KiwiSaver pre-age 65 withdrawals and savings suspensions

SUMMARY

This paper provides an overview of the pre-age 65 KiwiSaver withdrawal and suspension settings and provides insights into trends in first home and financial hardship withdrawals, as well as savings suspensions over a 12-year period. In addition, the paper considers gender differences in these withdrawals and suspensions over the past two years.

Out of the total amount withdrawn for first home and financial hardship between 2012 and 2023, the vast majority (89%) has been withdrawn for first home purchases, with financial hardship withdrawals representing only 11%. Withdrawals from both these categories have generally trended up over the past 12 years, however, this should be seen against the backdrop of increasing funds under management and member numbers over this time period. A relatively small portion of KiwiSaver members have taken savings suspensions over the 12-year period, and the duration of these suspensions has reduced since the default suspension period changed from five years to one year in 2019.

In the last two years men have withdrawn more than women for both first home withdrawals and financial hardship withdrawals. More men than women are on ordinary suspensions and slightly more men than women are on financial hardship suspensions as at the end of June 2023.

KEY POINTS

- Over the past 12 years a total of $8.3bn has been withdrawn for first home purchases. While both the amount withdrawn and the number of withdrawals have trended up over time, this trend has reversed in the last two years. However, the average amount withdrawn has not declined, currently at $32,257 in 2023 compared to $29,437 in 2021 and $32,085 in 2022.
- The total dollar amount withdrawn by men for first home withdrawals exceeded the total amount withdrawn by women by approximately $275 million between 2021 and 2023.
- Between 2012 and 2023 a total of $983 million has been withdrawn for financial hardship. Both the number of financial hardship applications, and the quantum of funds accessed show an increasing trend over time, the average amount withdrawn has ranged between $6,200 and $7,300 over the past five years.
- Between 2021 and 2023 men have withdrawn approximately $137 million compared to $127 million withdrawn by women for financial hardship.
- Over the past 12 years, the number of people on a savings suspension has been relatively low, representing on average 4.3% of all KiwiSaver members, and has trended down over the past three years to just over 3% of all KiwiSaver members (102,646 people are on a savings suspension as at the end of June 2023).
- The majority of savings suspensions are ordinary suspensions with only a small minority of savings suspensions occurring in the first year of contributions (where financial hardship needs to be proven before the suspension can occur).
- More men than women were on ordinary savings suspensions over the past two years.
- Between 2021 and 2023 initially more women than men were on financial hardship suspensions, however this trend has reversed and more men are now on financial hardship suspensions.
- The change to the default suspension period in 2019 (reducing the default time period from five years to one year) has reduced the number of people with savings suspensions in excess of 36 months from 85% in 2018 to 25% in 2023, with the duration of the majority of suspensions now less than a year.

INTRODUCTION

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). An earlier Policy Paper provided an introduction to KiwiSaver including how it operates and policy settings.[1] The focus of this paper is on the settings related to pre-age 65 withdrawals for first home deposits and financial hardship, and savings suspensions. The paper aims to provide an overview of the trends in withdrawals and suspensions over the past 12 years, including an analysis of the differences in behaviour between males and females in the past two years. The analysis should be viewed in the context of overall growth in both funds under management and KiwiSaver membership over the past 12 years. Total KiwiSaver funds under management have grown from $13.2 billion as at end June 2012 to $100.8 billion as at 30 June 2023.[2] KiwiSaver member numbers have grown from 1,966,444 members at the end of June 2012, to 3,300,394 members as at end June 2023.[3]

While KiwiSaver is primarily a retirement savings scheme where funds are made available when the member reaches the age of eligibility for NZ Superannuation (currently age 65), 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; for serious illness or specified life-shortening congenital conditions; and when someone permanently emigrates from Aotearoa New Zealand. This paper only focuses on withdrawals related to first homes and significant financial hardship.

In addition, savings suspensions (formerly known as 'contribution holidays') are available to employees who have contributed and been a member for 12 months or more. 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.

The rest of this paper provides an overview of the trends over a 12-year period related to first home and financial hardship withdrawals, as well as savings suspensions, using publicly available KiwiSaver statistical data provided by IR.[4] In addition the paper considers gender[5] differences in withdrawal and suspension behaviour over the past two years using additional data from IR.[6]

1 TAAO-RC-Policy-Paper-Kiwisaver-2021-04.pdf (retirement.govt.nz)

2 Kiwisaver: Assets by sector (T43) - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz)

3 Datasets for KiwiSaver statistics (ird.govt.nz)

4 KiwiSaver statistics (ird.govt.nz)

5 IR doesn't specifically collect gender. For statistical purposes, they use the title as a proxy. Gender has been allocated in following manner: Male Includes Mr, Master, Lord, REVFR, Sir; Female Includes Miss, Mrs, Ms, Lady, RMTHR, Sister, Dame. Other Includes Capt, Col, Dr, Mx, Prof, Rev, Hon, Judge, Major. For the purposes of the statistical data presented in this report, "Other" is excluded.

6 IRD customised data request 11 August 2023 (Retirement Commissioner request).

FIRST HOME WITHDRAWALS

KiwiSaver funds may be withdrawn to pay the deposit on a first home. The first home withdrawal feature of KiwiSaver was part of a "Home ownership assistance" package, which was intended to complement the introduction of the Work-Based Savings Scheme (which became KiwiSaver). The rationale was explained as follows:

> *"The Government believes that asset ownership is important to enable people to participate fully in society and that assets provide families with greater security, control and independence. Moreover, the security of tenure associated with home ownership confers further benefits on households, in terms of their health and education outcomes, and social cohesion. Home ownership also provides equity that many households are able to use when borrowing funds to establish small and medium-sized enterprises.*
>
> *Home ownership has been a significant means of saving for retirement in New Zealand for most households. Living standards research indicates better outcomes for retired home owners compared with retired renters."*[7]

The latter point has been confirmed in research commissioned by Te Ara Ahunga Ora Retirement Commission, which has found clear relationships between wellbeing and housing in older age,[8] and research finding that retiree homeowners have higher wellbeing across a range of subjective wellbeing measures compared to those who are renting in retirement.[9]

The KiwiSaver scheme rules in the KiwiSaver Act 2006, set out the criteria for making a withdrawal for the purposes of purchasing a first home.[10] The rules allow 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. The amount that may be withdrawn is the member's accumulation (contributions from the member, any employer, and the Crown) less $1,000 and any amount transferred from an Australian complying superannuation scheme.

While the KiwiSaver scheme rules outline the eligibility criteria for a first home withdrawal, in practice there are various scenarios that test the application of these criteria, including past property ownership, types of property, structure of property ownership, living arrangements etc. Industry guidelines were developed by the Financial Services Council NZ to provide general information and a resource for their members.[11]

First home withdrawal statistics

Over the past 12 years a total of $8.3bn has been withdrawn from KiwiSaver for first home purchases. As illustrated in Figure 1, the amount has trended up over time, however this trend has reversed in the last two years, coinciding with declining property prices and increasing interest rates in New Zealand. The latest annual amount of withdrawals is at $952 million versus a peak of almost $1.6 billion in 2021. However, the fall appears to be related to a decline in the number of withdrawals rather than the amount withdrawn, as the average amount withdrawn in the past year was $32,257 compared to $29,437 in 2021 and $32,085 in 2022.

