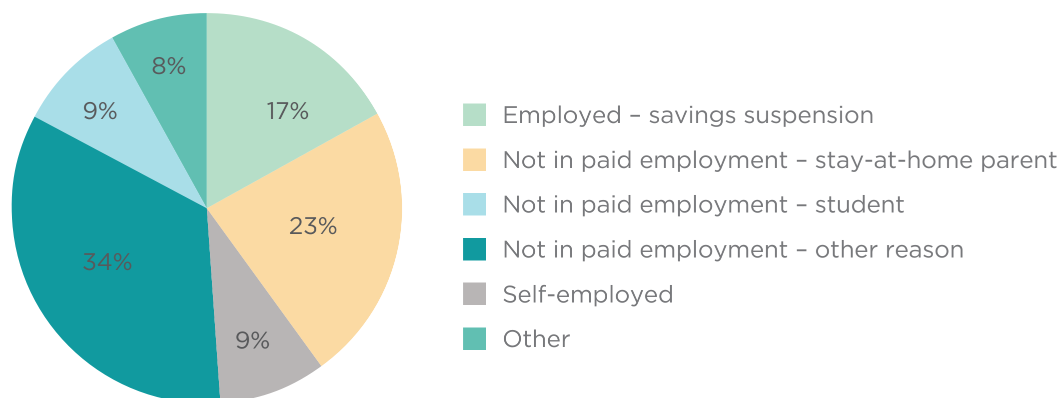
Total KiwiSaver members



Te Ara Ahunga Ora Retirement Commission's own research (planned 2022 publication) has revealed that the majority of people who are not contributing to their KiwiSaver are not currently in paid work (66% of non-contributors). Of those in paid work, but who have taken a savings suspension[2] (17% of non-contributors), many are low-income earners.

Almost half of all non-contributors have annual income under $30,000. Māori represent a large proportion of non-contributors, at 28%, and Pacific peoples are 10%.

Resasons for not contributing



SAVINGS SUSPENSION

Savings suspensions (formerly known as 'contribution holidays') are available to employees who have contributed and been a member for 12 months or more. Suspensions can be for a period of 3 months to 1 year but can be taken consecutively and ceased at any time. No reason is required to be given for taking a savings suspension. Employees who have been in KiwiSaver for less than a year can only apply for a savings suspension in case of financial hardship and evidence is required to support the application.

During a saving suspension, an employee ceases to receive any employer contribution (unless an employment agreement stated otherwise) but could receive the government contribution, if the necessary amount of voluntary payments had been made (Inland Revenue, 2021f).

LIMITS ON ELIGIBILITY

People in New Zealand on temporary visas (such work, student or visitor visas) are not eligible to join KiwiSaver (Inland Revenue, 2021a). Should these visa holders go on to become permanent residents, and remain living in New Zealand, they have lost the benefit of contributions and growth from the period they held temporary visas. They could have saved money, outside of KiwiSaver, as temporary visa holders but they would not have received employer or government contributions.

Although there is no restriction on age, there are administrative requirements that act as barriers for some children to become members of KiwiSaver. Children under 16 require the consent of all their legal guardians. This can present challenges for children whose parents are estranged, and may represent a form of discrimination against them.

Employer contributions cease to be mandatory when employees reach the age of 65. One of the recommendations from the Review of Retirement Income Policies 2019 was that employer contributions for KiwiSaver members aged over 65 be phased in on the grounds that it was discriminatory and unfair (CFFC, 2019:9).

2 Described further below

PRE-65 WITHDRAWALS

KiwiSaver is a retirement savings scheme where funds are made available when the member reaches the age of 65. However, there are specific circumstances in which KiwiSaver funds can be accessed prior to reaching that age: for a deposit for a first home; in time of significant financial hardship; and for serious illness or specified life-shortening congenital conditions and when someone permanently emigrates from Aotearoa New Zealand.

Deposit for a first home

KiwiSaver funds may be withdrawn to pay the deposit on a first home. The provision[3] enables a withdrawal to be made if one has not been made previously, the member has been in KiwiSaver for at least three years, the land is in New Zealand, and the house will be the principal place of residence for the member, and is the first property owned by the member.

In the year to 31 March 2021, $1.4 billion was withdrawn for first homes, part of an increasing trend from $1.2 billion in 2020 and $953 million in 2019 (FMA, 2021:4).

The amount that may be withdrawn is the member's accumulation (contributions from the member, any employer, and the Crown[4]) less $1000 and any amount transferred from an Australian complying superannuation scheme. The policy reason for the restriction regarding Australian-sourced funds is the difference in rules regarding pre-65 withdrawals between Australia and New Zealand.

