Inland Revenue
Te Tari Taake

KiwiSaver evaluation

Annual report

July 2010 to June 2011

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Inland Revenue
Ministry of Economic Development
Department of Building and Housing

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Contents

Executive summary

This is the fourth annual report of the KiwiSaver evaluation. As in previous annual reports, it summarises the key trends and performance data for the year to June 2011 and the results of relevant research and analysis completed over the course of the year. The main pieces of new analysis outlined in this report relate to an initial evaluation of the KiwiSaver home ownership features and an initial evaluation of the impact of KiwiSaver on retirement savings.

Enrolment trends

Although not as high as the previous year, there continues to be steady growth in KiwiSaver enrolments. As the scheme settles, growth in enrolments is expected to be more in line with population growth. KiwiSaver membership reached 1.76 million and over the past year membership has grown by on average 25,000 a month. The majority (63%) have continued to opt-in to KiwiSaver. Approximately 28% of eligible children and nearly 60% of eligible people aged 18 to 24 years have enrolled.

Membership motivations and barriers

Most people enrol in KiwiSaver because they recognise that it is a good way to save for their retirement. Financial incentives from government and employers continue to be influential in people's reasons for enrolling in KiwiSaver. Although membership continues to grow steadily, there are still 56% of the eligible population who have not enrolled in the scheme. Along with not being able to afford to join, research this year found a key reason that people had not joined KiwiSaver was because they had other sufficient savings and investments for retirement. Another reason that ranked highly for people not joining KiwiSaver was concern about the uncertainty of the structure of the scheme due to a belief that changes were likely in the future. The research also highlighted some circumstances surrounding higher education, ethnicity and whether people have been planning for retirement as other potential influencing factors in some people's decision to join KiwiSaver.

Impact of KiwiSaver features and incentives

KiwiSaver has a range of features and incentives designed to encourage savings and asset accumulation among members. These features and incentives also recognise members' individual circumstances. This includes: the ability to opt-out, choose between schemes, choose the level of contribution, member tax credits, contribution holidays and using savings to buy a home.

The percentage of members who had been enrolled automatically and chose to opt-out as at 30 June has declined over the past three years from 34% for 2009 to 28% for 2011. Although many people have remained with the default KiwiSaver scheme they were allocated to, most people are choosing their own scheme. This is particularly relevant for those who joined the scheme early. In each of the past two years there were more than 120,000 transfers between schemes. Recent research has found that the reason many people switch provider is a preference for having their KiwiSaver account at their bank.

The default contribution rate of 2% of gross salary or wages for new members has been in place now for over two years and appears to be influencing the level of members' contributions. Over half of KiwiSaver members are currently contributing 2% of their salary or wages to their accounts. As at 30 June 2011, there were 63,707 members on a contribution holiday, including less than 1% on financial hardship holidays.

The KiwiSaver home ownership features became operational in July 2010. From 1 July 2010 to 31 March 2011, there were 1,274 withdrawals and the average value of a withdrawal was $9,640. There were also 619 subsidies of $3,000 each. An initial evaluation this year found the number of KiwiSaver members receiving a first home withdrawal and/or being approved a subsidy was higher than forecast. It also found many people experienced problems coordinating subsidy and withdrawal applications with providers, Housing New Zealand, Inland Revenue, banks, lawyers and real estate agents for a range of reasons.

KiwiSaver costs

Employers and the Crown continue to make significant contributions to KiwiSaver. This year, employers contributed $740 million. Over the four years to date, employers have contributed $1.79 billion to KiwiSaver accounts. Also this year, $998 million dollars were transferred by the Crown to KiwiSaver providers, mainly in member tax credits. This is expected to reduce in future years as a result of changes implemented in Budget 2011.

Impact on retirement savings

This year, KiwiSaver providers hold $9.2 billion in KiwiSaver schemes, consisting of member contributions, employer contributions and Crown payments mainly of member tax credits and the kick start payment.

An initial evaluation this year of the impact of KiwiSaver on retirement saving examined the alternative use of funds going into KiwiSaver, the adequacy of income in retirement, the effectiveness of the scheme in reaching its target population and its impact on national savings. The analysis was based on the KiwiSaver survey conducted in 2010 of 825 people.