7 PDF File - [6 April 2005] - Memorandum to Cabinet Policy Committee: 2005 Budget Savings Package: Home Ownership Assistance - Securing Your Future Cabinet Papers Release - The Treasury

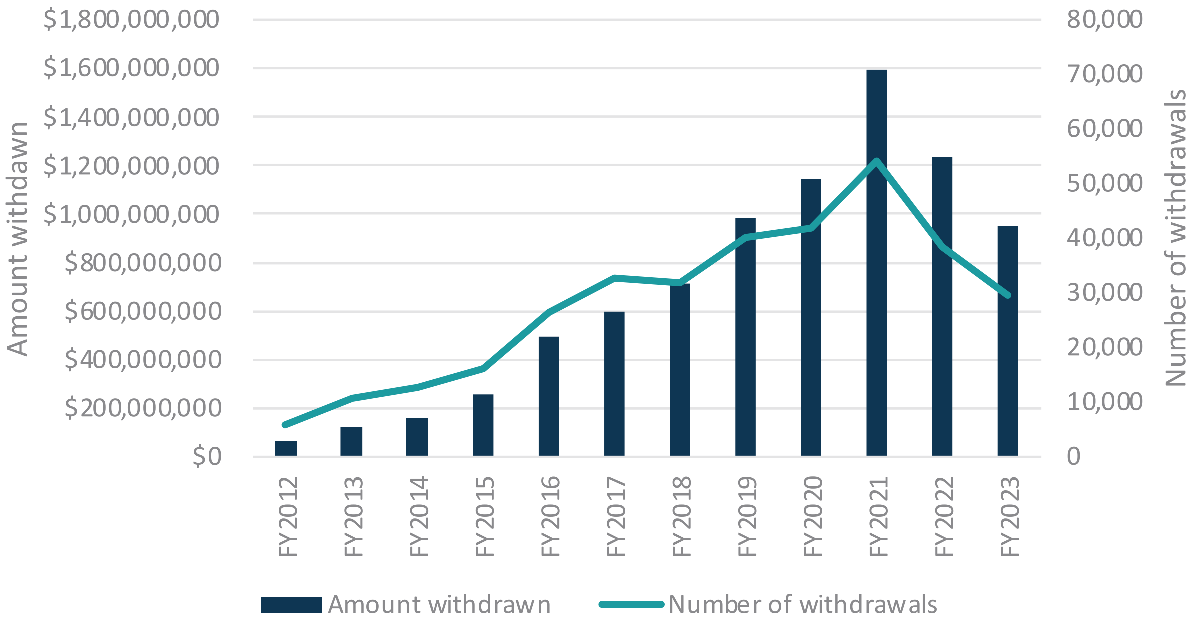
8 Diversity-in-housing-experiences-2021.pdf (retirement.govt.nz)

9 Expenditure patterns of New Zealand re (retirement.govt.nz)

10 KiwiSaver Act 2006 No 40 (as at 01 April 2023), Public Act Schedule 1 KiwiSaver scheme rules – New Zealand Legislation

11 FSC guidelines: KiwiSaver first home withdrawals

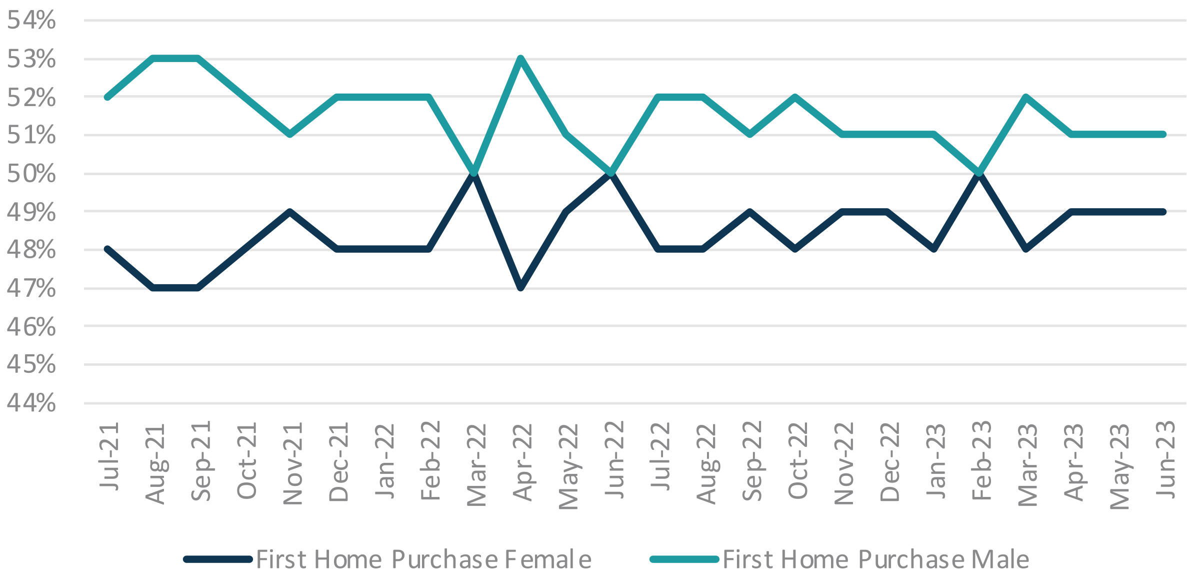
Figure 1 Trends in first home purchase withdrawals 2012 - 2023



Source: Data from IRD

When considering gender differences in first home withdrawal behaviour, as illustrated in Figure 2, over the past two years, there have been monthly fluctuations in the number of men versus women making first home withdrawals. However, in all time periods the number of withdrawals by men equal or exceed the number of withdrawals by women. On average over this time period slightly more men than women made first home withdrawals (52% versus 48%).

