KiwiSaver Evaluation

Annual report
July 2009 – June 2010

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Housing New Zealand Corporation

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Executive summary

This is the third annual report of the KiwiSaver evaluation. It summarises key performance data and trends for the year to June 2010 and results of research completed over the course of the year.

Enrolment trends

KiwiSaver continues to exhibit strong and stable enrolment growth – approximately 30,000 members have joined each month over the past year. Larger numbers of individuals continue to opt-in rather than being automatically enrolled and, at the end of the year, two-thirds of all current members had opted-in and one-third had joined via automatic enrolment. At the end of the year approximately 38% of the eligible population had joined KiwiSaver; reach into the eligible population continues to be greater than this for those aged between 18 years and their mid-20s and also for individuals in their mid-50s to early 60s. Looking at this at a household level, approximately half of households have at least one KiwiSaver member, either an adult or dependent child.

Membership motivations and barriers

The desire to secure an income in retirement is the most influential driver in individuals' decisions to join KiwiSaver. Financial incentives in the form of employer contributions and government subsidies are also very influential on membership decisions, as is the fact that KiwiSaver is a "ready made way to save" meaning that once enrolled, the default settings for investment funds and contribution rates mean that individuals are not required to be highly engaged in the management of their accounts. Affordability remains the most significant barrier to membership, followed by the belief that there are better financial alternatives, apathy, and concerns about the security and sustainability of the scheme.

Impact of KiwiSaver features and incentives

The objective of KiwiSaver, as set out in the legislation, is *to encourage a savings habit and asset accumulation amongst individuals who may not be in a position to enjoy standards of living in retirement similar to those in pre-retirement*. KiwiSaver has been designed with features intended to contribute to achieving this objective by making it easy and attractive to join, providing relatively limited opportunities to access savings once enrolled, and providing individual savers with opportunities to exercise as much or as little choice over their savings as they wish or are able to. KiwiSaver's design features appear to be operating as intended.

- Automatic enrolment has been effective at getting individuals into a retirement savings scheme who do not consider they would have saved otherwise. On top of this, the majority of current members have opted-in, including a significant number of children.

- Members cite the flexibility and choice built into KiwiSaver as a factor in their membership choice. On the other side too, the fact that KiwiSaver is a "ready made way to save" has also attracted people to the scheme. The default settings (i.e. the no choice options) are influencing behaviour. However, there is also evidence of choice being exercised with regard to contribution rates and investment options; approximately one-quarter of members have opted to contribute at a rate that was not the default rate at the point they joined, more than half of members have chosen their own scheme, and the number of scheme transfers is increasing over time. Information and education will be important in encouraging members to consider their own situation and determine whether the default arrangements or KiwiSaver's other options are best for them.

- The financial incentives are certainly membership motivators (although it is difficult to isolate the importance of these over other factors that influence individuals' decisions). There is some evidence that individuals are managing their KiwiSaver accounts in order to maximise the value of the incentives received.

KiwiSaver costs

In 2009/10 employers contributed $626 million to employees' accounts; most employers are contributing the minimum required 2% employer contribution. In the three years to date, employers have made $1.044 billion in contributions, offset prior to April 2009 by $244 million in employer tax credits. Employers' costs of complying with their KiwiSaver obligations to enrol new employees, make deductions from employees' salary or wages, and provide information to staff are variable, particularly for large enterprises. Generally, employers do not consider meeting their KiwiSaver obligations to be particularly stressful.

Of the $5.8 billion passed to scheme providers for investment to date, $2.384 billion is accounted for by government subsidy payments. In the year to 30 June 2010, the government contributed $970 million in subsidies to members' accounts. The proportion of funds being contributed by members and employers relative to the Crown continues to grow each year.

KiwiSaver market

The KiwiSaver market remains relatively small but is growing steadily in size relative to other superannuation and managed funds products – it is currently estimated to represent 9% of the value of managed funds under management and close to one-quarter of superannuation assets under management. KiwiSaver has higher proportions of assets invested in New Zealand equities than other superannuation schemes and managed funds yet KiwiSaver's small absolute size means it is yet to have significant impact on New Zealand's capital markets.

As a key driver of revenue, the level of funds under management, and the impact of adverse economic conditions on this, means that providers consider the short term the profitability of KiwiSaver to be relatively low. Consequently, providers expect further market consolidation, although this is unlikely to mean the disappearance of smaller providers as some have been able to build robust niche positions within the market.

Impact on savings

While membership is increasing and the market is growing, the key question regarding KiwiSaver's impact is whether or not members are better prepared for retirement as a result of being KiwiSaver members. In 2009/10 the evaluation completed research which provides some initial indications to make this assessment.

Early indications suggest that KiwiSaver has generated some level of new savings, over and above what would have been saved in the absence of KiwiSaver. There also appears to have been some level of substitution between savings vehicles. Just over one-third (38%) of households with at least one adult KiwiSaver member considered that they were unlikely to be saving for retirement if they were not members of KiwiSaver. Additionally KiwiSaver households consider they would have spent approximately one-third of their KiwiSaver contributions on day-to-day outgoings had they not been members of KiwiSaver.

Answering questions about KiwiSaver's impact on savings and retirement incomes more definitively is not possible at this point but it is the primary objective of the evaluation. In the past two years, changes have been made to Statistics New Zealand's longitudinal Survey of Family Income and Employment to enable this analysis of KiwiSaver's impact to take place. Work will begin in 2012, when data is available, to address these important questions of long-term outcomes.

1. Introduction

Report purpose

KiwiSaver has now been in operation for three years. This report presents the trends and performance of KiwiSaver for the year to 30 June 2010. While early stages of the evaluation were focused on implementation and delivery, in this third year the evaluation has progressed to consider some of the early outcomes of KiwiSaver; starting to assess whether or not KiwiSaver is achieving its stated goals.

Evaluation background

The KiwiSaver evaluation is a joint project between Inland Revenue, the Ministry of Economic Development and Housing New Zealand Corporation running to 2012/13. Its objectives are to:

- Assess the implementation and delivery of KiwiSaver in order to inform ongoing development and service delivery;
- Assess whether the key features of KiwiSaver are generating the expected outcomes;
- Monitor KiwiSaver usage to understand the scale and pattern of take-up;
- Examine the impact of KiwiSaver on individuals' saving habits and asset accumulation; and
- Examine the impact of KiwiSaver on superannuation markets and the financial sector.

The introduction of KiwiSaver represented a significant change to New Zealand's savings policy. Employers, the superannuation industry and the government have all contributed to its introduction and establishment.

Evaluation is an important mechanism to determine whether KiwiSaver has had the intended impacts on savings and asset accumulation behaviours and whether KiwiSaver has proved a cost effective way to achieve any changes. Additionally, as a core part of the policy development process, evaluation provides evidence of the effectiveness of existing policies, feedback on areas for improvement, and can contribute to ensuring the relevance of new policy.

2. Who are the KiwiSaver members?

Enrolment trends

Three years after the introduction of KiwiSaver, enrolment growth continues to be strong. At 30 June 2010, membership had reached 1.46 million, one-third (33%) higher than a year earlier (table 2.1). On a monthly basis, membership is growing by approximately 30,000 individuals. This monthly join rate has been relatively stable over the last two years, although is considerably lower than the approximately 60,000 members per month enrolling in year one (figure 2.1). At the end of this third year, the total number of members is estimated to be 38% of the KiwiSaver eligible population.[1]

Table 2.1: Total enrolments (years ended 30/06/08, 30/06/09 and 30/06/10)

Enrolment status	Year one (ended 30/06/08)		Year two (ended 30/06/09)		Year three (ended 30/06/10)	
	Members	**% net enrolment**	**Members**	**% net enrolment**	**Members**	**% net enrolment**
Opt-in via provider	273,948	38%	477,971	43%	706,290	48%
Opt-in via employer	169,410	24%	195,940	18%	211,883	15%
Auto-enrolled	273,279	38%	426,629	39%	541,769	37%
Total enrolments (net)	**716,637**	**100%**	**1,100,540**	**100%**	**1,459,942**	**100%**
Opt-out	137,762		221,045		245,898	
Closed account	1,044		8,240		13,656	
Total enrolments (gross)	**855,443**		**1,329,825**		**1,719,496**	

Base: All enrolments (gross) 1 July 2007 to 30 June 2010. Note that the approach to reporting enrolment method changed and figures for 30 June 2008 have been revised. The figure for total enrolments for year one is unaffected; the revised approach has led to reclassification across enrolment method groups.
Source: Inland Revenue administrative data.

The number of individuals opting-in to KiwiSaver continues to be significant; almost two-thirds (63%) of current KiwiSaver members have opted-in compared with one-third who have been automatically enrolled.

Enrolments directly through a scheme provider have grown most significantly over the year (by approximately 228,000 members or 48%), driven by the continued high levels of enrolments of those aged less than 18 years. The number of members joining through automatic enrolment has grown by over one quarter (27% or approximately 115,000 members). The number of members choosing to opt-in via their employer has grown relatively little over this third year (by 8% or approximately 16,000 members).

The numbers of individuals who opt-out and the opt-out rate have been declining over the past two years (figure 2.2).[2] The opt-out rate for the year to 30 June 2010 was 18%. At the conclusion of the year, 245,898 individuals had opted-out and a further 13,656 had had their accounts closed.