The analysis found that KiwiSaver was encouraging individual savings, some of which would have otherwise been consumed. But many respondents, particularly those that own their own home, indicated that they would have used a substantial proportion of their KiwiSaver contributions for other forms of saving or to reduce their debt. The analysis also found that most respondents expected their retirement incomes would be adequate to meet their basic needs. About one half felt that their expected retirement income would be sufficiently comfortable. The results indicated that 22% had a shortfall in expected retirement income based on needs. In contrast, 50% reported an expected shortfall with respect to being comfortable. These results were broadly similar for both KiwiSaver members and non-members. After controlling for the effects of other factors likely to affect retirement income outcomes, the analysis found no evidence that KiwiSaver membership was associated (either positively or negatively) with the expected shortfalls found.

The analysis explored the effectiveness of KiwiSaver in reaching the target population the scheme is intended to help; namely those who would not otherwise have saved enough to maintain their standard of living in retirement. It estimated 33% of the target population based on need became members and 46% based on being comfortable became members. For each of those members who were in the target population a further four to 14 people joined from outside the target population. This implied that the ongoing cost of the scheme for each target member could be around $4,000 per year (if the standard is living comfortably) or around $13,000 per year (if the standard is meeting needs). These estimates of the cost per target member will decrease due to the reduction in member tax credit and removal of the employer superannuation contribution tax exemption proposed from 2012 onwards.

The analysis also explored the impact of the scheme on national savings. It estimated, on the conditions and settings of the scheme at that time, that over the ten years to 2021 the net contribution of KiwiSaver to national savings would be marginal at best in the longer term, and may in fact reduce national savings. When sensitivity analysis in the form of allowing for much higher rates of additionality on employer and Crown contributions were conducted, the analysis found modest increases in national saving. In either case, fiscal costs over the period were projected to total nearly $8 billion in net present value terms. As outlined above, this estimate will decrease due to the reduction in member tax credit and removal of the employer superannuation contribution tax exemption proposed from 2012 onwards.

Further work

Further work is required to evaluate the initial impact of KiwiSaver on saving and net worth. This work is based on providing a comprehensive basis for assessing changes in individual or household saving behaviour over time from the longitudinal survey, Survey of Family Income and Employment (SoFIE).

SoFIE will play a key role in further work planned as part of the KiwiSaver evaluation in the coming year. The KiwiSaver evaluation team proposes to link selected KiwiSaver administrative data with SoFIE data. The linked dataset would provide greater insights into actual savings behaviour of those who are members of KiwiSaver compared to those who are non-members and would provide valuable information in terms of addressing KiwiSaver’s impact and effectiveness.

Other work planned in the coming years includes a follow up by the Department of Building and Housing of the initial survey on the home ownership package to assess the impact and effectiveness of the package against its agreed outcomes. The Ministry of Economic Development also plan to update its work on the KiwiSaver Supply Side evaluation.

The planned work in the coming years will put the KiwiSaver evaluation in a strong position to provide further assessment of the overall impact of the scheme on individual and national savings. However, this assessment will only span the early years of the scheme. Given KiwiSaver represents an important part of New Zealand’s retirement income policies, it will be crucial to continue ongoing assessment and evaluation of the performance of the scheme as it matures. This ongoing assessment and evaluation will require access to relevant and reliable sources of information and data, particularly longitudinal data that can track saving behaviour over time. At present, there are no active sources of longitudinal data available. Without this information and data there will be limited ability to assess the ongoing performance of the KiwiSaver in the future.

1. Introduction

Report purpose

KiwiSaver has been in operation for four years. This report presents the key trends and performance of KiwiSaver for the year to June 2011 and the results of relevant research and analysis completed over the course of the year.

KiwiSaver background and context

KiwiSaver is primarily a work-based savings scheme designed to help people prepare for their retirement. The objective of KiwiSaver 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*[1]. A secondary intention of KiwiSaver is to help local capital markets by providing an additional source of investment funds.

For employed members, contributions to KiwiSaver are deducted from an employee's pay at a minimum rate of 2%. The employer is required to make matching contributions of at least 2%. Government incentives include a $1,000 kick start when joining and an annual member tax credit. Subject to certain conditions, savings can be withdrawn early to assist the purchase of a first home.