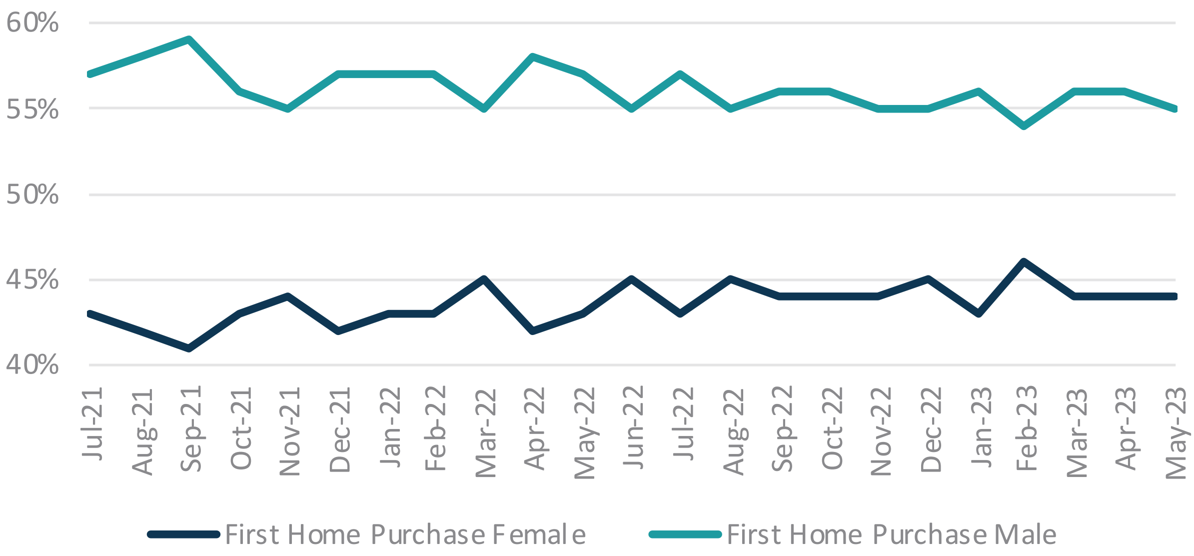
Figure 2 Percentage split by gender: Number of withdrawals first home purchase



Source: Data from IRD

There is a larger difference between males and females when considering the amount of funds withdrawn for first homes. Again, as illustrated in Figure 3, over the past two years there are monthly fluctuations in the proportion of funds withdrawn by men compared to women, however in all periods men withdraw more funds than women. On average over this time period 56% of funds were withdrawn by men compared to 44% withdrawn by females. The total dollar amount withdrawn by men exceeded the total amount withdrawn by women by approximately $275 million over the two-year period. While there may be a number of contributing factors, this difference is most likely related to the higher average KiwiSaver balances of males compared to females.[12]

Figure 3 Percentage split by gender: amount withdrawn first home purchase



Source: Data from IRD

12 KiwiSaver Demographic Study (retirement.govt.nz)

SIGNIFICANT FINANCIAL HARDSHIP WITHDRAWALS

As set out in the KiwiSaver Act 2006[13], the purpose of KiwiSaver is "to encourage a long-term savings habit and asset accumulation". The Act also aims to "increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits". Therefore, there is an intentionally high bar for hardship withdrawals to prevent people from eroding their retirement savings.

An application for a hardship withdrawal is made to the KiwiSaver provider's statutory supervisor and they alone make the decision whether to approve or decline the application. For significant financial hardship, Schedule 1 of the Act sets out that a supervisor needs to be "reasonably satisfied that a member is suffering or is likely to suffer from significant financial hardship…". The supervisor must also be "reasonably satisfied that reasonable alternative sources of funding have been explored and have been exhausted". Clause 11 of Schedule 1 goes on to explain that significant financial hardship includes significant financial difficulties that arise from:

- inability to meet minimum living expenses;
- inability to meet mortgage payments (if a mortgagee is threatening to sell the home because the loan is in arrears);
- modifying a residence for special needs arising from a disability (for member or dependant);
- costs of medical treatment (for member or dependant);
- costs of palliative care (for member or dependant);
- funeral costs for a dependant;
- if a member is suffering from a serious illness.

Serious illness and life-shortening congenital conditions

In addition to the withdrawal grounds for serious illness covered under the significant financial hardship criteria, Clause 12 of Schedule 1 of the Act allows a member to withdraw from the scheme if they suffer a serious illness. Serious illness in this context is defined as:

> "…an injury, illness or disability:
> **(a)** 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
> **(b)** that poses a serious and imminent risk of death."

Clause 12 B provides for withdrawals in the 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.

13 KiwiSaver Act 2006 No 40 (as at 01 April 2023), Public Act Contents – New Zealand Legislation

Four conditions guaranteed early access were introduced from 26 March 2021: Down syndrome; cerebral palsy; Huntington's disease, and fetal alcohol spectrum disorder.[14]

Given the specific threshold that needs to be met to qualify under Clause 12, a person who is not considered eligible for a serious illness withdrawal may still be able to make a significant financial hardship withdrawal instead. For example, a person who wants to make an early withdrawal to pay for medical treatment or other costs related to a medical condition may be able to apply on the grounds of significant financial hardship. The supervisor will need to consider the person's financial situation when considering this type of withdrawal.

For comparison purposes the latest available FMA KiwiSaver Annual Report[15] (year ended 30 March 2022) recorded that $67.9 million was withdrawn for serious illness, and $389,751 for life shortening congenital conditions,[16] compared to $106 million for significant financial hardship withdrawals.[17]

Significant financial hardship withdrawal applications

Data related to the number of hardship applications received compared to the number approved is not available in the public domain. However according to supervisors a very high level of those that make an application have their application approved. In 2015 Guardian Trust, which had dealt with approximately 5,000 applications that year, approved 95% of requests.[18] More recently Public Trust reported in 2022 that on average they approved 87% of applications either fully or partially.[19]

Reasons for declining applications included:

- Documentation hasn't been provided e.g. no evidence of stated debt or outgoings.
- The member hasn't exhausted other alternatives such as repayment plans, other support such as WINZ, or applied for hardship with their financial provider (KiwiSaver withdrawal is the last resort).
- Request to settle a debt in full (KiwiSaver is not designed to be used to repay debts).
- The application does not meet the threshold for hardship e.g. their income is too high or requests are for renovations such as a deck extension.

Financial hardship withdrawals are regarded as a last resort, so people need to explore all other reasonable options including making use of government assistance. It's important that those looking to make a hardship withdrawal are encouraged by Government agencies, consumer groups, and KiwiSaver providers to make use of services such as MoneyTalks to access financial mentors who can assist them in considering and accessing alternative sources of funds. Research indicates that when financial mentors are involved individuals are less likely to end up making a hardship withdrawal. According to the 2019 RRIP[20], a survey of financial mentors who worked with hardship withdrawal applicants reported a 20% rate of avoided withdrawals due to identifying alternatives. For more experienced advisers in this KiwiSaver hardship area, that rate can rise as high as 50%.

14 Government announces list of life-shortening conditions guaranteeing early KiwiSaver access | Beehive.govt.nz

15 KiwiSaver-Annual-Report-2022.pdf (fma.govt.nz)

16 This is the first full year that people with Down syndrome, cerebral palsy, Huntington's disease and fetal alcohol spectrum disorder could automatically apply, and those with rarer conditions providing medical verification

17 Note this paper only focuses on pre-65 withdrawals related to significant financial hardship and first home deposits.

18 KiwiSaver - the tricky bits that make us grumpy - NZ Herald

19 The KiwiSaver withdrawal spike that never happened - Public Trust

20 2019 Review of Retirement Income Policies | Retirement Commission Te Ara Ahunga Ora

Industry and consumer guidelines

As significant financial hardship applications are reviewed and approved by the various supervisors of KiwiSaver funds, guidelines have been published to give a common basis for assessment and to minimise the prospects of inconsistency of approach.