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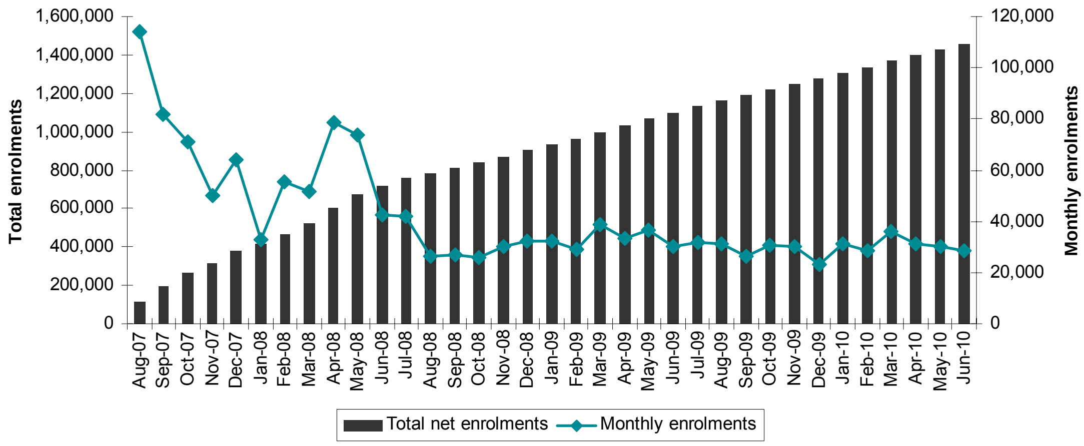
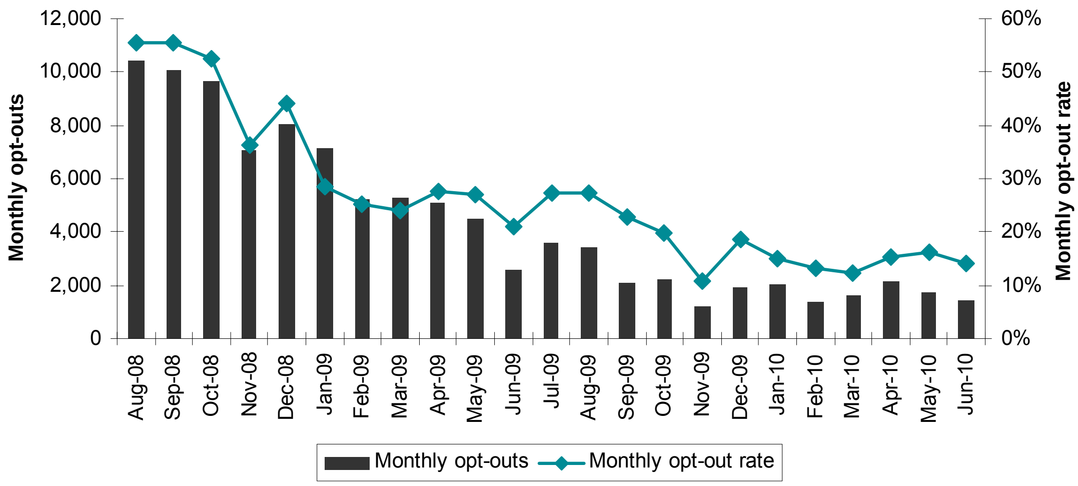
[1] Figures for eligible population as at 2010 have been drawn from Treasury's long-term fiscal model.

Figure 2.1: Total and monthly enrolments



Base: All enrolments (net) 1 July 2007 to 30 June 2010. Note enrolments for July and August 2007 are combined.
Source: Inland Revenue administrative data.

Figure 2.2: Monthly opt-outs



Base: All automatic enrolments August 2008 to 30 June 2010. Note that the approach to reporting enrolment method changed in July 2008 and so figures for year one are not presented as they are not strictly comparable with those for year two and year three.
Source: Inland Revenue administrative data.

KiwiSaver member and household characteristics

In terms of the demographic profile of members, the gender breakdown of the membership continues to be the same as in previous years; at 30 June 2010, 52% of KiwiSaver members were female and 48% were male. The age profile of the membership has however changed over time. Figure 2.3 below shows that, over time, the proportion of individuals aged 45 years and above enrolling has declined and the proportion of individuals under 25 enrolling has increased. The proportion of enrolments coming from the mid-age bracket has remained relatively stable over the three-year period.

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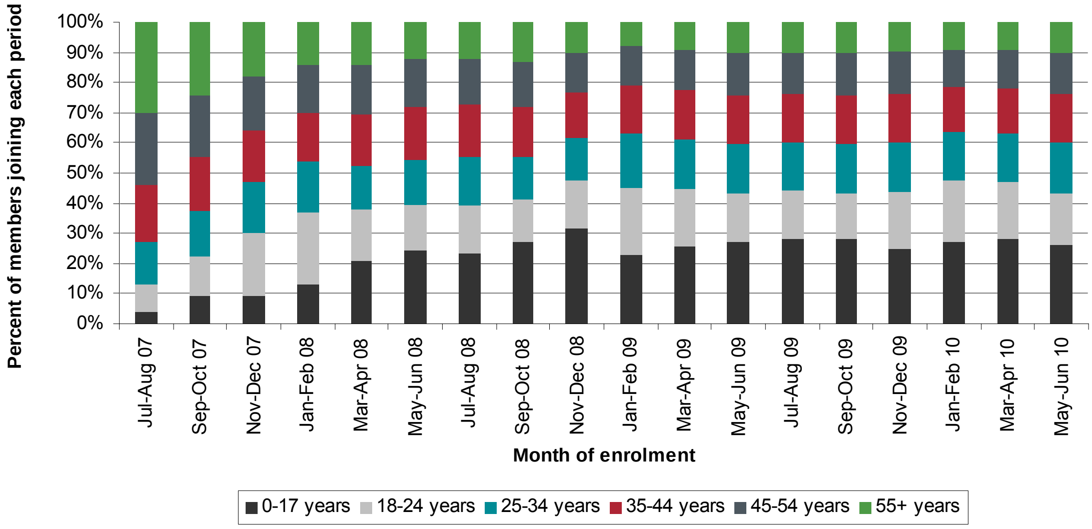
[2] The opt-out rate is calculated as the number of individuals who opt-out divided by the total number of individuals who are automatically enrolled, whether or not they opt out.

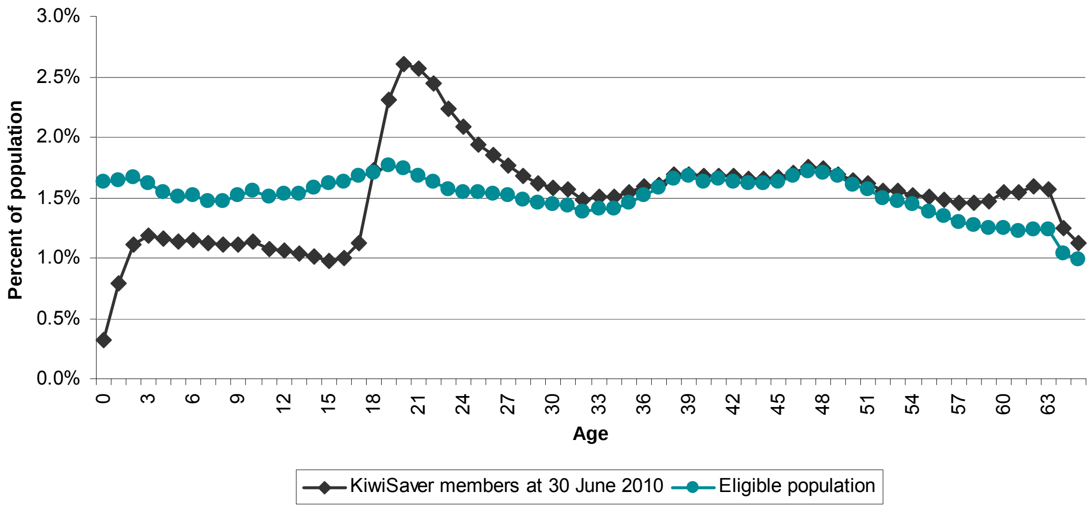
Figure 2.3: Member age at join date



Base: All members at 30 June 2010.
Source: Inland Revenue administrative data.

When compared to that of the KiwiSaver eligible population, the age distribution of KiwiSaver members exhibits two peaks; the first from 18 years to the mid-20s and the second around the late 50s and early 60s. The figures for the 50s and 60s group reflect the high uptake in early months of year one amongst this group and the results for those in their 20s reflect the effectiveness of automatic enrolment in getting those entering the job market into KiwiSaver.

Figure 2.4: Age distribution of KiwiSaver members and KiwiSaver eligible population

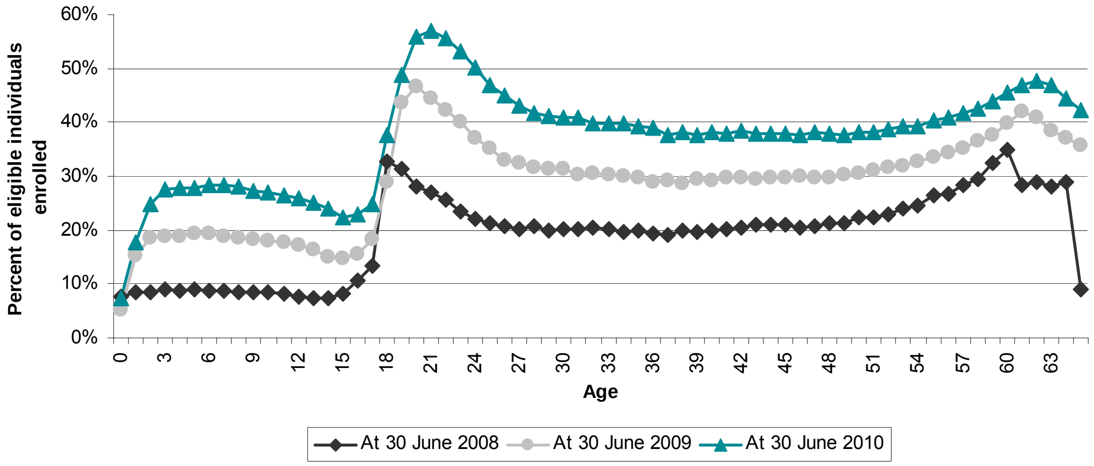


Base: All members at 30 June 2010. Eligible population are all those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined. While there are currently KiwiSaver members who are older than 65 years these have been excluded here as the chart is illustrating reach into the current eligible population.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2010.