Prior to 1 July 2018 there was no provision in Australia to release superannuation scheme funds for house purchases. From that date, purchases of first homes, in which the member would live for at least six months within the first 12 months of ownership, could be made using the 'first home super saver' – a dedicated savings scheme within superannuation. Only the relevant first home super saver funds can be accessed, being the voluntary contributions of the member, and not employer or any other contributions. A financial limit applies to the withdrawal and an amount of tax is withheld from the withdrawn amount (ATO, 2021).

As the Australian superannuation rules now allow withdrawals for first home deposits, it may be appropriate to consider whether the KiwiSaver restriction on amounts transferred from Australian complying superannuation schemes is still appropriate. A petition has been made to Parliament on this point and the Finance and Expenditure Committee issued a report with its response in May 2021. The report included advice from Inland Revenue that resolution of this issue was largely dependent on the Australian Government. Inland Revenue advised that the transfer of retirement savings across the Tasman is governed by the Trans-Tasman Retirement Savings Portability Arrangement, which prevents KiwiSaver members from using Australian-derived funds to purchase a first home, due to key differences between the first home deposit rules in each country. Australia operates a 'tax clawback', has restrictions on what contributions can be withdrawn, and financial limits apply. One of these are present in New Zealand and the tax clawback was suggested to present a "range of administrative challenges and create considerable complexity within the tax system" (FEC, 2021).

Although it would require willingness on the part of Australia, it would be beneficial for New Zealanders if these rules could be reconsidered, as many New Zealanders spend time in paid work in Australia.

KiwiSaver members may also be eligible for a First Home Grant. These are available from Kāinga Ora – Homes and Communities and vary depending on whether a new or existing home is purchased. If someone buys an existing home, they can receive $1000 for each of the three (or more) years they have paid into the scheme, to a maximum of $5000 for five or more years. If someone buys a new home or land to build on, they can receive $2000 for each of the three (or more) years they have paid into the scheme, to a maximum of $10,000 for five or more years (Kāinga Ora, 2021).

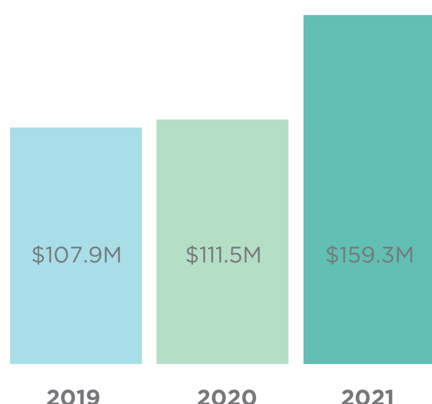
3 Section 8 of Schedule 1 KiwiSaver Act 2006 (PCO)
4 Since 1 April 2015 (Beehive, 2015b)

In time of significant financial hardship

Members can withdraw funds in cases of significant financial hardship.[5] A member must apply to their KiwiSaver provider with evidence, such as their inability to meet minimum living expenses, or need to pay for medical treatment (Inland Revenue, 2021g). The decision regarding release of contributions is made by the manager or supervisor of the KiwiSaver fund.

There were 21,000 hardship withdrawals worth an average of $7584 in the year to 31 March 2021 (the first year of the COVID-19 lockdowns). This compares to 17,534 withdrawals worth an average of $6359 the year before. In overall terms, the amount of significant financial hardship withdrawals rose 42.8% to $159.3 million in the year to 31 March 2021, up from $111.5 million a year earlier, and $107.9 million in 2019 (FMA, 2021:3).

Significant hardship withdrawals



Serious illness and life-shortening congenital conditions

Members can withdraw all their KiwiSaver funds in cases of serious illness defined as an injury, illness, or disability that results in the member being totally and permanently unable to engage in work for which he or she is suited by reason of experience, education, or training, or any combination of those things or that poses a serious and imminent risk of death.[6]

Members can also withdraw funds in cases of life-shortening congenital conditions. These can be either:

- a listed condition, defined in section 228(1)(mb) of the KiwiSaver Act 2006 as those that exist for a person from the date of their birth and are likely to reduce the life expectancy for persons in general with the condition below the New Zealand superannuation qualification age, or
- an unlisted condition where the member has medical evidence to verify that the congenital condition is expected to reduce life expectancy below the New Zealand superannuation qualification age for the member or for persons in general with the condition. Four conditions guaranteed early access were introduced from 26 March 2021: Down syndrome; cerebral palsy; Huntington's disease, and fetal alcohol spectrum disorder (Beehive, 2021).

Permanent emigration

A KiwiSaver member can withdraw the majority of their KiwiSaver balance if they permanently emigrate from New Zealand[7]. They may not withdraw the government contributions they have received (although this does not include the KickStart if applicable) or any amount previously transferred from an Australian complying superannuation scheme. The withdrawal can only occur a year after they permanently emigrate.