The guidelines were developed by the Financial Services Council of New Zealand for use by the industry to help bring consistency across New Zealand's KiwiSaver industry and drive good customer outcomes.[21] The Guidelines are not mandatory but represent commonly agreed industry best practice. They aim to ensure a consistent understanding of the significant financial hardship test and how it operates and is tested, as well as how claims are processed.

More recently a consumer guide to KiwiSaver significant financial hardship withdrawals was produced by Financial Services Complaints Ltd (FSCL), a financial ombudsman service, to help consumers understand the process and criteria for withdrawals.[22] FSCL has also released another guide for those wanting to access KiwiSaver funds due to serious illness,[23] the guide was released on the back of an increase in the number of complaints about rejected serious illness applications.

Significant financial hardship withdrawal statistics

As highlighted in Figure 4 there has been an upward trend in both the number and value of hardship withdrawals over the past 12 years, however after a peak in 2021, the number and value both fell in the year ended June 2022, before rising again in the year ended June 2023, when $164.7 million was withdrawn. On average, over the 12 year period, the number of hardship withdrawals has increased by 14% per annum, while the total value withdrawn has on average increased by 22% per annum.

Despite these fluctuations in number and total value, the average amount withdrawn over this period has been less volatile, increasing on average by 7% per annum. In the past five years it has ranged from $6,200 to $7,300. The increasing trends should also be viewed in the context of growing KiwiSaver balances over time as KiwiSaver funds under management have increased on average 21% per annum over the 12 year period[24], while member numbers have increased by 5% on average per annum over the past 12 years.[25]

21 FSC GUIDELINES Financial Hardship FINAL September 2022.pdf (hubspotusercontent-na1.net)

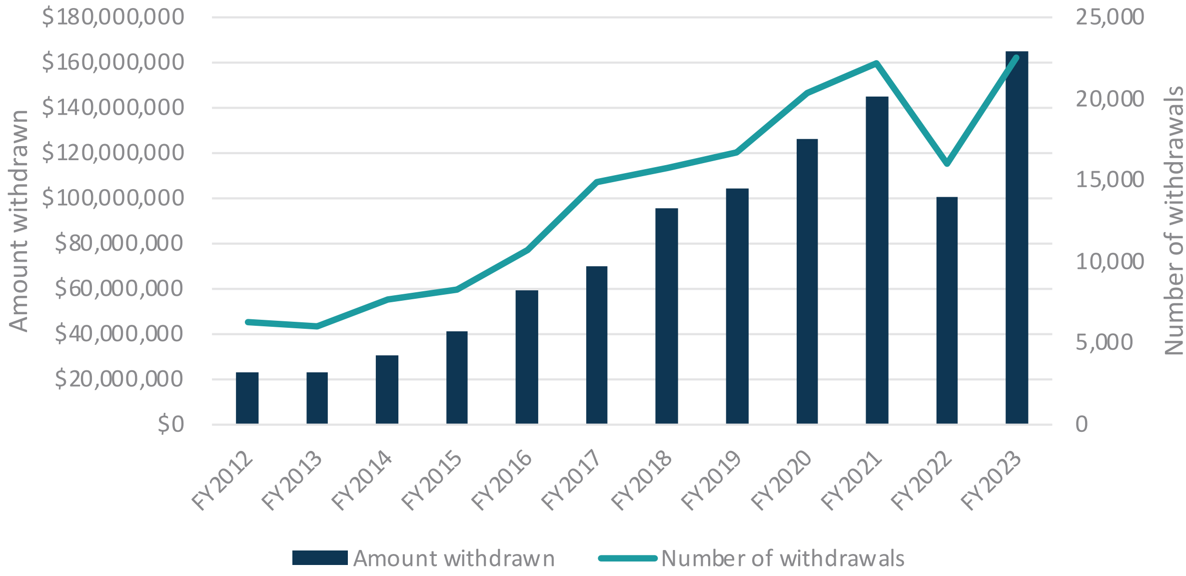
22 GUIDE TO FINANCIAL HARDSHIP APPLICATIONS (fscl.org.nz)

23 https://fscl.org.nz/wp-content/uploads/2023/03/KiwiSaver-serious-illness-withdrawals-consumer-guide-Apr-23.pdf

24 Kiwisaver: Assets by sector (T43) - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz)

25 Datasets for KiwiSaver statistics (ird.govt.nz)

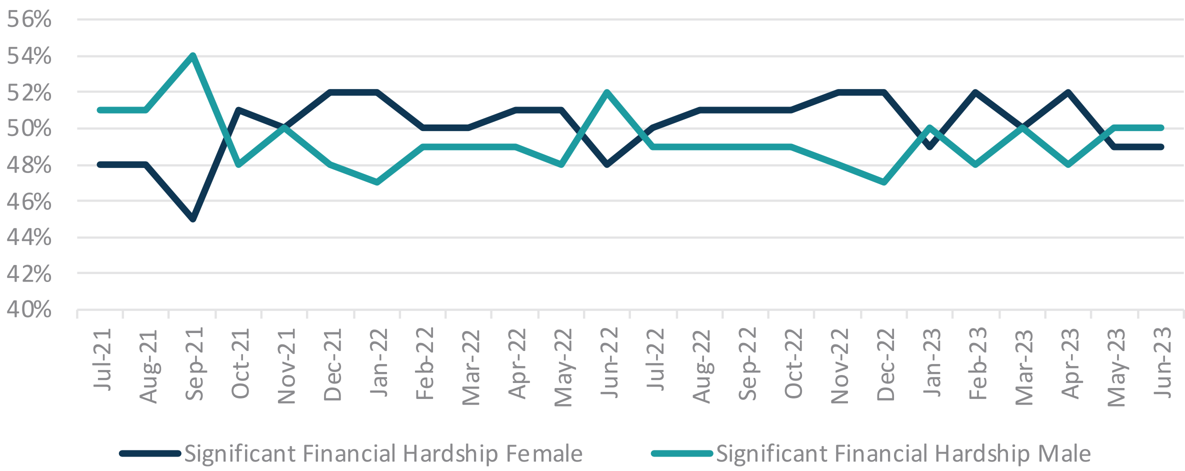
Figure 4 Trends in significant financial hardship withdrawals 2012 - 2023



Source: Data from IRD

From the perspective of gender differences in withdrawal behaviour over the past two years, as illustrated in Figure 5, in the majority of months slightly more women than men make significant financial hardship withdrawals. However, Figure 6 shows that in most months men withdraw more funds than women. Over the two-year period men have withdrawn approximately $137 million compared to $127 million withdrawn by women. While there are a number of factors that may contribute to this discrepancy, one of the key factors is probably linked to the differences in KiwiSaver balances, as research has shown that on average, across almost all age groups, men have higher KiwiSaver balances than women,[26] and therefore they would be able to access more funds than women when making a hardship withdrawal.