Figure 2.5 below shows the reach of KiwiSaver into the eligible population by age at the end of the three years to date. With the ongoing strong growth in the number of children enrolled, approximately 25-30% of children have joined KiwiSaver. For those entering the workforce for the first time (i.e. late teens to early

20s), KiwiSaver's reach is closer to 50% of eligible individuals. For those in the mid age groups (mid-20s to mid-50s) approximately 40% of eligible individuals have joined.

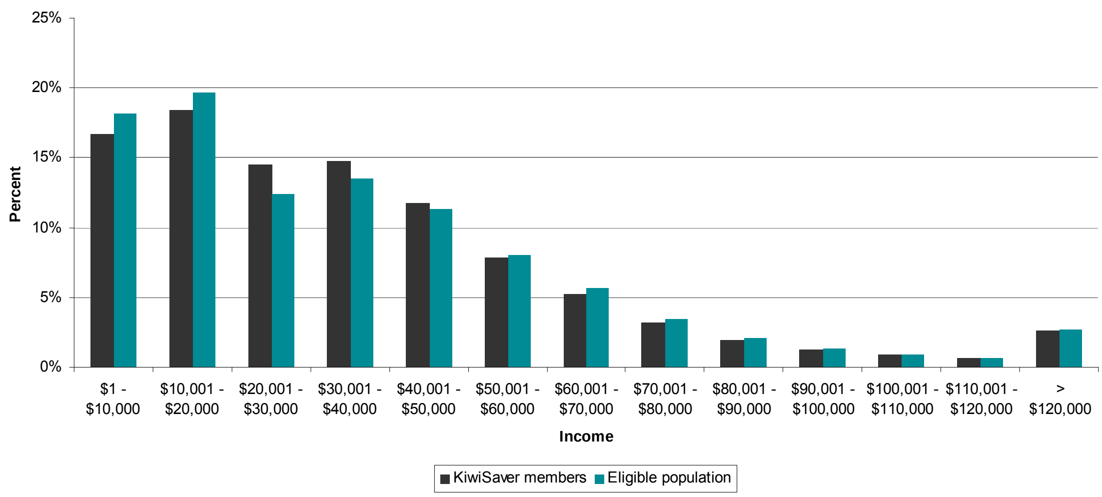
Figure 2.5: KiwiSaver reach into eligible population



Base: All members at 30 June 2008, 30 June 2009 and 30 June 2010. Eligible population are all those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined. While there are currently KiwiSaver members who are older than 65 years these have been excluded here as the chart is illustrating reach into the current eligible population.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2008, 2009 and 2010.

The income distributions of members and the eligible population are similar. There are slightly lower proportions of KiwiSaver members than the population as a whole at very low income levels (up to $20,000) but slightly higher in the $20,000 to $50,000 bands (figure 2.6). Half of both the KiwiSaver member and the eligible population earned up to $30,000 and just over three-quarters of both populations earned up to $50,000 in the 2009 tax year.

Figure 2.6: Income distribution for KiwiSaver members and KiwiSaver eligible population



Base: All members at 30 June 2010 with income for the 2009 tax year. Eligible population are all those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined, with income for the 2009 tax year. Income relates to the 2009 tax year and includes income from salary and wages (including benefit payments) and IR3 returns (including income from self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Those members with no income for 2009 are excluded (approximately 23%).
Source: Inland Revenue administrative data.

Most KiwiSaver members (53%) earned solely salary and/or wage income in 2009 and just less than one-fifth (19%) of the membership base earned a combination of salary and/or wage income and other income, including self-employment, rental and dividend income. Approximately one-quarter had no income for the 2009 year (predominantly children) (table 2.2).

Table 2.2: Member income sources

Income source	Members	Percent
Salary and/or wage income only	780,287	53%
Salary and/or wage plus other income	284,261	19%
Other income only	63,421	4%
No income source	331,963	23%
Total	**1,459,942**	**100%**

Base: All members at 30 June 2010. Source of income relates to the 2009 tax year. Salary and wage income includes benefit payments and other income refers to income sources on IR3 returns (including self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

The decisions on whether or not to join KiwiSaver, or decisions on savings generally, are likely to be made at a household level; therefore looking at KiwiSaver membership by household characteristics is important. A nationwide survey of both KiwiSaver members and non-members, undertaken by the evaluation in 2010, found:[3]

- Across all households, 51% have at least one KiwiSaver member. One-third of households in the survey population consist of a single adult. These single adult households are relatively evenly split between KiwiSaver members and non-members. Where households consist of two adults (respondent plus their partner) (66%), regardless of whether or not they have dependent children, 52% of these households have neither adult as a member of KiwiSaver, over one-quarter (29%) have one adult as a KiwiSaver member and 20% of households have two adult KiwiSaver members.

- Single adult KiwiSaver members are more likely to be in paid employment than single adults who are not KiwiSaver members. However, there is little variation in employment status between the combinations of KiwiSaver member status in couple households.

- There are no statistically significant differences between the household income of single adult households where the adult is a KiwiSaver member and those where the individual is not a member. However for the couple households, the combined annual incomes of couples where one partner is a KiwiSaver member are lower than the combined annual incomes in households where both adults are KiwiSaver members and also the combined annual income in those households where neither partner is a member.

- Similarly, there were no statistically significant differences between the net worth (assets minus liabilities) of single adults who are KiwiSaver members and single non-members. However, the net worth of couples where both partners are KiwiSaver members is higher than that of couples where one partner is a KiwiSaver member and couples whether neither partner is a member.

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[3] Colmar Brunton (2010), *KiwiSaver evaluation: survey of individuals*. Available at http://www.ird.govt.nz/aboutir/reports/research/report-ks/research-ks-evaluation-report.html

Motivations and barriers to membership

Most people are joining KiwiSaver because they consider it to be a good way to save for retirement. The financial incentives from the government and employers play an important part but are not the most influential reason for many people.

- Three-quarters of members joined for the purpose of securing a retirement income and approximately half (46%) of respondents cited this as the most important factor in their decision to join KiwiSaver.

- A similar number of individuals (77%) cited the government and employer contributions as a motivator; one-quarter (24%) of members cited these contributions and incentives as the most significant influence on their decision.

- Picking up on the various design features of KiwiSaver, again approximately three-quarters (72%) of respondents cited KiwiSaver being an easy way to save as an important factor in their membership decision (e.g. deductions at source, savings lock-in, and the various default settings meaning that, should they wish to, all an individual needs to do is to enrol and the decisions are made for them).

- For those who had enrolled their children, the government kick-start contribution was the most common reason provided (83% said this was a factor in enrolling their children, 34% said this was the most important factor in their decision). Saving for retirement (59%), saving for a home (54%) and teaching children good savings habits (52%) were also mentioned as reasons for joining their children.

Non-members offered a number of reasons for their non-membership. Almost one-third (32%) of non-members reported that they could not afford to join KiwiSaver. A similar proportion (30%) reported that they considered there were either better ways to provide for their financial security or it was currently better for them to pay off mortgage or student loan debt. More than one-quarter of respondents said that they simply had not got around to joining suggesting that apathy or procrastination are still factors for a group of individuals. One quarter of people mentioned concern about the lack of security for the money (although there is an element of risk associated with any investment) or the fact that current and/or future governments may make changes to the scheme as membership deterrents.

3. Is KiwiSaver working?

The objective of KiwiSaver, as set out in the legislation, is *to encourage a savings habit and asset accumulation amongst individuals who may not be in a position to enjoy standards of living in retirement similar to those in pre-retirement*.[4] An assessment about whether or not KiwiSaver is working needs to measure its success or failure against this objective; in other words, has KiwiSaver contributed to improved standards of living in retirement for the target group?

The evaluation will begin work in 2012 using longitudinal net worth data from Statistics New Zealand's Survey of Family Income and Employment to determine the effectiveness of KiwiSaver against the ultimate objective. A survey of individuals, both KiwiSaver members and non-members, completed by the evaluation in 2009/10 provides some early evidence on the question of savings impact. This is discussed further below. Additionally, examining whether KiwiSaver's specific design features are working as intended can provide some indications of how longer-term use of KiwiSaver may develop and therefore its potential impact on savings and retirement wellbeing.

Impact of KiwiSaver features

KiwiSaver was designed with built-in features intended to contribute to achieving KiwiSaver's objective by making it easy and attractive to join, providing relatively limited opportunities to access savings once enrolled, and by providing individual savers with opportunities to exercise as much or as little choice over their savings as they wish or are able to.

- When people begin a new job they are automatically enrolled into KiwiSaver, if they meet the eligibility criteria and are not already a member. Individuals can also opt-in via their employer or a provider.

- Individuals who are automatically enrolled have between two and eight weeks to opt-out. For those who do not opt-out and for those who join KiwiSaver by opting-in, savings are locked-in until age 65 or until the individual has been a member for five years, whichever is longer. Before this, savings can only be accessed in the case of permanent emigration, financial hardship, or to purchase a first home.

- Members have as much or as little choice as they wish in their contribution rate, scheme provider and investment fund. For those who do not wish to, or do not feel able to choose, Inland Revenue will assign members to one of six default KiwiSaver providers (or to their employer's nominated scheme), their contributions will be invested in a conservative (default) fund with specified parameters, and they will contribute 2% of their gross salary or wages.

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[4] KiwiSaver Act 2006, section 3.

- In order to encourage membership, the government contributes an initial $1,000 to each member's account as well as a matching contribution of up to $1,042.86 per year. Employers are required to contribute 2% of their employee's gross salary or wages. A first home deposit subsidy is available for eligible first-home buyers and members can take a contribution holiday after 12 months.

The impacts of these features are discussed below.