Since KiwiSaver was introduced in 2007, there have been changes to the scheme. Changes have included reducing the minimum employee contribution to 2% (from 4%), capping the increase in compulsory employer contribution at 2% and removing the $40 annual subsidy of scheme fees. An employer tax credit was also removed.

More recently, changes to KiwiSaver intended to reduce the cost of Government subsidies and encourage higher individual contributions were announced as part of Budget 2011. These changes were:

- The member tax credit (MTC) will be halved for the next MTC year (year ending 30 June 2012). The Government will now contribute 50c for each $1 contributed by individual KiwiSaver members, up to a maximum of $521.43 per year.
- All employer contributions to an employees' KiwiSaver account (and complying superannuation funds) will be subject to employer superannuation contribution tax (ESCT) from 1 April 2012. ESCT will be applied at a rate equivalent to an employee's marginal tax rate.

These changes are expected to reduce the public cost of KiwiSaver subsidies by some $2.6 billion over the next four years (2011/12 to 2014/15).

Changes to employee and employer contribution rates were also announced, which will be included in the Taxation (Annual Rates, Returns Filing and Remedial Matters) Bill introduced in September 2011. These changes are:

[1] Section 3 (1), KiwiSaver Act 2006.

- The minimum employee contribution rate will rise from 2% to 3% for all members, new and existing, from 1 April 2013. The default contribution rate for new employees who do not select a rate will also be 3% from that date.
- Compulsory employer contributions will rise from 2% to 3% from 1 April 2013.

KiwiSaver evaluation background

The KiwiSaver evaluation is a joint project between Inland Revenue, Ministry of Economic Development and the Department of Building and Housing. The Department of Building and Housing replaced Housing New Zealand on the project this year. The evaluation runs until June 2013.

The objectives of the evaluation 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;
- Determine the impact of KiwiSaver on individuals' saving habits and asset accumulation; and
- Determine the impact of KiwiSaver on superannuation markets and the financial sector.

The focus of the evaluation work programme for the next two years will be on:

- Measuring the impact on individuals' savings and net worth;
- Modelling retirement income; and
- Assessing value for money.

Other work planned in the coming years includes a follow up by the Department of Building and Housing of the initial survey on the home ownership package to assess the impact and effectiveness of the package against its agreed outcomes. The Ministry of Economic Development also plan to update its work on the KiwiSaver Supply Side evaluation.

KiwiSaver represents a significant investment by Government and evaluation plays an important role in determining whether it has had the intended impacts and desired outcomes on savings and asset accumulation behaviours. Evaluation is also important to help determine whether KiwiSaver has provided a cost effective way of achieving these overall objectives. Evaluation is an essential part of the policy process, assessing the effectiveness of existing policies and providing feedback on areas for improvement.

2. KiwiSaver membership

Enrolment trends

There continues to be steady growth in KiwiSaver enrolments and new monthly membership, but the rate of growth this year has not been as high as in previous years. A slowing in the rate of growth is to be expected after the initial influx of participation. As the scheme settles, growth in enrolments is expected to be more in line with population growth.

At 30 June 2011, membership had reached 1.76 million, 20% higher than the previous year (see table 1 below). This compares with 1.46 million last year, 33% higher than 2009. On a monthly basis, membership is growing by on average 25,000 individuals (see figure 1 below). This compares with, on average, 30,000 individuals a month last year.

The number of individuals opting-in to KiwiSaver continues to be high, and at a similar monthly rate as the previous year. Almost two thirds (63%) of current KiwiSaver members have opted-in compared with more than one third who have been automatically enrolled. Enrolments directly through a scheme provider have grown over the year (by approximately 171,000 members or 24%). Enrolments through employers have grown relatively little (by approximately 20,000 members or 10%).