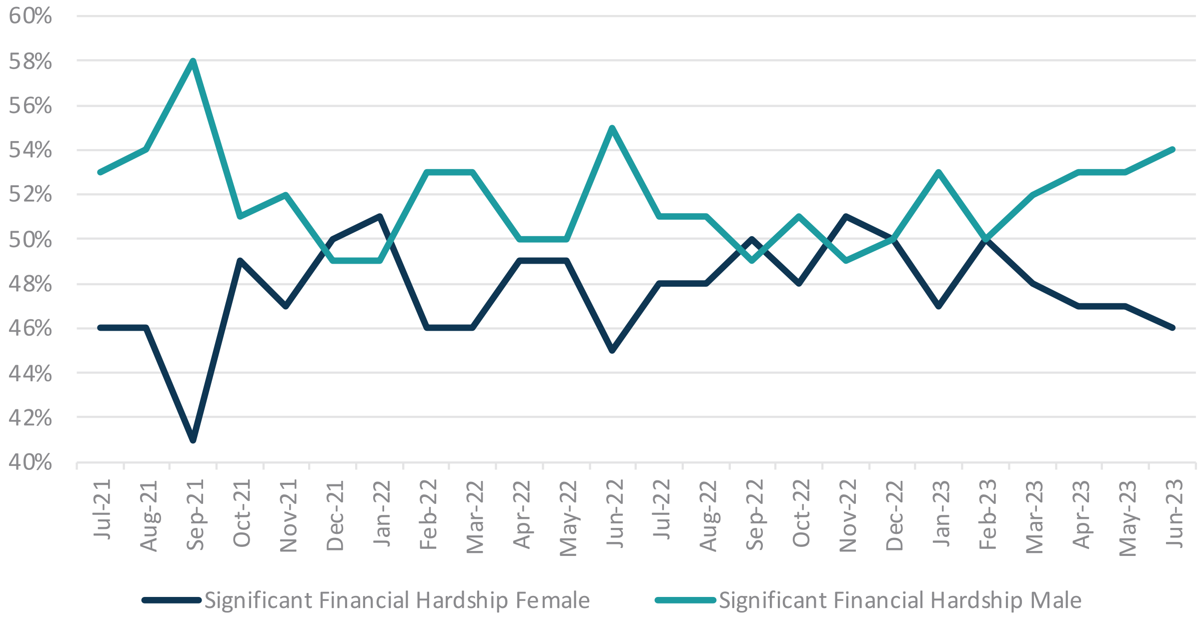
Figure 5 Percentage split by gender: Number of withdrawals significant financial hardship



Source: Data from IRD

26 KiwiSaver Demographic Study (retirement.govt.nz)

Figure 6 Percentage split by gender: Amount withdrawn significant financial hardship



Source: Data from IRD

SAVINGS SUSPENSIONS

Subpart 4 of the KiwiSaver Act 2006 sets out the requirements for taking a saving suspension.[27] 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 three months to one 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 states otherwise) but can receive the government contribution, if the necessary amount of voluntary payments have been made.[28]

Originally the default period was set at five years, however changes that took effect from 1 July 2019 reduced the length of time from five years down to one year, although people are still able to reapply through Inland Revenue should they want to take another savings suspension period.[29]

27 KiwiSaver Act 2006 No 40 (as at 01 April 2023), Public Act – New Zealand Legislation
28 Taking a savings break (ird.govt.nz)
29 KiwiSaver changes now in effect | Retirement Commission Te Ara Ahunga Ora

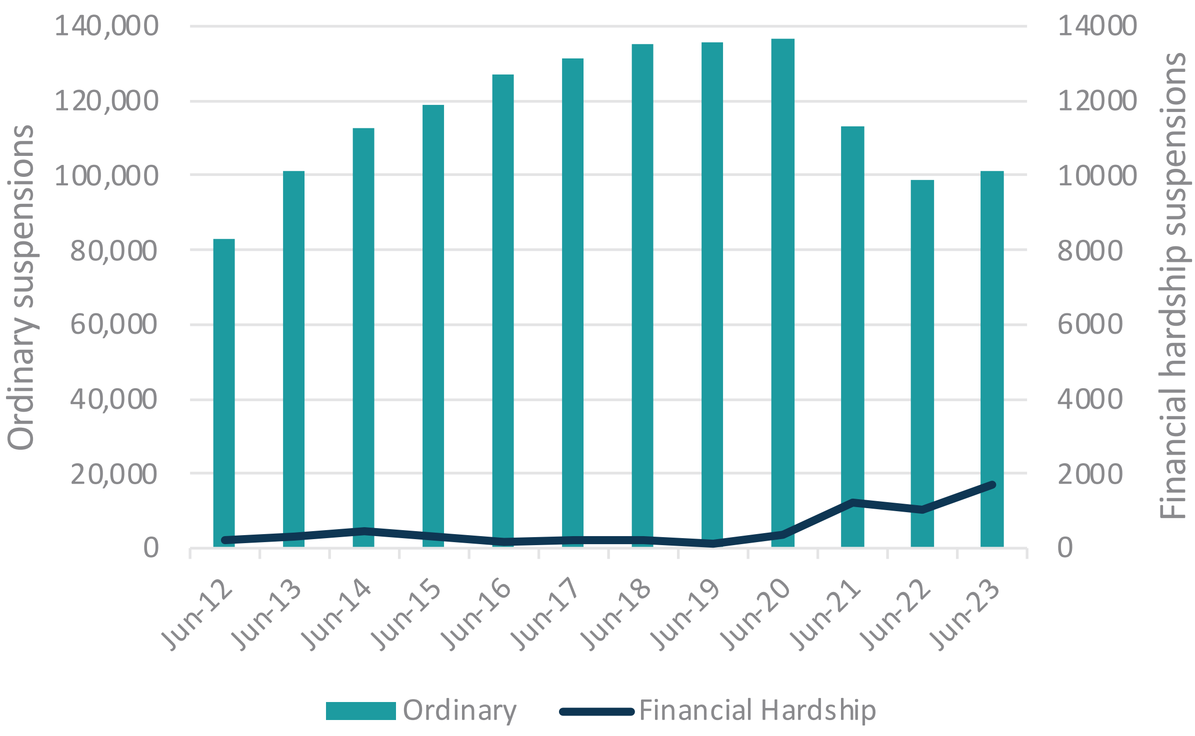
Savings suspension statistics

While concerns were raised during the passage of the KiwiSaver Bill that contribution holidays (as they were then known) would undermine the savings goal of KiwiSaver and that many people would make use of this provision to stop contributing to KiwiSaver[30], over the past 12 years, the number of people on a savings suspension has been relatively low, representing on average 4.3% of all KiwiSaver members, and has trended down over the past three years to just over 3% of all KiwiSaver members. Even when considering only KiwiSaver members who are paid employees (those earning salaries and wages who would need to take a savings suspension to stop contributions) the number on savings suspensions still represents a small percentage (5.5% as at June 2022).[31]

The highest total number of people on suspensions was as at 30 June 2020, when 136,791 people had suspended contributions, currently only 102,646 people are on a savings suspension as at the end of June 2023.