Automatic enrolment and opting out

As discussed in section two, approximately one-third of current members have joined KiwiSaver via automatic enrolment. The results of the survey of individuals show that automatic enrolment has been effective in getting individuals into KiwiSaver who otherwise would not have joined; 45% of those respondents who had been automatically enrolled said they would not have joined KiwiSaver otherwise (i.e. they consider that they were unlikely to opt-in of their own accord). Additionally, 15% of those who were automatically enrolled considered that they would have opted-out straightaway had they been able to, suggesting that the two-week stand down period for opting-out has also been effective in keeping a portion of members in KiwiSaver.

Amongst members and non-members the savings lock-in feature was mentioned as both a factor that encouraged members to join as well as a deterrent. Significantly, almost one-third of members (32%) cited savings lock-in as a reason for joining suggesting that in the absence of this feature a relatively large group of members may access their savings prior to retirement. On the other hand, 16% of non-members cited lock-in as a reason they have not joined.

As monthly opt-out trends show (figure 2.2), the proportion of people opting-out is declining over time. There is some evidence too that individuals who opt-out on their first entry to KiwiSaver are in fact re-entering the scheme at a later date. Of the current membership base that first joined KiwiSaver via automatic enrolment, 16% have opted-out of KiwiSaver at least once before becoming members (i.e. have either opted-out when they started a new job and then were automatically enrolled again on starting another job and stayed in, or otherwise were automatically enrolled, opted-out and then later opted-in with a provider or their employer). This suggests that an individual's first decision to opt-out does not mean that they will remain a non-member.

Choosing a provider and fund

While KiwiSaver has both considerable choice as well as a no-choice option built in, research suggests that the default settings, whatever they are, will significantly influence individuals' behaviour. Therefore we might expect to see the default schemes and funds being favoured and the default contribution rate being the factor that influences members' contribution level. There is some evidence for KiwiSaver of the default settings influencing behaviour but also indications of members making active choices.

Table 3.1 shows KiwiSaver members' entry method to their current scheme; whether they have made an active choice of scheme, or been allocated to a scheme nominated by their employer or a default scheme by Inland Revenue. At 30 June 2010, 61% of members have chosen their scheme and 39% have been default allocated by Inland Revenue or allocated to an employer-nominated scheme.

Table 3.1: Current scheme entry method

Scheme entry method	At 30/06/08		At 30/06/09		At 30/06/10	
	Members	**Percent**	**Members**	**Percent**	**Members**	**Percent**
Default allocated	268,868	38%	369,577	34%	418,279	29%
Employer nominated	94,895	13%	129,963	12%	149,739	10%
Active choice scheme	352,483	49%	600,709	55%	890,468	61%
Unspecified at year end	391	<1%	291	<1%	1,456	<1%
Total members	**716,637**	**100%**	**1,100,540**	**100%**	**1,459,942**	**100%**

Base: All members at 30 June 2008, 30 June 2009 and 30 June 2010. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

While this suggests a high level of choice, breaking this overall figure down by enrolment method highlights some differences. Almost all of those who have opted-in via a provider have made an active choice of scheme because they approach a specific provider directly to be enrolled. However, the majority of those who have been automatically enrolled (82%) or have opted-in via their employer (59%) have either been default allocated to a scheme by Inland Revenue or have been allocated to their employer's nominated scheme. Less than one-fifth of automatic enrolees appear to have made an active choice of scheme. However, it is not possible to ascertain from these numbers whether members who have been allocated to a scheme have actively considered other options; some at least will have considered where they have been allocated and, for a range of reasons, opted to stay where they were put.

Another way to look at choice is to consider scheme transfers. Individuals can transfer schemes within the funds holding period when they initially join KiwiSaver or they can elect to change schemes at any point during their membership. The total volume of scheme transfers for the year to 30 June 2010 has almost doubled over the previous year; this will in part be influenced by schemes being wound up during the year and members being required to transfer to another scheme. Transfers within the holding period continue to decline suggesting that those who joined KiwiSaver early on were more likely to choose their own scheme and to do so shortly after enrolling.

Table 3.2: Scheme transfers

Transfer type	2007/08	2008/09	2009/10
Standard	17,757	50,457	113,555
Funds holding period	53,355	12,262	9,753
Total transfers	**71,112**	**62,719**	**123,308**

Base: All scheme transfers for the period 1 July 2007 to 30 June 2010.
Source: Inland Revenue administrative data.

It appears that, as well as growing over time, transfers peak in May each year, likely triggered by members receiving annual investment statements in April. The growing number of transfers can be viewed as a sign of competition in the market and consumers exercising choice available to them. On the other hand, particularly the apparently seasonal peak in May, the trend could suggest that members are chasing short-term returns rather than taking a longer-term investment perspective.

In terms of individuals' choices of KiwiSaver provider and investment fund, the survey of individuals found the following:

- A considerable number of KiwiSaver members (40%) do not know what kind of fund they are invested in (i.e. conservative or growth etc). This lack of knowledge is particularly high for those members who have been allocated either by Inland Revenue to a default provider or to their employer's nominated provider. A smaller number of members (15%) do not know their KiwiSaver provider.

- The strongest drivers for individuals' choice of KiwiSaver provider relate to perceptions of financial security. Almost two-thirds of members (62%) who had made some type of choice about their provider cited financial security, investment risk, or a good organisational reputation as influences on their choice and one-third (30%) identified security as the main reason behind their choice. Familiarity with the provider was also a significant influence on decision making; one-quarter of members said familiarity (e.g. the provider is their main bank) was the most important influence on their decision. Appropriate product offerings, financial advantages and recommendations from others were also important. Interestingly too, more than one-quarter (28%) said that their provider had explained things clearly to them and this was an important factor in their decision.

- Of those who knew their type of investment fund, just over one-third (39%) had considered more than one type of investment fund (i.e. less than one-quarter of all members).

- KiwiSaver members do not appear to be overly willing to take financial risk – 43% of members consider themselves to be a 'low' or 'very low' risk taker and a further 48% rate themselves as an 'average' risk taker. Although, it should be noted that the results for non-members are the same.

Choosing a contribution rate

KiwiSaver members who contribute by way of salary or wage deductions can choose to contribute 2%, 4% or 8% of their gross income. Table 3.3 shows that most members (55%) are currently contributing 4% of their salary or wages to their accounts. Just over 40% of members are contributing at 2%.

Table 3.3: Member contribution rates

Contribution rate	Percent of members
2%	41%
4%	55%
8%	4%
Other percent	<1%
Total	**100%**

Base: All members at 30 June 2010 with EMS deductions excluding those on contribution holidays and those who contribute directly to providers or make contributions to Inland Revenue not through the EMS process. Contribution rate is calculated using the period April to June. Individuals must have at least two consistent contributions over the period to be included. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

The default contribution rate of 2% for new members has been in place now for just over a year (since 1 April 2009). It is difficult to determine exactly what impact the lowering of the default rate has had as we are never able to observe what would have happened had a change not been made. Additionally, at the point in time where minimum member contribution rates were reduced, compulsory employer contributions increased; both these changes could have acted to encourage enrolments and it would be difficult to determine whether any increase in membership was the result of one or other, both, or neither, of these changes. However, the following points could be considered:

- The number of individuals joining KiwiSaver has been relatively stable over the last two-year period; there has been no noticeable increase in the number of people joining KiwiSaver since the changes have been made;

- There is some evidence that some members have made a change to their contribution rate – 15% of members surveyed said they had made a change to their contribution rate since joining KiwiSaver (12% of respondents said they had decreased their rate and 3% said they had increased their rate);

- It appears that the default settings themselves (whatever they are) influence members' behaviour. Table 3.4 shows that the majority of members who joined KiwiSaver before 1 April 2009 are currently contributing at 4% which was the default rate when these members joined whereas the majority of people who joined after 1 April 2009 are contributing at 2% (the default rate in place when they joined). Deductions at source mean that, once an individual has joined, contributions are automated potentially leading to, for better or worse, a case of set and forget. Although approximately one-quarter of each group are contributing at a rate other than the default rate at the time they joined.

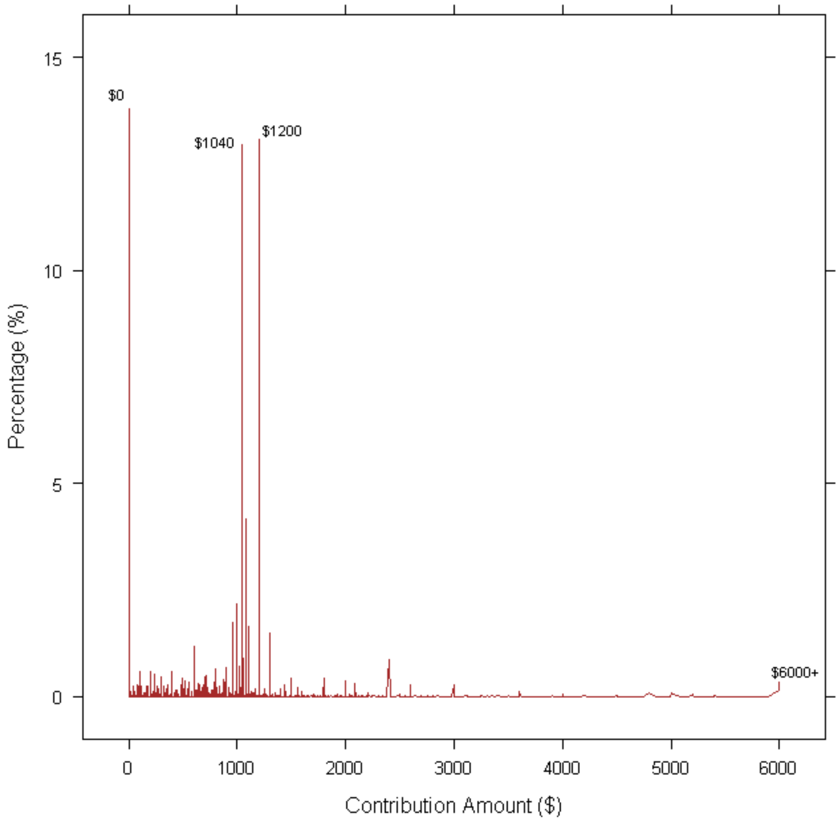
Table 3.4: Member contribution rates by join date

Contribution rate	Members joining before 1 April 2009	Members joining after 1 April 2009
2%	25%	78%
4%	70%	19%
8%	5%	2%
Other percent	<1%	<1%
Total	**100%**	**100%**

Base: All members at 30 June 2010 with EMS deductions excluding those on contribution holidays and those who contribute directly to providers or make ad hoc contributions to Inland Revenue not through the EMS process. Contribution rate is calculated using the period April to June. Individuals must have at least two consistent contributions to be included in the table. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Those with non-salary and wage income only for the 2009 year, made a total contribution for the 2008/09 year of $42 million. The median annual contribution value was $1,040 (i.e. half of this group contributed less than $1,040 and half contributed more than $1,040) and the distribution of the value of the contributions is set out in figure 3.1. The figure shows two key things – firstly there are a considerable number of non-salary and wage earners who made no contributions to their KiwiSaver accounts in the 2008/09 year and secondly, the two peaks at $1,040 and $1,200 suggest that those who are not required to make regular contributions via salary and wage deductions are contributing in order to maximise the value of the MTC they receive.