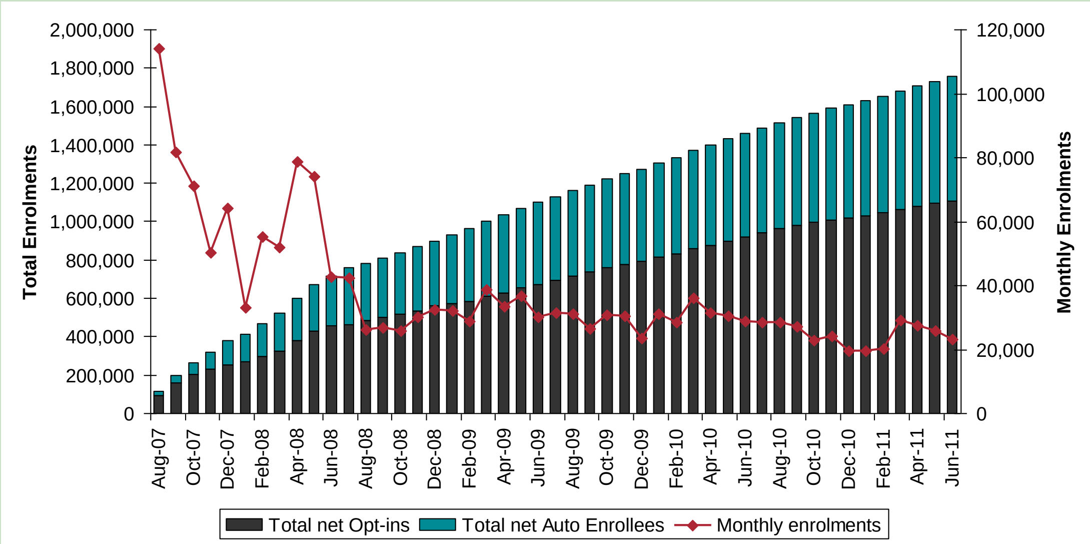
Currently, opt-out numbers are at a given date. As at 30 June 2011, 249,549 individuals were opted-out. A further 25,559 individuals had had their accounts closed.

Table 1: Total enrolments (cumulative status as at 30 June)

Enrolment status	**2008**	**2009**	**2010**	**2011**
Opt-in via provider	273,948	477,971	706,290	877,076
Opt-in via employer	169,410	195,940	211,883	232,131
Auto-enrolled	273,279	426,629	541,769	646,725
Total net enrolments	**716,637**	**1,100,540**	**1,459,942**	**1,755,932**
Change on previous year %	**n/a**	**54%**	**33%**	**20%**
Opt-out	137,762	221,045	245,898	249,549
Closed	1,044	8,240	13,656	25,559
Total gross enrolments	**855,443**	**1,329,825**	**1,719,496**	**2,031,040**
Change on previous year %	**n/a**	**55%**	**29%**	**18%**

Base: All enrolments (gross) 1 July 2007 to 30 June 2011. Source: Inland Revenue administrative data.

Figure 1: Total and month enrolments

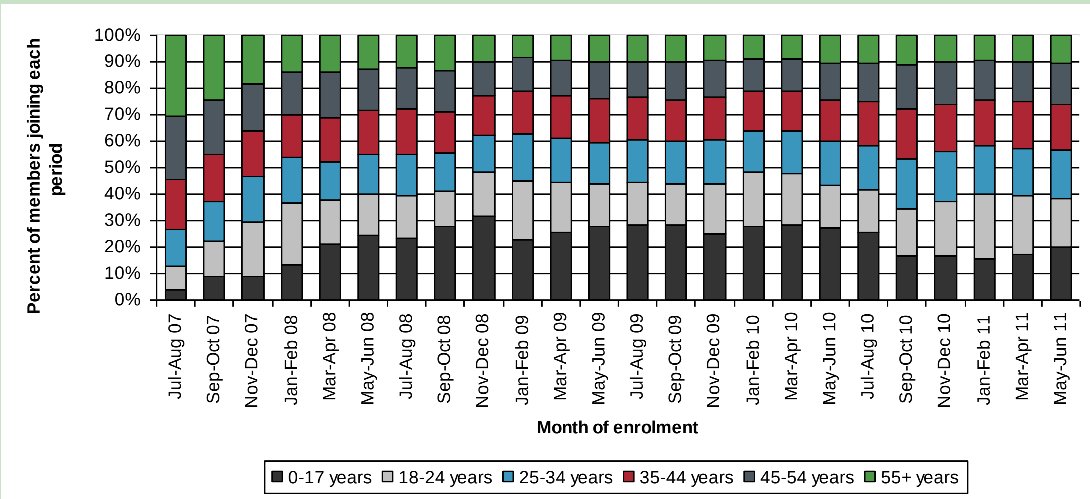


Base: All enrolments (net) 1 July 2007 to 30 June 2011. Note: enrolments for July and August 2007 are combined.
Source: Inland Revenue administrative data.