As illustrated in Figure 7, the vast majority of savings suspensions are ordinary suspensions (taken after a member has been contributing to KiwiSaver for more than a year), with only a small minority of savings suspensions occurring in the first year of contributions (where financial hardship needs to be proven before the suspension can occur). The number of financial hardship suspensions, which historically represented approximately 0.25% of all suspensions, has however risen over the past three years, and as at the end of June 2023 there were 1,691 individuals on a financial hardship suspension, representing 1.65% of all suspensions.

Figure 7 Number of ordinary and financial hardship suspensions 2012 - 2023



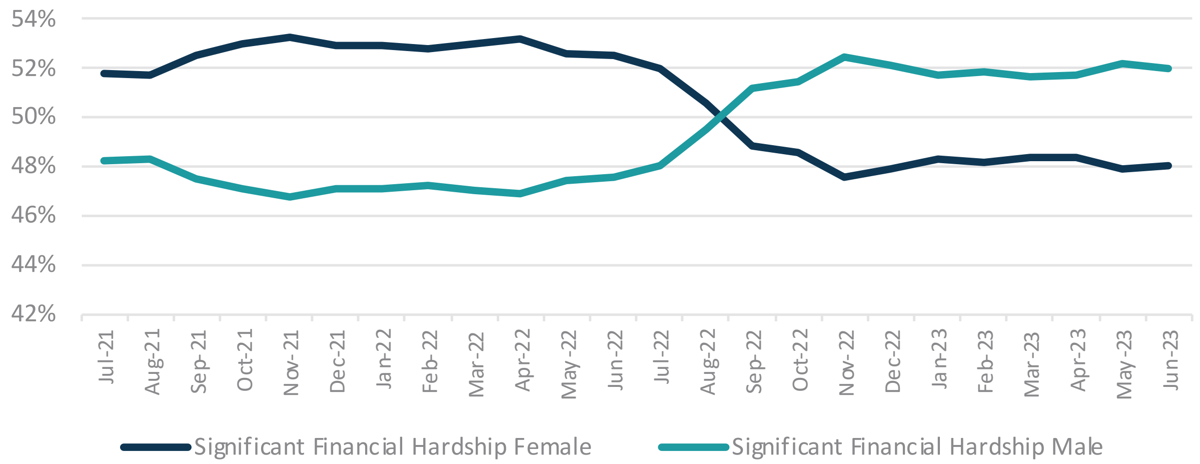
Source: Data from IRD

30 KiwiSaver Bill — In Committee - New Zealand Parliament (www.parliament.nz)

31 IRD data as at 30 June 2022 (the latest available data for this measure) shows that 1,718,522 million members are making contributions to KiwiSaver at one of the allowable contribution rates, while 99,910 people were on a savings suspension. This indicates that potentially 1,818,432 KiwiSaver members are salary or wage earners. Those who are on a savings suspension equate to 5.5% of this total.

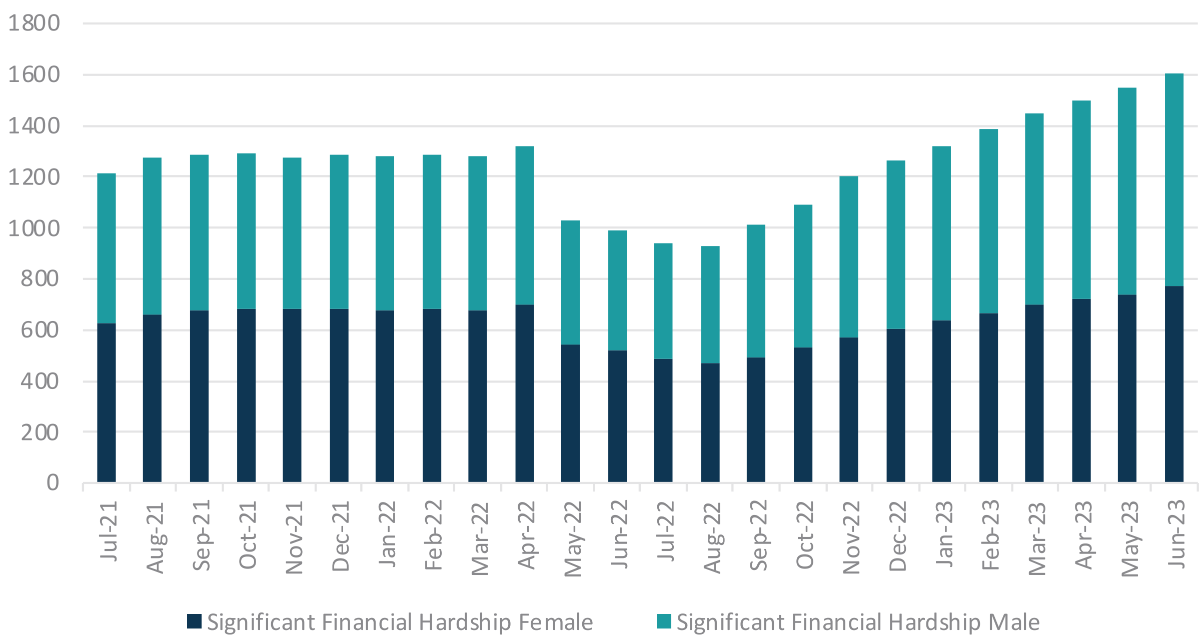
When considering differences between males and females, as shown in Figure 8a there has been a change in the trend over the past two years, initially more females than males were on financial hardship suspensions, however in the period since August 2022 the trend has reversed. Figure 8b provides further insights into the trend over the past two years, where initially the number of people on financial hardship withdrawals was fairly constant at just over 1,200, followed by a drop to around 1,000 between May and September of 2022. In the last nine months the number has been steadily increasing to 1,600 as at end June 2023 (771 men compared to 834 women).