Figure 3.1: Annual contribution for non-salary and non-wage earners



Base: All members with an MTC claim submitted for the 2008/09 year with IR3 income only for the 2009 tax year.
Source: Inland Revenue administrative data.

Most children who are members of KiwiSaver are not contributing or having contributions made to their accounts. Given that children are not eligible to receive MTC payments and that, as discussed above, the $1,000 kick-start payment is the most influential factor in parents' decisions to enrol their children, this low level of contributions is not surprising.

It is difficult though to determine exactly how many children's accounts are receiving contributions. Looking at contributions made through Inland Revenue (salary or wage deductions or ad-hoc payments), an estimated 4% of those under 18 at 30 June 2010 had made contributions in 2009/10. Survey results found higher levels of contributions; approximately half of adults with a child in KiwiSaver reported some kind of contribution had been made since the account was opened (but some care needs to be taken with these figures due to relatively small numbers of respondents with children in KiwiSaver).

While it appears that currently large numbers of children's accounts may hold nothing more than the $1,000 kick-start, there is a potential longer-term impact to consider. More than half of parents said that they enrolled their children to teach them good savings habits and assist them save for future goals like homeownership. This however requires contributions to be made to accounts and behaviours to be established and currently there is not strong evidence that this is the case.

Member tax credit

Member tax credit (MTC) information assists in providing a fuller picture of contribution behaviour as not all contributions are made through Inland Revenue. In 2009/10, $577 million in MTC payments were made to members for contributions made in the 2008/09 year (including payments made to complying funds). Of those members who did receive an MTC payment, just less than half (47%) received the maximum MTC payment and 53% received less than a maximum payment. To receive a maximum payment an individual must have been a member for the full 12 month period (July to June) and contributed at least $1042.86 to their account.

Where individuals had been members for the full year (i.e. were eligible to receive the maximum entitlement if they contributed enough), almost two-thirds (63%) of those receiving a non-zero MTC payment received the maximum entitlement and over one-third (37%) received a payment less than $1042.86. Those who were members for the full year but did not receive the maximum payment did not contribute sufficiently to their account to receive the full claim.

Contribution holidays

The number of members on a contribution holiday has continued to increase steadily. At 30 June 2010 there were 45,563 individuals on a contribution holiday, up 76% on the number of people on holiday 12 months previously. Just over 1% of these are financial hardship holidays.

Table 3.5: Contribution holidays (years ended 30/06/08, 30/06/09 and 30/06/10)

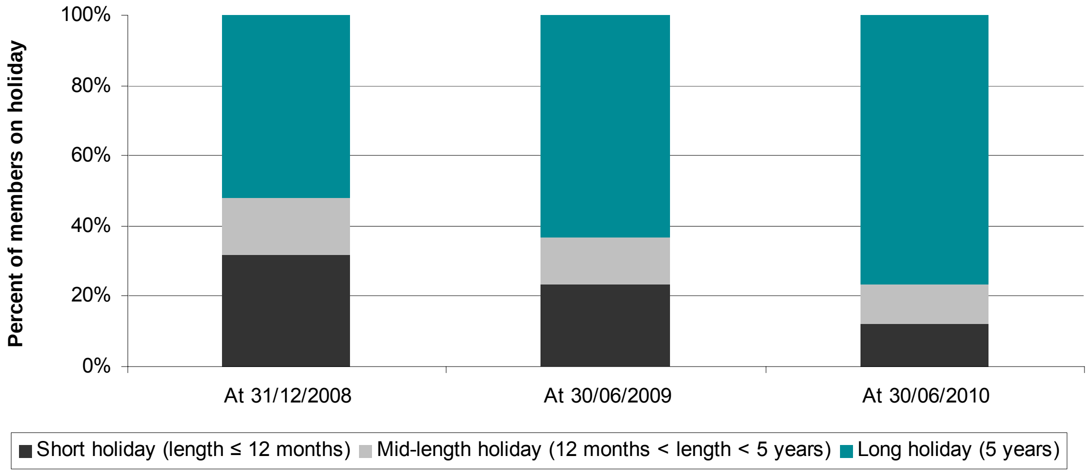
Contribution holiday type	Holidays at 30/06/08	Holidays at 30/06/09	Holidays at 30/06/10
Ordinary holidays	-	25,122	45,069
Financial hardship holidays	3,280	813	494
Total active holidays	**3,280**	**25,935**	**45,563**

Base: All members at 30 June 2008, 30 June 2009 and 30 June 2010 on contribution holidays.
Source: Inland Revenue administrative data.

The proportion of members on long holidays has increased over the year. At December 2008, six months after members became eligible to take ordinary holidays, those on five-year holidays made up 52% of all members on holiday. By June 2009, this had increased to 63% and by June 2010, more than three-quarters (77%) of those on holiday are on a five-year holiday. Additionally, those on short holidays (i.e. up to 12 months) declined from one-third (32%) to 12% of holidaying members between December 2008 and June 2010 (figure 3.2).

Of those on a holiday, approximately two-thirds (65%) have contributed to their accounts while on holiday (contributions include employer contributions, employee deductions and ad-hoc contributions). Across the three financial years to date, a total of $11.3 million has been contributed through Inland Revenue to individuals' accounts while on holiday ($9 million in the year to June 2010).

Figure 3.2: Contribution holiday duration



Base: All members at 31 December 2008, 30 June 2009 and 30 June 2010 on ordinary contribution holidays.
Source: Inland Revenue administrative data.

Purchasing a home

KiwiSaver offers members the flexibility of using their accumulated savings to assist in the purchase of a first home. Given the significant contribution that owning a freehold home has to standards of living in retirement, the KiwiSaver first home withdrawal and deposit subsidy facilities are expected to contribute to retirement preparation through the building up of non-financial assets.

KiwiSaver's homeownership features are a reasonably common influence on individuals' membership decisions; approximately one-quarter of members cited homeownership assistance as a reason why they joined. Despite this, current levels of knowledge about the homeownership features are relatively low no doubt due to the fact that the first members have only been eligible to use the withdrawal and subsidy facilities from 1 July 2010.

- In the survey of individuals, of the 44% of KiwiSaver members who have either never owned a home or have previously owned a home but do not currently own one (excluding those where ownership has been passed to a trust), 76% are aware of the first home withdrawal feature and 40% are aware of the deposit subsidy.
- Of the 41% of non-member respondents who have either never owned a home or have previously owned a home but do not currently own one (excluding where ownership has been passed to a trust), 55% are aware of first home withdrawal and 30% of the deposit subsidy.
- More detailed understanding of how the features work is limited suggesting that, if these features are to be effective in getting households into homeownership, they may need to be more widely promoted and the target audience more actively educated on their value.

In terms of expected uptake of the homeownership features, just over half (56%) of KiwiSaver members who were aware of the withdrawal feature and do not currently own a home are likely to want to use the withdrawal feature. The majority of these (77%) anticipate accessing their funds within five or more year's time, suggesting that the uptake of the feature may be initially slow. For those members who were aware of the deposit subsidy and do not currently own a home, close to three-quarters (72%) anticipate applying for the deposit subsidy. The survey findings support Housing New Zealand's forecasts for the level and timing of demand for the subsidy which anticipate 315 households receiving the subsidy in the current 2010/11 year rising to just less than 2,000 recipient households in 2014/15.

Reasons for not using the deposit subsidy and home withdrawal features primarily relate to greater importance being placed on accumulating retirement savings and having insufficient money for either a deposit or to service mortgage payments.

Do the features work as intended?

KiwiSaver's design features appear to be operating as intended. Automatic enrolment has been effective at getting individuals into a retirement savings scheme who do not consider they would have saved otherwise. On top of this, the majority of the current membership base has chosen to opt-in, including a significant number of children.

Members cite the flexibility and choice built into KiwiSaver as a factor in their membership choice. On the other side too, the fact that KiwiSaver is a "ready made way to save" (i.e. those who do not want to make choices do not have to) has also attracted people to the scheme. There is evidence of some choice being exercised with regard to contribution rates and investment options. It is also possible to see from the data that the default settings themselves can and do influence behaviour. While they may be effective at getting people in, they may not generate optimal outcomes for individuals at retirement. Information and education are likely to be important in encouraging members to consider their own situation and preferences and determine which of KiwiSaver's options are best for them.

The incentives are certainly membership motivators (although it is difficult to isolate the effect of these on membership decisions over other factors) and there is some evidence that individuals are managing their KiwiSaver membership in such a way as to maximise the value of the incentives received.

Impact on savings

As discussed above the purpose of KiwiSaver is to encourage those individuals, who may not currently be in a position to enjoy standards of living in retirement similar to those in pre-retirement, to establish long-term savings behaviours and accumulate assets and the job of the evaluation is to determine the extent to which KiwiSaver has delivered on its objective for the target group.