The KiwiSaver funds may only be transferred into an authorised foreign superannuation scheme and evidence of emigration is required. This includes a statutory declaration in respect of the member to the effect that the member has permanently emigrated from New Zealand. Proof of departure is also required, along with evidence of residence at an overseas address during the year following the member's departure from New Zealand.

5 Section 10 of Schedule 1, KiwiSaver Act 2006 (PCO)
6 Section 12 of Schedule 1, KiwiSaver Act 2006 (PCO)
7 Section 14 of Schedule 1, KiwiSaver Act 2006 (PCO)

POST-65 WITHDRAWALS

A KiwiSaver member can make withdrawals from their KiwiSaver fund when they reach the New Zealand superannuation qualification age[8], which has been set at 65 years since 2001.

There are no restrictions on withdrawing the full amount or a partial amount and there is explicit mention that nothing prevents a member purchasing annuities or a pension from all or part of the member's accumulation (section 5). In the year to 31 March 2021, the over-65s withdrew $1.22 billion, down 8.3% year-on-year, but up from $1.04 billion in 2019 (FMA, 2021:4).

All KiwiSaver providers allow members to continue to hold their KiwiSaver accounts after they reach the age of 65 (FSC, 2019:21). The number of over-65 members is increasing, by 15% from 2020 to 2021, and now they total 147,331. Fewer over-65s fully exited KiwiSaver during the year to 31 March 2021, just 19,512 members, a decrease of 14% from the year to 31 March 2020 (FMA, 2021:4).

Members can 'draw down' their KiwiSaver balance over time, by accessing any amounts when they wish, to supplement other retirement income such as New Zealand Superannuation. Any time after age 65, total or partial tax-free withdrawals can be made, or a regular draw-down can be established (for example, fortnightly, monthly, or quarterly) to which minimum withdrawal amounts may apply.

In KiwiSaver's second decade some individuals will be starting to hold significant balances. There will be an increasing need for individuals unused to large capital sums to access independent information on how to 'draw down' this asset. This is known as 'decumulation' or 'the process of running down savings in retirement'. It may entail changing a capital sum or asset into an income stream via drawdown, annuity or pension' (St John & Dale, 2019:4).

The New Zealand Society of Actuaries Retirement Income Interest Group [RIIG] has developed a 'two buckets' framework for drawdown of retirement savings. They suggest having an emergency 'bucket' reserved for spending needs which are not usually met from a regular budget such as medical bills, eyesight needs and hearing aids, home or car maintenance and repairs and a longer-term drawdown bucket which supplies the cash for regular budgeted spending. KiwiSaver could be used for one or both 'buckets'. A person needs to decide how much to draw down from the drawdown bucket, to create income, and the RIIG has published a set of Rules of Thumb that provide a starting point for this decision (NZSA, 2020). Four options are outlined: 6% rule (drawdown 6% of the starting value of retirement savings each year); inflated 4% rule (drawdown 4% of the starting value of retirement savings, increased for inflation); fixed rule date (drawdown savings to nil by at the end of 25 years); and life expectancy rule (drawdown savings based on life expectancy each year).

Overseas, the United Kingdom provides assistance to retirees via both the government, and the private sector (although this likely reflects the more complex retirement income system there). The government funds 'Pension Wise', which offers free pensions guidance to the over 50s via a 45–60-minute telephone call. Pension providers must send out information known as "Wake up" packs to pension savers at age 50, then at regular intervals, to assist in their decision-making.

Recent changes to the rules for default KiwiSaver providers have introduced some requirements that relate to post-65 withdrawals.[9] For example, default KiwiSaver providers must now provide advice (or a digital equivalent) to default KiwiSaver member 10 years and one year out from reaching 65, including on how to manage an ongoing KiwiSaver investment or withdrawals after they turn 65, and provide helpful information when a default KiwiSaver member reaches eligibility age.

8 Section 7(1) of the New Zealand Superannuation and Retirement Income Act 2001 (PCO) and Section 4 of Schedule 1, KiwiSaver Act 2006 (PCO)
9 The changes also require default providers to engage with default fund members at key points over the life of their KiwiSaver investment to help with important decisions, such as after they've withdrawn KiwiSaver funds for a first home, and to provide helpful information at certain times, such as during significant market volatility or when a default member nears the end of a savings suspension.

INCENTIVES AND INEQUITY

Employees have a greater incentive than non-employees to contribute to KiwiSaver due to the employer contributions that employees receive. Non-employees include people who run their own business, sole traders, independent contractors, freelancers and gig workers.