Figure 8a Percentage gender split: Number on financial hardship suspensions



Source: Data from IRD

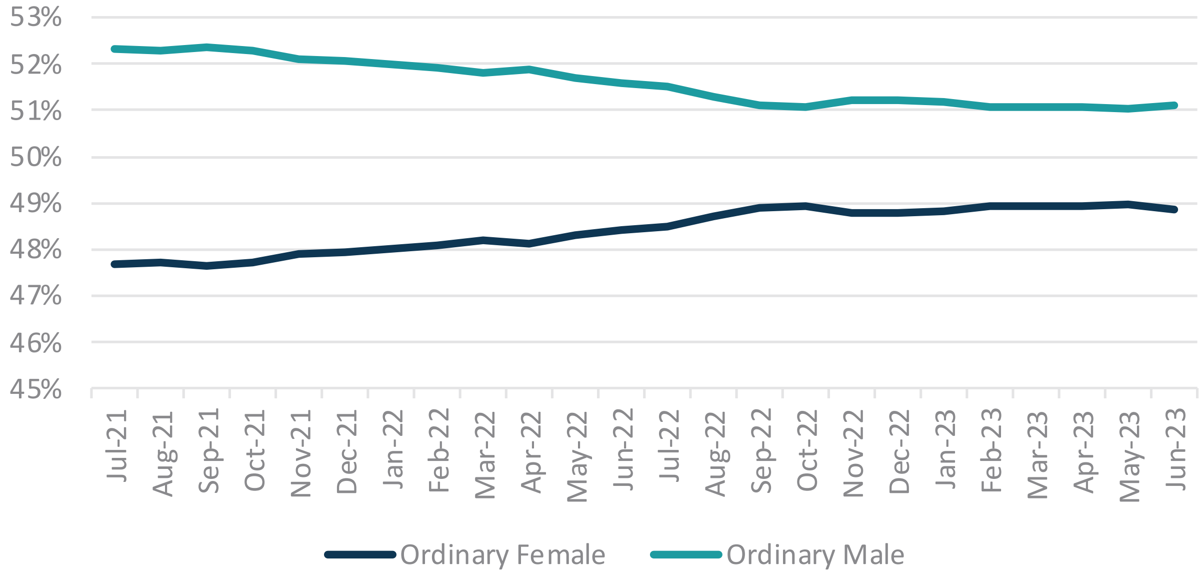
Figure 8b Number on financial hardship suspensions



Source: Data from IRD

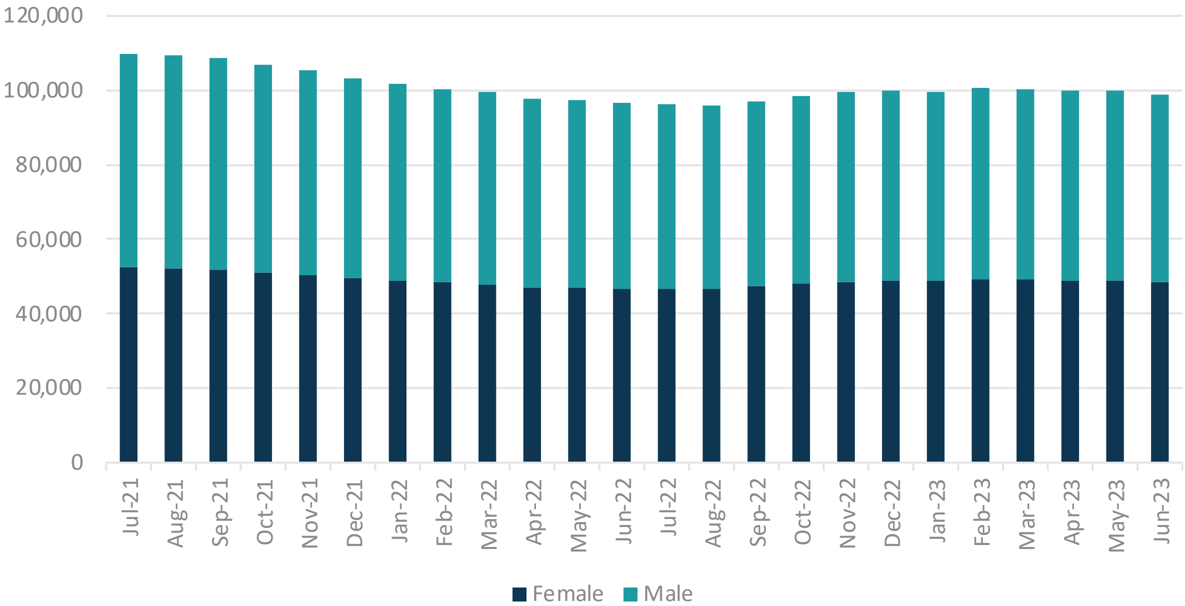
Figure 9a shows that for ordinary savings suspensions, more men than women are on suspensions in all periods over the past two years, although the difference is narrowing. Figure 9b shows that the number of people on ordinary suspensions declined from around 112,000 in July 2022 to 100,000 in April 2022, and has remained fairly constant at this level since then. As at end June 2023 there were 50,526 men on ordinary suspensions compared to 48,309 women.

Figure 9a Percentage gender split: Number on ordinary suspensions



Source: IRD data

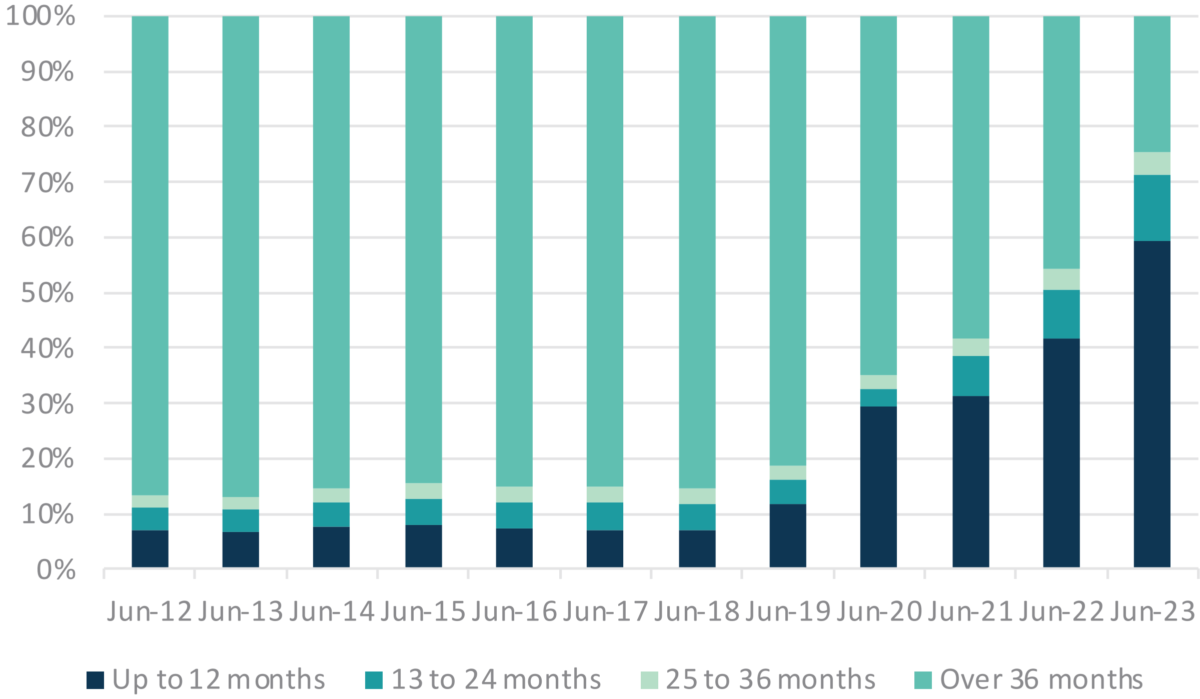
Figure 9b Number on ordinary suspensions



Source: Data from IRD

Figure 10 provides insights into the duration of savings suspensions. The effect of the change to the default setting in 2019 (reducing the default time period from five years to one year) can be seen in changes to duration in more recent years. In 2018, 85% of savings suspension were over 36 months in duration, while only 7% were for less than a year, compared to 2023 where only 25% were over 36 months, and the majority (60%) were for a period less than one year.