Member and household characteristics

The gender distribution of KiwiSaver members has remained constant over the years with approximately 52% female and 48% male. Since 2009, the proportion of individuals from 25 to 44 years of age has remained relatively constant (see figure 2 below).

Figure 2: Member age at join date

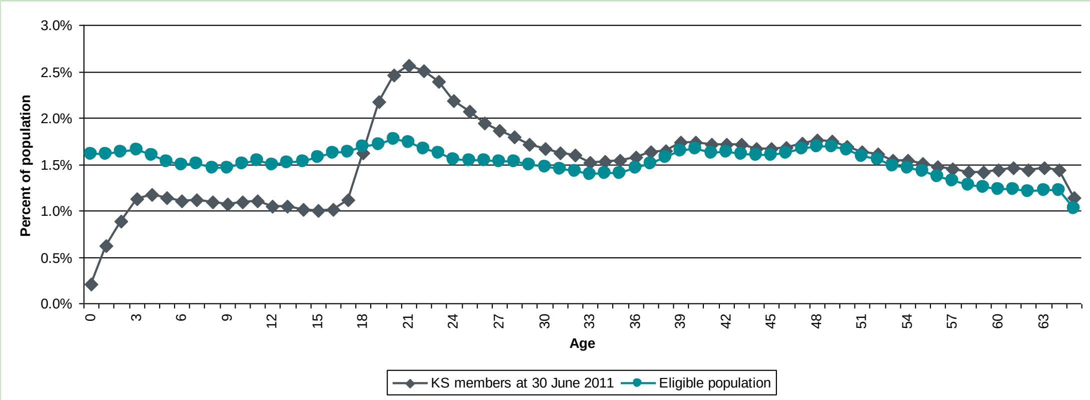


Base: All members at 30 June 2011.
Source: Inland Revenue administrative data.

Although membership continues to grow steadily, there are still 56% of the eligible KiwiSaver population who have not enrolled in the scheme. When compared to the eligible population, the age distribution of

KiwiSaver member's exhibit two peaks; the first and most significant from 18 years to the mid-20s and the second around the late 50s and early 60s (see figure 3 below). The figures for those in their 20s reflects the automatic enrolment of those entering the job market and those for the late 50s and early 60s reflect the high uptake in the early months of year one of KiwiSaver among this group.

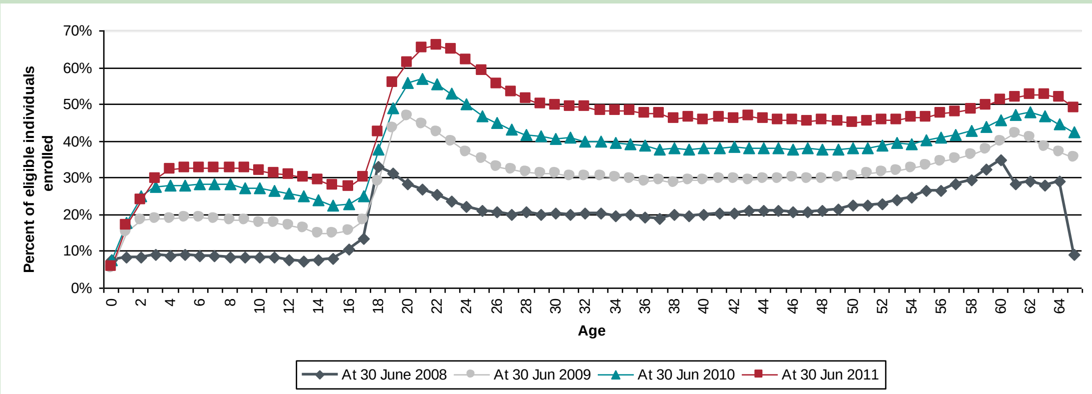
Figure 3: Age distribution of KiwiSaver members and KiwiSaver eligible population



Base: All members at 30 June 2011. Eligible population are 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.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2011.