Using the term self-employed to capture all of these groups, there were 355,100 self-employed people[10] in New Zealand in March 2021., This figure has been increasing, with a 13.9 per cent increase in the number of self-employed women since March 2020 and a smaller, not statistically significant, increase of 3.5% of self-employed men. In the year to March 2021, 14.3% of all employed people who identified as European were self-employed, an increase from 13.3 percent from a year ago. For Māori, this was 9.3 per cent of all employed people, an increase from 7.3 per cent.

People who identify as self-employed with no employees in their main job make up about 13 per cent of all employed people in New Zealand (Stats NZ, 2021). As an increasing number of people become self-employed, even if in conjunction with another role as an employee, they lose the financial benefit of employer contributions on their self-employed income.

KiwiSaver contributions are usually a percentage of salary and wages. This means that those earning less or working fewer hours will likely accrue a lower KiwiSaver balance than those earning more or working more hours. As a result of ethnic and gender pay gaps, and a gender-segregated labour market where female dominated industries generally pay less, those with lower balances are more likely to be non-Pakeha and women.

The purpose statement in the KiwiSaver legislation referred to being 'in a position to enjoy standards of living in retirement similar to those in pre-retirement'. The linking of contributions to salary and wages facilitates that intention. However, another perspective on that mechanism is that it perpetuates labour market inequality into retirement, at which NZ Superannuation then provides the same pension for life for nearly all New Zealanders.

There are a number of potential responses to these issues.

The 2019 Review of Retirement Income Policies (CFFC, 2019) made a number of recommendations for making KiwiSaver more attractive to people in the situations described above including:

- Target the government contribution to incentivise voluntary contributions to KiwiSaver by non-employees.
- Consider the introduction of care credits to KiwiSaver accounts to reduce the risk of being penalised for time out of employment caring.
- Exclude fixed fees from low-balance KiwiSaver accounts and require providers to remove fixed fees for all balances under $5000.

The government has advised that the second of these recommendations (care credits) will not be actioned but that the ongoing welfare overhaul, and work on the Ministry of Health's funded family care arrangements, are already considering changes to policy settings for beneficiaries and for carers in the welfare and health system.

The third recommendation (fixed fees) was explored in the 2021 KiwiSaver Default Provider Review, which found that limiting fees to a percentage-based fee only, or mandating no fees for low balances, would increase barriers to entry to the default market by delaying the point at which new providers would break-even, so it will not be implemented.

10 Note that Stats NZ refer to non-employees but state this is actually non-employees without employees (Stats NZ, 2021). As the data exclude people who employ others in their own business the total number of non-employees will be larger than the figures quoted above.

Other recommendations from the 2019 Review of Retirement Income Policies that could assist to increase KiwiSaver balances included:

- Introduce a 'small steps' employee contribution programme to KiwiSaver as the default for new members, and as an option for current members.
- Phase in employer contributions for KiwiSaver members aged over 65 and consider implications of doing so for those aged under 18.
- Phase out the inclusion of KiwiSaver in total remuneration packages.

All three of these areas will be considered by MBIE as part of its cross-agency work to consider options for enhancing KiwiSaver. Two other recommendations from the 2019 Review of Retirement Income Policies are also being explored, the recommendation to add a 'sidecar' savings facility to KiwiSaver for short-term emergencies, and how to target the government contribution to incentivise voluntary contributions to KiwiSaver by non-employees (listed in the first set of bullet points above).

KiwiSaver myth-busters

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.

KiwiSaver myth-busters

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 SAVING – 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.

CONCLUSION

This paper has outlined the policy design features of KiwiSaver, a key element of the retirement income framework in Aotearoa New Zealand, which sits alongside the foundational component of NZ Superannuation. KiwiSaver has been identified as 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.

In its second decade, KiwiSaver is about to provide a group of people reaching the age of entitlement with larger KiwiSaver balances than anyone before them. The difference these funds make for their standard of living in retirement is yet to be fully realised.

KiwiSaver is popular, with more than three million members. However, more than 1.2 million members are not currently contributing to their fund and there is the potential to consider whether any elements of the policy design could be improved.

Finally, the last word might appropriately be given to the architect of KiwiSaver, the late Sir Michael Cullen. In a 2003 speech to the Insurance and Savings Industry Association, he described his view of the roles of the government and individuals in retirement income policy, which remain reflected in the design of KiwiSaver policy today (Beehive, 2003).

> *"The view that I have often stated is that confidence about basic income security in retirement is the least that the citizens can expect in a modern developed economy. Democratic arithmetic tells me that it is an expectation that will be delivered on. It is also the most that citizens can expect. They cannot expect the state to replicate in retirement the incomes they enjoyed during working life. Not only would that be very expensive, it would also be inequitable. We would be using taxpayer resources to sustain the income inequalities that the market generated in the first place."*

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