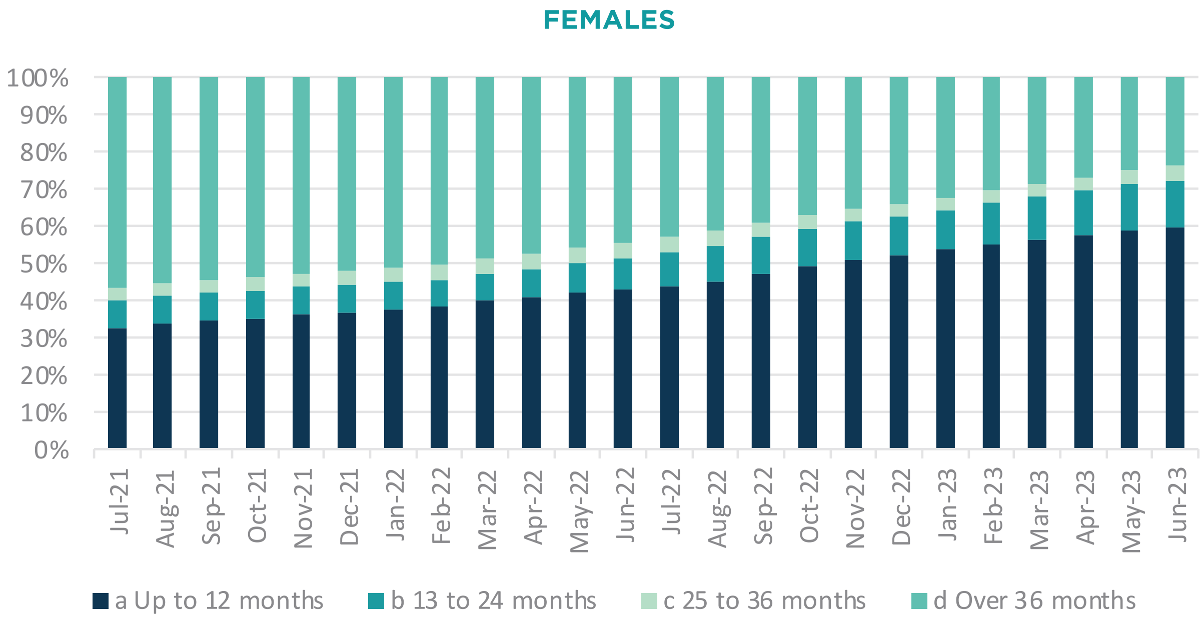
Figure 10 Percentage of savings suspension by duration as at financial year end 2012 - 2023



Source: Data from IRD

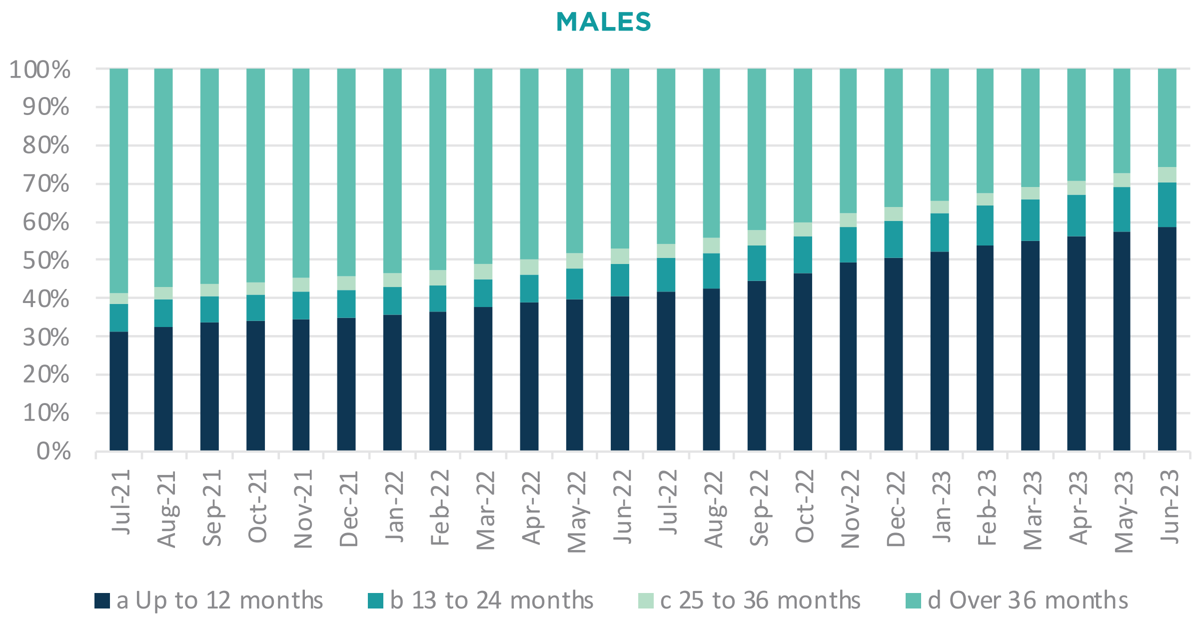
Figure 11 and 12 provide insights into the patterns of suspension duration over the past two years for females compared to males. The effect of the change to the default setting in 2019 is apparent for both genders. In July 2021, 59% of men's savings suspension had lasted more than 36 months, and 57% of women's suspensions had lasted more than 36 months. By June 2023 this had fallen to 26% and 24% for men and women respectively. The majority of savings suspensions for men in June 2023 (59%) were for a period less than one year and similarly for women 60% were for a period less than one year.

Figure 11 Percentage of savings suspension for females by duration: July 2021 – end June 2023



Source: Data from IRD

Figure 12 Percentage of savings suspension for males by duration: July 2021 – end June 2023



Source: Data from IRD

Conclusion

Out of the total amount withdrawn for first home and financial hardship between 2012 and 2023, the vast majority (89%) has been withdrawn for first home purchases, with financial hardship withdrawals representing only 11%. Both first home withdrawals and financial hardship withdrawals have generally trended upwards over the past 12 years, although this trend should be seen in the context of both funds under management and member numbers also increasing over this period. Savings suspensions are taken by only a small percentage of KiwiSaver members, with the majority of suspensions for periods of less than one year, following a reduction in the default period from five years to one year in 2019. In the past two years men have withdrawn more than women for both first home and financial hardship. More men than women have been on ordinary savings suspensions over the past two years, and a reversal of trend has been seen in financial hardship suspensions with men now exceeding women in terms of numbers on financial hardship suspensions as at the end of June 2023.