Superannuation and managed funds market

Certainly KiwiSaver has seen significant inflows of members over three years and significant numbers of dollars have flowed into individuals' accounts, particularly considering the adverse economic conditions and market performance since KiwiSaver's introduction. Inland Revenue has passed $5.8 billion in member, employer and Crown contributions to scheme providers for investment in the three years to June 2010. At the end of March 2010, members had 52 schemes to choose from (and an even greater number of funds) and scheme size is increasing (table 3.6).[5]

Table 3.6: Scheme numbers and size ($m), March years

Scheme size	Number of schemes			Total assets		
	31/03/08	31/03/09	31/03/10	31/03/08	31/03/09	31/03/10
Under $0.5m	13	11	8	2	2	1
$0.5m to < $2.5m	8	9	10	10	10	15
$2.5m to < $ 10m	10	10	5	47	51	27
$10m to < $25m	6	6	6	89	87	101
$25m to < $50m	3	6	4	130	210	132
$50m to < $100m	5	3	5	322	221	399
$100m +	1	9	14	101	2,074	5,177
Total	**46**	**54**	**52**	**701**	**2,654**	**5,852**

Base: Scheme size summary for all KiwiSaver schemes registered with the Government Actuary as at 31 March 2008, 2009 and 2010 that provided statistical returns to the Government Actuary as required by section 125 of the KiwiSaver Act 2006. Totals may not add due to rounding.
Source: Reports of the Government Actuary for the years ended 30 June 2008, 2009 and 2010.

While growing, KiwiSaver still represents a relatively small part of the broader market; assets under management are an estimated 9% of the value of managed funds under management (June 2010 quarter) but a larger proportion of the value of superannuation assets under management (KiwiSaver and other superannuation); 24% for the June 2010 quarter (figure 3.3).

At June 2010 53% ($3 billion) of KiwiSaver assets were invested in New Zealand; a higher proportion than for other superannuation schemes (35%), but slightly less than total New Zealand managed funds (56%). KiwiSaver funds are also more heavily invested (13% or $742 million) in New Zealand equities than both other superannuation schemes (8%) and managed funds overall (10%). Yet KiwiSaver's small absolute size means it is yet to have significant impact on New Zealand's capital markets.[6]

More time is needed before any firm conclusions can be reached on the impact of KiwiSaver on the funds flowing into superannuation products. In general, however, KiwiSaver has reversed the decline in the number of individuals saving through formal superannuation products and has encouraged younger individuals into the ownership of superannuation products, when compared to the age profiles of traditional users of superannuation products. This may suggest that contributions made by, or on behalf of, younger KiwiSaver members will represent additional saving. On the other hand, there is some evidence when looking at inflows data to managed funds products (a measure of new business) that new inflows to

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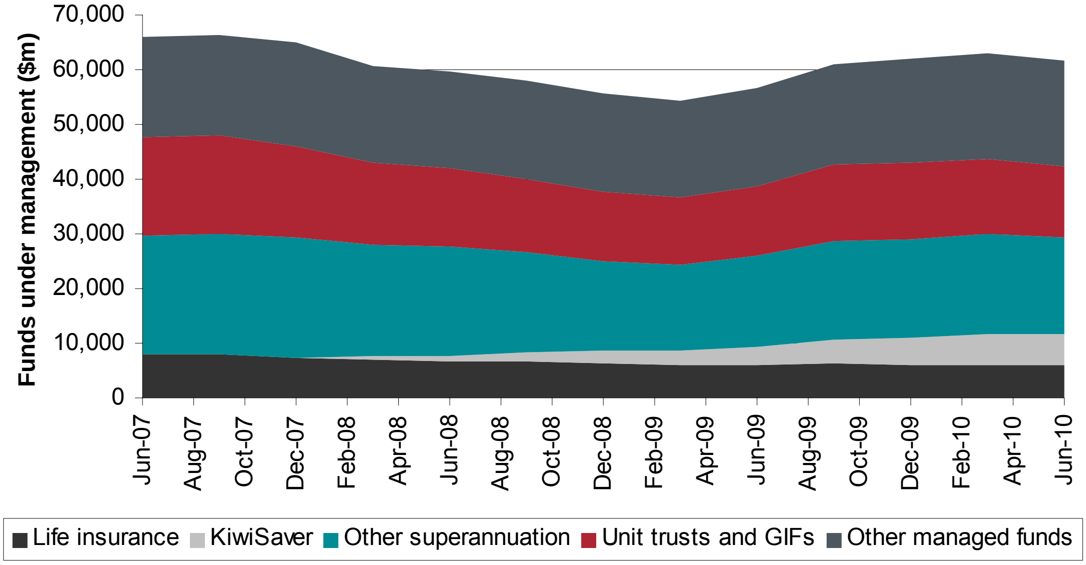
[5] Report of the Government Actuary (in respect of the KiwiSaver Act 2006) for the year ended 30 June 2010.

[6] Reserve Bank of New Zealand, Managed Funds Survey and Ministry of Economic Development (2010), *Report of KiwiSaver Supply Side Evaluation.* Forthcoming.

superannuation funds are declining over time and those to KiwiSaver are increasing, suggesting that KiwiSaver contributions may be made at the expense of contributions to superannuation schemes.[7]

Figure 3.3: Managed funds assets by product category



Source: Reserve Bank of New Zealand, Managed Funds Survey.

As a key driver of revenue, the level of funds under management, and the impact of adverse economic conditions on this, means that providers consider the short term the profitability of KiwiSaver to be relatively low. Profitability has also been influenced by the level of costs associated with servicing a large retail client base with small average balances. As a result, providers expect further consolidation in the KiwiSaver market, although this is unlikely to mean the disappearance of smaller providers as some have been able to build robust niche positions within the market.[8]

Preparations for retirement

When assessing KiwiSaver's impact however, the key question is not how many individuals have joined or how many dollars have been contributed; the key question is whether or not these members are, or likely to be, better prepared for their retirement as a result of being KiwiSaver members. This is a question that needs to be answered over a longer time period and also requires longitudinal data on both KiwiSaver members and non-members prior to and after the introduction of KiwiSaver. Following is some initial evidence on which to make this assessment but the results below should be seen as indicative only.

The extent to which individuals are currently planning for their retirement is varied. While the majority of survey respondents (both KiwiSaver members and non-members) considered they had planned for retirement at least a little or fair amount, almost two-thirds (64%) had no idea or only a vague idea of the level of income they expected to have in retirement. KiwiSaver members were no more likely than non-

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[7] Eriksen and Associates and Plan For Life, New Zealand Retail Managed Funds data.
[8] Ministry of Economic Development (2010), *Report on KiwiSaver Supply Side Evaluation*. Forthcoming.

members to have a good idea of their retirement income despite being more likely to say that KiwiSaver had increased the value that they place on financial planning for retirement.

There are a range of measures that can be used to assess “adequacy” of income or preparation for retirement and, in practice, individuals will have different views on what constitutes both a basic and comfortable retirement income and standard of living. Allowing individuals to self-define adequate and comfortable retirement incomes, taking into account their personal set of financial circumstances, the survey found that:

- Almost half (46%) of individuals could not specify a value of the level of income they expected to have in retirement, and one-fifth could not provide a value for the level of income they would need “just to get by” or to be “comfortable” in retirement.

- Of those who could provide values, the median annual income level households expected to have in retirement was $45,000, the median annual value that households thought they would need to “just get by” was $39,000 and the median annual value required to be “comfortable” was $55,000.

Both the median figures for a basic and comfortable retirement are greater than the current level of entitlement for New Zealand Superannuation.[9] Note that values are based on single adult households if the respondent is currently single and two adult households where the respondent is currently partnered and on the respondents’ expectations of their financial commitments (e.g. living costs) and levels of expenditure in retirement.

KiwiSaver is intended to assist individuals who are not currently in a position to enjoy standards of living in retirement similar to their current living standards. With this in mind then, the KiwiSaver target group adopted for this analysis is those for whom their current level of preparation will not generate a sufficient level of income to “get by” or to be “comfortable” (depending on the threshold applied). When the gap between expected income and income required either to “get by” or being “comfortable” was calculated:

- The majority of respondents (78%) who could provide figures would have enough to “get by”, or would have more than enough to “get by” in retirement. This was the same for both KiwiSaver and non-KiwiSaver households.

- Approximately half (46% of KiwiSaver households and 55% of non-KiwiSaver households) expect to either have enough for a “comfortable” retirement, or have more than enough for a “comfortable” retirement.

- The proportion of households expecting to fall short of the amount required to “get by” in retirement is the same for KiwiSaver households and non-KiwiSaver households (22%). However, the proportion

[9] Currently the living alone rate is equal to $19,425.12 (gross) per annum, the single sharing rate is $17,814.16 (gross) per annum and the couple rate is $29,184.48 (gross) per annum (or $14,592.24 per individual) where both individuals qualify.

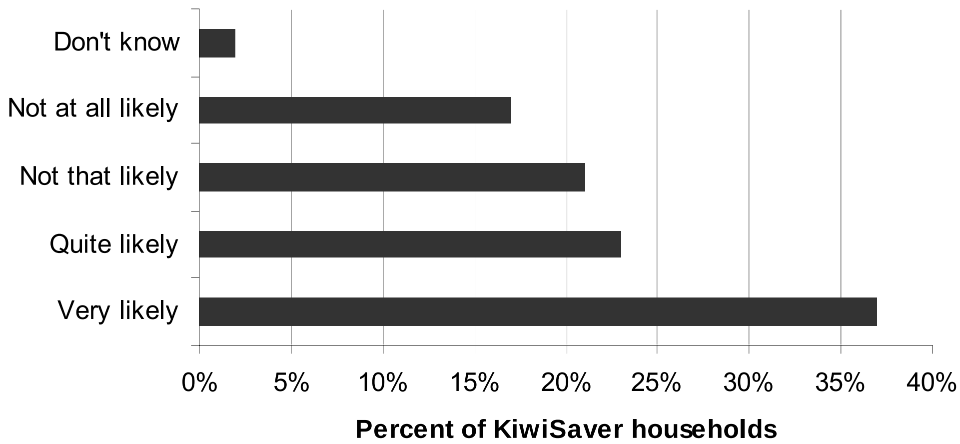
of households expecting to fall short of a comfortable retirement is larger for KiwiSaver households (31%) than non-KiwiSaver households (23%).