There is continued growth in KiwiSaver enrolments across all age groups. Approximately 28% of eligible children (17 years of age and under), and nearly 60% of eligible people aged 18 to 24, have enrolled (see figure 4 below). For those in the middle age groups (mid 20s to mid 50s) approximately half of eligible individuals have enrolled in KiwiSaver.

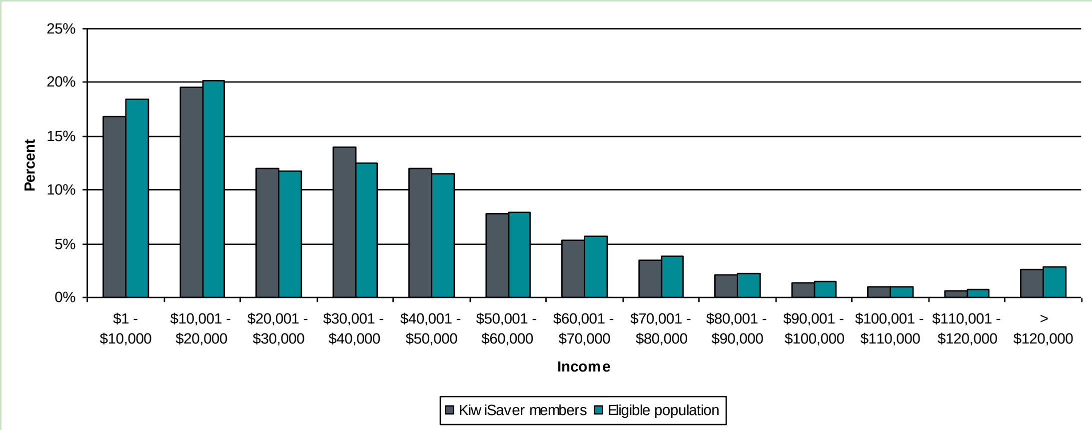
Figure 4: KiwiSaver reach into eligible population



Base: All members at 30 June 2011. Eligible population are 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.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2011.

The income distributions of KiwiSaver members and the eligible population continue to be similar. There are slightly lower proportions of KiwiSaver members in low income levels (up to $20,000) than in the eligible population, but slightly higher in income levels between $20,000 to $50,000 (see figure 5).

Figure 5: Income distribution for KiwiSaver members and KiwiSaver eligible population



Base: All members at 30 June 2011 with income for the 2010 tax year. Eligible population are 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 2010 tax year. Income relates to the 2010 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 2010 are excluded.
Source: Inland Revenue administrative data.

Over half of KiwiSaver members (54%) earned solely salary and/or wage income in 2010 (see table 2 below). Approximately 22% of members received benefit payments as all or a part of their salary and/or wage income in 2010.

Almost one quarter (23%) had no income source for the 2010 year and the remainder earned salary and/or wage plus other income, and other income only. Children (17 years of age and under) represented a significant number of members that had no income source (73%).

Table 2: Member income sources

Income source	Members	Percent
Salary and/or wage income only	945,917	54%
Salary and/or wage plus other income	324,361	19%
Other income only	76,306	4%
No income source	409,348	23%
Total	**1,755,932**	**100%**

Base: All members at 30 June 2011. Source of income relates to the 2010 tax year. Salary and wage income includes benefit payments and other income refers to income sources on IR3 returns (including income from 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.

Motivations and barriers to membership

Most people are joining KiwiSaver because they recognise that it is a good way to save for their retirement. The financial incentives continue to play an important part in the reason many people join. However, circumstances surrounding employment, education, ethnicity and whether people have been planning for retirement may be factors in decisions not to join KiwiSaver.

An initial evaluation of the impact of KiwiSaver on retirement saving undertaken this year[2] found:

- Older individuals and those who expect New Zealand Superannuation to be their main source of retirement income are more likely to be KiwiSaver members;

[2] Grant M. Scobie, David Law and Lisa Meehan (2011) *KiwiSaver: An Initial Evaluation of the Impact on Retirement Saving*, Paper prepared for the 52nd NZAE Conference, Wellington, 29 June – 1 July 2011.

- Being a KiwiSaver member is associated with an increase in the likelihood of having done some financial planning for retirement, while those in poorer health or expecting New Zealand Superannuation to be their main income are less likely to have undertaken retirement planning;
- Those expecting New Zealand Superannuation to be a major source of income were more likely to have opted-in, while other individuals and those with higher incomes were more likely to have opted out; and
- KiwiSaver appears to reach about one third of the target population, suggested in the KiwiSaver Act 2006 as those who would not otherwise have saved enough to maintain their standard of living in retirement (see table 13 in section 5).

A survey undertaken on behalf of the Financial Services Institute of Australasia this year[3] found just over half of New Zealanders between 18 to 65 years of age were KiwiSaver members, and more than half of these people had not been saving for retirement prior to enrolling. The survey found that more than half the KiwiSaver member participants joined because they recognised the importance of saving for retirement. Government incentives were also important elements for KiwiSaver members, with over 90% describing the $1,000 kick start as very important or important, and a slightly lower proportion saying the same about the member tax credit.

Along with not being able to afford to join, the survey also found a key reason that people had not joined KiwiSaver was because they had other sufficient savings and investments for retirement. Another reason that ranked highly for people not joining KiwiSaver was concern about the uncertainty of the structure of the scheme due to a belief that changes were likely in the future. There were some differences in KiwiSaver membership based on:

- Employment, with those employed 20 or more hours per week more likely to be members and self-employed people less likely to be KiwiSaver members;
- Education, with those with bachelor and higher degrees more likely to be KiwiSaver members than those with other, or no qualifications; and
- Ethnicity, with a higher than average but small proportion of KiwiSaver members among those surveyed who identify at least in part as Pacific Islanders and a lower than average proportion of members among those who identify in part as Maori.

[3] Financial Services Institute of Australasia (August, 2011) *KiwiSaver and Retirement Savings: A report prepared for FINSIA and the IFA by Dr Claire Matthews*, *School of Economics and Finance, Massey University*. The findings are based on analysis of a nationally representative sample survey conducted by UMR Research of 1001 respondents aged 18 to 65 years.

3. KiwiSaver features and incentives

Automatic enrolment and opting-out

When people start a new job, if they are eligible and are not already a member, their employer is required to automatically enrol them in KiwiSaver. The new employee can then choose to opt-out within an eight week period.

As outlined in section two, more than one-third of current KiwiSaver members have been automatically enrolled. This is similar to the proportion of members that were automatically enrolled at 30 June 2010.

Also as outlined in section two, 249,549 individuals had opted-out as at 30 June 2011. The percentage of members as at 30 June who had been enrolled automatically and chose to opt-out within the eight week period has declined over the past three years from 34% for 2009 to 28% for 2011.

Choosing a provider and fund

Members can choose their own KiwiSaver scheme, be nominated for one by their employer or as a default, by Inland Revenue. At 30 June 2011, 64% of KiwiSaver members have chosen their scheme and 36% have been default allocated by Inland Revenue or allocated to an employer-nominated scheme (see table 3 below). There has been a steady increasing trend in KiwiSaver members choosing their scheme in recent years, although the increase from last year was slight (64% up from 61%).

Table 3: Current members' scheme entry method (years ended 30 June)

Scheme entry method	2008		2009		2010		2011	
	Members	Percent	Members	Percent	Members*	Percent	Members	Percent
Default allocated	268,868	38%	369,577	34%	419,250	29%	458,013	26%
Employer nominated	94,895	13%	129,963	12%	150,157	10%	165,500	10%
Active choice	352,483	49%	600,709	55%	890,356	61%	1,132,193	64%
Unspecified at year end	391	1%	291	1%	179	<1%	226	<1%
Total	**716,637**	**100%**	**1,100,540**	**100%**	**1,459,942**	**100%**	**1,755,932**	**100%**

Base: All members at 30 June 2008, 2009, 2010 and 2011. Totals may not add to 100% due to rounding. Figures for 2010 have been revised as more information become available.
Source: Inland Revenue administrative data.

Members who have been automatically enrolled can transfer schemes within the funds holding period when they initially join KiwiSaver and members can elect to change schemes at any point during their membership. The total volume of scheme transfers for the year to 30 June 2011 increased by 67% from last year. However, this was largely due to the merger of two large providers. When the figures are adjusted for this merger (see table 4 below) the number of transfers is similar to that for 2010. Transfers within the holding period have stabilised at around 120,000 per year, following two years of decline.