In terms of sources of income that households expect to use in retirement, KiwiSaver does not yet appear to have had significant impact, no doubt due to the fact that individuals' account balances are still relatively small. New Zealand Superannuation is the income source that most households (both KiwiSaver and non-KiwiSaver households) consider will be their main income source in retirement. However, one-quarter of KiwiSaver households do expect to use KiwiSaver as their main retirement income source.

New saving vs. substitution

Results from the survey suggest that KiwiSaver has generated some level of new savings, over and above what would have been saved in the absence of KiwiSaver. The results also suggest that there has been some level of substitution between savings vehicles. Just over one-third (38%) of households with at least one adult KiwiSaver member considered that they were unlikely to be saving for retirement if they were not members of KiwiSaver (figure 3.4).

Figure 3.4: Likelihood of saving for retirement without KiwiSaver



Base: All survey respondents who are members of KiwiSaver.
Source: Colmar Brunton survey of individuals.

When those households with at least one adult KiwiSaver member were asked to indicate how they would spend their KiwiSaver contributions if they were not members of KiwiSaver, a similar indication of additionality was found. Figure 3.5 shows that, in the absence of KiwiSaver:

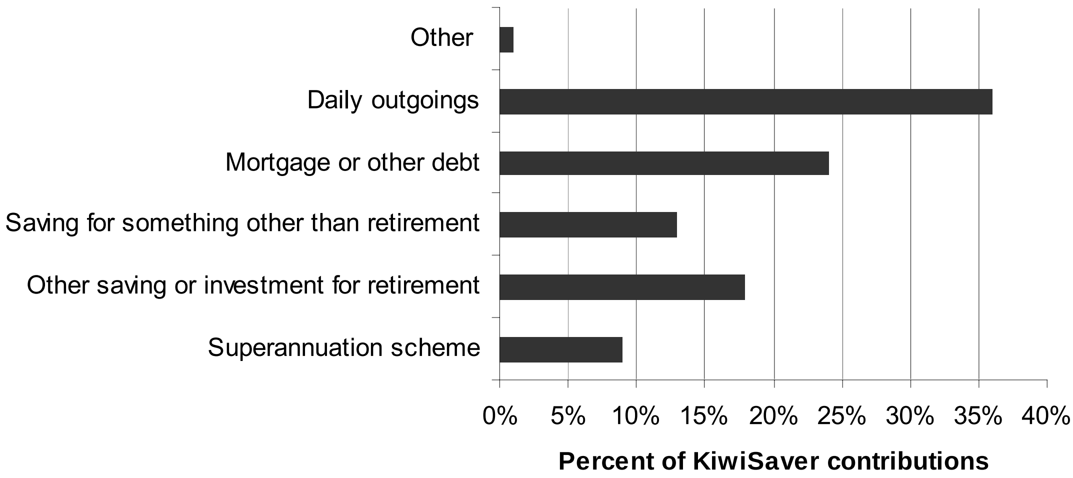
- KiwiSaver households estimate they would spend one-third (36%) of their KiwiSaver contributions on daily outgoings or consumption.
- Approximately one-quarter (24%) of the contributions being made to KiwiSaver would be spent on servicing mortgages or other debt. Given the significant contribution that a freehold house makes to

retirement wellbeing, this allocation could be viewed as substitution of one form of retirement savings for another.

- A similar percentage of KiwiSaver contributions (27%) would, according to the respondents, have been saved in superannuation schemes or other savings vehicles specifically for retirement; this could also be considered to be likely substitution.

Considering these contribution allocations by whether or not respondents thought themselves likely or unlikely to save for retirement in the absence of KiwiSaver, shows that those who thought they were likely to save without KiwiSaver allocated more of their KiwiSaver contributions to paying off mortgage or other debt or to retirement or other general saving, and those who thought they were unlikely to save for retirement without KiwiSaver allocated a much greater proportion of their contributions to daily consumption or outgoings.

Figure 3.5: Allocation of KiwiSaver contributions without KiwiSaver



Base: All survey respondents who are members of KiwiSaver.
Source: Colmar Brunton survey of individuals.

As well as asking KiwiSaver households whether they would be saving for retirement in the absence of KiwiSaver and to reallocate their contributions to competing uses, the survey asked KiwiSaver households a range of questions about their current saving and debt repayment commitments and how these had or had not changed since joining KiwiSaver. These questions were explored on the basis that while not all saving may be “tagged” for retirement it can nonetheless be used for that purpose and debt retirement, particularly mortgage debt, is an important contributor to retirement wellbeing. Therefore, all forms of saving and debt repayment are potential substitutes for KiwiSaver and KiwiSaver contributions may be being made at the expense of these other forms of saving rather than consumption.

Across all households (both KiwiSaver and non-KiwiSaver households), approximately two-thirds of households are currently paying off mortgage or other debt, half of households are saving for a non-retirement purpose, and one-quarter of households have current superannuation scheme investments (non-KiwiSaver superannuation).

- Of those KiwiSaver households that currently have a superannuation scheme, more than half (53%) reported that they have maintained their level of contribution to the scheme upon joining KiwiSaver (a further 15% were not contributing to the scheme when the joined KiwiSaver and still do not contribute to it). Approximately one-fifth (21%) of households said they had either stopped or reduced their contributions to their superannuation scheme since joining KiwiSaver (although they do not necessarily attribute this reduction to their KiwiSaver membership).

- Of those households that had a superannuation scheme before they joined KiwiSaver and closed it upon joining, 9% said they had transferred all or some of the money into their KiwiSaver accounts. The vast majority (90%) did not directly deposit the money into KiwiSaver but used it instead to reduce debt, invested it in another superannuation scheme or elsewhere, or “left it to one side” for some other purpose.

- For KiwiSaver households who said they were saving for a non-retirement purpose when they joined KiwiSaver, just over one-quarter (29%) reported they had maintained their saving levels and similar numbers said they had either decreased or stopped saving (15%) or increased the amount they are saving (17%) for non-retirement purposes.

- For KiwiSaver households who had mortgage or other debt when they joined KiwiSaver, more than one-third (38%) reported having maintained their rate of debt repayment, 21% had increased their level of repayments and 10% had stopped or reduced their repayments.

Again, looking at the behaviours of individuals with regard to their superannuation and general saving and debt repayment there are indications of both additional saving and substitution. However, these are initial findings only and further analysis is underway on these survey results to estimate the impact of KiwiSaver on saving and retirement preparation. Additionally, beginning in 2012, the evaluation will use the Survey of Family Income and Employment to draw firmer conclusions about the impact of KiwiSaver on individuals’ retirement preparedness.

4. What does KiwiSaver cost?

Employer contributions and compliance costs

Given it is predominantly a workplace-based scheme, KiwiSaver is heavily reliant on employers for its effective implementation and ongoing delivery. As well as automatically enrolling new staff (and facilitating opt-outs), employers are required to make deductions from member employees' salary or wages and contribute a further 2% of each employee's salary or wages by way of employer contributions.

Over the year to 30 June 2010, Inland Revenue passed $626 million in employer contributions to providers for investment in their employees' accounts. Over the three years to date, employers have contributed $1.044 billion to KiwiSaver accounts (and approximately one-quarter of this was offset by employer tax credit payments which were cancelled in April 2009). Most employees (90%) receive the minimum 2% from their employers (table 4.1). Two percent are receiving a 4% contribution and the remaining 7% either do not receive an employer contribution (as their employer contributes to another workplace superannuation scheme) or receive a contribution at another rate.

Table 4.1: Employer contribution rates

Contribution rate	Percent
2%	90%
4%	2%
Other %	7%
Total	**100%**

Base: All members at 30 June 2010 with employer contributions through an EMS. Contribution rate is calculated using the period April to June 2010. Those on contribution holidays are excluded. To determine the rate at least two consistent contributions across the period are required. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

In terms of the costs of compliance with KiwiSaver requirements, small and medium enterprises (SMEs) spend an average of $705 per SME per year meeting KiwiSaver requirements.[10] SMEs dealing with KiwiSaver spend an average of 14.5 internal hours per year (at an average cost of $660 per SME) in meeting their requirements. Most SMEs do not use external tax agents for KiwiSaver so the average annual external cost is small ($47). Stress levels (or psychological cost) associated with meeting KiwiSaver requirements, including finding the money for employer contributions, are relatively low (a mean score of 3.1 on a seven point scale), including when compared to the stress costs associated with meeting obligations for other tax types (e.g. GST, income tax), which were included in the research.[11]

Large enterprises' costs for complying with KiwiSaver legislation (including their internal and external costs associated with compliance) vary considerably between organisations. Higher levels of costs appear to be influenced by having a larger number of employees and KiwiSaver members, higher levels of staff

[10] Compliance costs equals the sum of internal hours spent on tax (converted to dollar values), external costs for tax advisory services, and psychological cost (measured as a self-reported stress score on a seven-point scale.

turnover, a variety of pay periods, and having multiple collective employment agreements and non-KiwiSaver schemes. Whether or not employers were exempt from automatically enrolling new employees, seasonal employment, and seemingly frequent changes to KiwiSaver legislation also seemed to influence internal costs and the nature of the IT support required was a factor in external costs. Large enterprises do not consider the ongoing administration of KiwiSaver to be stressful, with most indicating a mid-range level of stress for this. Large enterprises' compliance costs were investigated through in-depth case studies with a limited number of firms so cost figures that are comparable to those for SMEs cannot be provided and the findings cannot be generalised to the whole large enterprise population.

Overall, KiwiSaver has not prompted employers to make changes to their remuneration practices so they have not incurred significant related costs. For the small numbers that have changed their approach to remuneration, the costs associated with putting these changes in place are relatively low. Generally employers have continued to operate existing workplace superannuation schemes independently of KiwiSaver and membership of these non-KiwiSaver schemes has remained high. The majority of employers do not make general information about managing money available in the workplace. For those that do the most common channels are in-house seminars or discussions or referrals to external services. Employers consider that while KiwiSaver has benefits for employees it has little in the way of benefits for employers.[12]

Costs to the Crown

In the year to 30 June 2010, KiwiSaver cost the Crown $970 million in contribution payments to members of KiwiSaver schemes and complying funds. Overall, in the three years to date payments to members and employers have cost the Crown $2.6 billion.

Table 4.2: Crown costs

Cost	Year ended 30/06/08		Year ended 30/06/09		Year ended 30/06/10		Total	
	$m	%	$m	%	$m	%	$m	%
Payments to members	572	94%	842	80%	970	100%	2,384	91%
Employer tax credit	38	6%	206	20%	-	-	244	9%
Total Crown	**610**	**100%**	**1,048**	**100%**	**970**	**100%**	**2,628**	**100%**

Base: All funds passed from Inland Revenue to providers for the period October 2007 to June 2010 (cash basis). Excludes contributions made directly to providers. All ETC payments paid for the year to 30 June 2008 and year to 30 June 2009 (cash basis).
Source: Inland Revenue administrative data.

Figure 4.1 below shows the Crown's contribution as a proportion of the total value of funds passed to providers for investment in members' accounts. It shows that the contribution from the Crown is declining over time. The Crown has contributed 41% of the value of funds saved over the first three years. The kick-start payments to new members make up the greater proportion of the government's contributions to date but the annual value of member tax credit payments has now exceeded kick-start payments.

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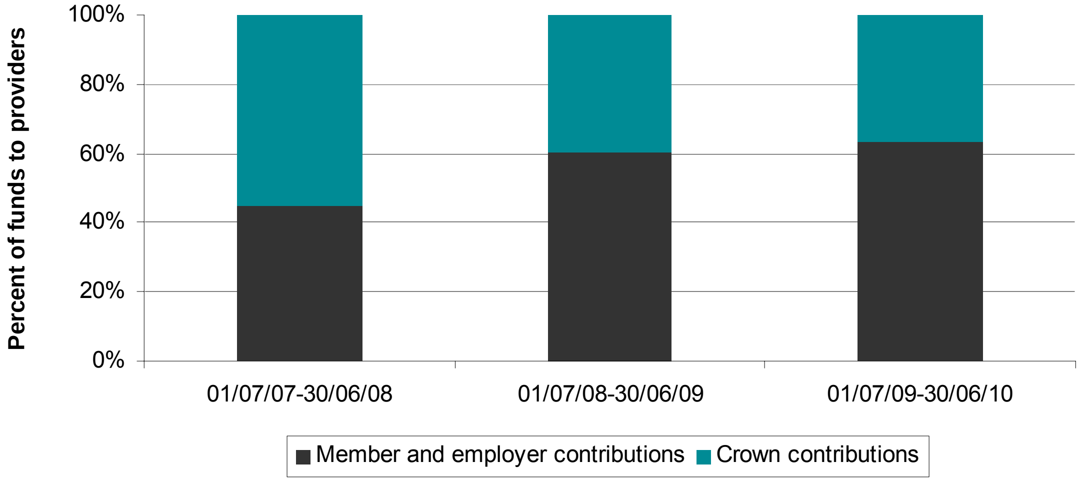
11 Inland Revenue (2010), *SME tax compliance costs 2004-2009: Evaluation report 2*. Available http://www.ird.govt.nz/aboutir/reports/research/sme-compliance-eval-report-2/

12 Colmar Brunton (2010), *KiwiSaver Evaluation: Follow-up survey of SME employers*. Forthcoming.

Figure 4.1: Crown contribution as proportion of total funds passed to providers



Base: Crown contributions passed from Inland Revenue to providers for October 2007 to June 2010 (cash basis).
Source: Inland Revenue administrative data.

Conclusions

KiwiSaver membership growth continues to be strong

It is now three years since KiwiSaver was introduced. Its introduction marked a significant change in New Zealand's savings policy settings. Over the three years, KiwiSaver membership has grown strongly, particularly in year one, and has remained steady at approximately 30,000 members per month for the last two years. Most members have opted-in and there continues to be strong growth in this enrolment method. Approximately one-third of current members have been automatically enrolled. A relatively low and declining level of opt-outs is also contributing to the growth in enrolments.

KiwiSaver's reach into the eligible population continues to grow. There are currently 38% of the eligible population enrolled and an estimated half of households have at least one KiwiSaver member. For those entering the workforce for the first time, KiwiSaver's reach is closer to 50% of eligible individuals and of those in their mid-20s to mid-50s approximately 40% of eligible individuals have joined.

For those who have joined KiwiSaver, the desire to save for retirement and to have more than the basic pension is a significant motivator. Alongside this, the features of KiwiSaver, including both the flexibility and choice that it offers to members as well as the fact that members are not required to make choices if they do not wish to, are attractive to those joining. Financial incentives offered by employers and the government are compelling but not the most commonly cited reason for joining by members.

There are still approximately two-thirds of the eligible population who have not joined. There are a few key reasons behind the decisions of people to stay out of KiwiSaver and these seem to have persisted over time; these are affordability, despite the recent reduction in the minimum member contribution rate, concern about the future security and sustainability of the scheme, and a belief that, for individuals' circumstances, there are better financial priorities. There are also a reasonable number of people who say they simply “have not got around to it”.

KiwiSaver market is still relatively small but growing

In the three years to date, approximatetly $5.8 billion in contributions has been passed to scheme providers for investment, including close to $2.4 billion in government subsidies. The current value of funds under management is $5.7 billion. KiwiSaver is still a relatively small part of the managed funds market but its significance is growing over time – it is currently estimated to represent 9% of the managed funds under management and close to one-quarter of superannuation assets under management. KiwiSaver has higher proportions of assets invested in New Zealand equities than other superannuation schemes and managed funds yet KiwiSaver's small absolute size means it is yet to have significant impact on New Zealand's capital markets.

As a key driver of revenue, the level of funds under management, and the impact of adverse economic conditions on this, means that providers consider the short term the profitability of KiwiSaver to be relatively low. Consequently, providers expect further market consolidation, although this is unlikely to mean the disappearance of smaller providers as some have been able to build robust niche positions within the market.

KiwiSaver's features appear to be working as intended

KiwiSaver's design features and incentives are intended to contribute to retirement preparedness by making it easy and attractive to join, providing relatively limited opportunities to access savings, and by providing individual savers with flexibility and choice, as well as a "ready-made" option for those who do not want to choose.

KiwiSaver's features appear to be working as intended. Automatic enrolment has been effective at getting individuals into a retirement savings scheme who do not consider they would have saved otherwise. The savings lock-in is a seen as a desirable feature by some; although it is a membership deterrent for others. The incentives are certainly membership motivators and there is some evidence that individuals are managing their KiwiSaver membership in such a way as to maximise the value of the incentives received.

There is evidence of some choice being exercised with regard to contribution rates and investment options; approximately one-quarter of members have opted to contribute at a rate that was not the default rate at the point they joined, more than half of members have actively chosen their own scheme (although this varies by enrolment method), and the number of scheme transfers is increasing over time. On the other hand, it appears the default settings are influencing behaviour. Information and education are likely to be important in encouraging members to consider their own situation and preferences and determine whether the default arrangements or KiwiSaver's options are best for them.

As a workplace-based scheme, KiwiSaver's effectiveness relies on employers to process automatic enrolments and opt-outs, make wage and salary deductions and contribute 2% of each employee's salary or wages by way of employer contributions. Over the three years to date, employers have contributed $1.044 billion to KiwiSaver accounts. Employers' compliance costs for meeting their KiwiSaver requirements vary, particularly for large employers, but generally employers do not consider their KiwiSaver obligations to be particularly stressful. In most cases KiwiSaver has not prompted employers to change their remuneration practices and existing workplace superannuation schemes have been retained and operated independently of KiwiSaver.

Current levels of preparedness for retirement vary

KiwiSaver is intended to assist people establish long-term savings habits and through this to contribute to ensuring a smoothing of pre- and post-retirement standards of living. Despite KiwiSaver members considering that KiwiSaver had made them place a greater emphasis on planning for their retirement, they seem to be no more likely than non-members to have a good idea of their expected retirement income.

New Zealand Superannuation is the income source that most households (both KiwiSaver and non-KiwiSaver households) consider will be their main income source in retirement. KiwiSaver does not yet appear to have had significant impact, no doubt due to the fact that individuals' account balances are still relatively small. However, one-quarter of KiwiSaver households do expect to use KiwiSaver as their main retirement income source.

There is some suggestion of savings impact but it is too early to say

Early and indicative results suggest that KiwiSaver has generated some level of new savings, over and above what would have been saved in the absence of KiwiSaver. There also seems to have been some level of substitution between KiwiSaver and other savings vehicles. Approximately one-third of households consider that they would be unlikely to save for retirement if they were not members of KiwiSaver. Additionally, of the contributions made to KiwiSaver accounts, an estimated one-third would have been spent on daily outgoings in the absence of KiwiSaver. Considering how members have treated non-KiwiSaver superannuation, non-retirement saving and debt repayment, after they joined KiwiSaver again suggests a combination of both new saving and substitution behaviour.

However, retirement preparation and saving is a long-term game. While much can be understood at this stage about KiwiSaver enrolment patterns, membership profiles and the ways in which members are using the scheme, it is not yet possible to determine KiwiSaver's impact on savings levels or retirement incomes. But these are the essential questions to be addressed. The evaluation has work planned to begin in 2012 using longitudinal net worth data to determine what contribution KiwiSaver might make to households' retirement incomes and standards of living.

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