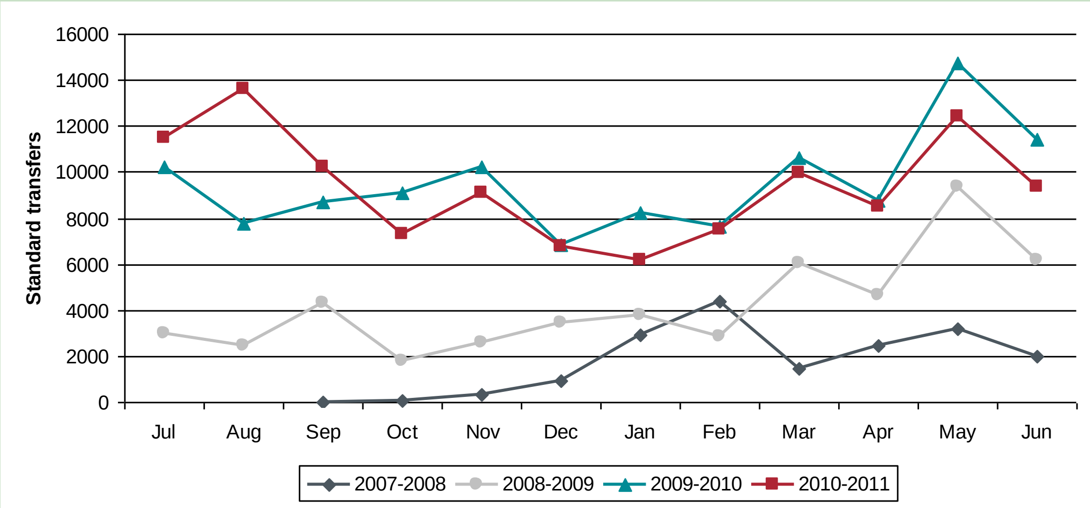
Table 4: Scheme transfers

Transfer type	2008	2009	2010	2011
Standard	17,757	50,457	113,555	112,234
Holding period	53,355	12,262	9,753	9,533
Total transfers	**71,112**	**62,719**	**123,308**	**121,767**

Base: All scheme transfers for the period 1 July 2007 to 30 June 2011. Transfers due to mergers of scheme providers have been excluded
Source: Inland Revenue administrative data.

In the latest three years, transfers peak in May each year (see figure 6 below). The Financial Services Institute of Australasia survey noted that most KiwiSaver members choose to have their KiwiSaver account with their bank. Many also remained with the default scheme allocated to them by Inland Revenue. The survey also noted that for more than half of those who had switched provider, the reason for doing so related to a preference for having the KiwiSaver account at the member's bank. Other reasons given for changing KiwiSaver provider was to get higher returns (14%) followed by making a change because the member's financial adviser recommended it (12%).

Figure 6: Monthly scheme transfers



Base: All scheme transfers for the period 1 July 2007 to 30 June 2011. Transfers due to mergers of scheme providers have been excluded.
Source: Inland Revenue administrative data.

Choosing a contribution rate

Members contributing to KiwiSaver through deductions from their salary or wages can choose to contribute 2%, 4% or 8% of their gross salary or wage. Over half of KiwiSaver members (53%) are currently contributing 2% of their salary or wages to their accounts. Just over 40% of members are contributing 4% and 4% are contributing 8% (see table 5 below). This is an increase in the proportion of members contributing 2% (41%) and a decrease in the proportion of members contributing 4% (55%) from last year. The default contribution rate of 2% for new members which has been in place now for over two years (since 1 April 2009) appears to be influencing members' behaviour.

Table 5: Current member contribution rates

Contribution rate	Proportion of members 2010	Proportion of members 2011
2%	41%	53%
4%	55%	43%
8%	4%	4%
Other %	<1%	<1%
Total	100%	100%

Base: All members at 30 June 2011 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. In order to calculate a member's contribution rate at year end, individuals must have made two or more consistent contributions over the April to June period. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

The majority of members who joined KiwiSaver before 1 April 2009 (62%) are currently contributing at 4% of their gross income which was the default rate when they joined. The majority of members who joined KiwiSaver after April 2009 (80%) are contributing 2% (see table 6 below).

Table 6: Current member contribution rates by join date

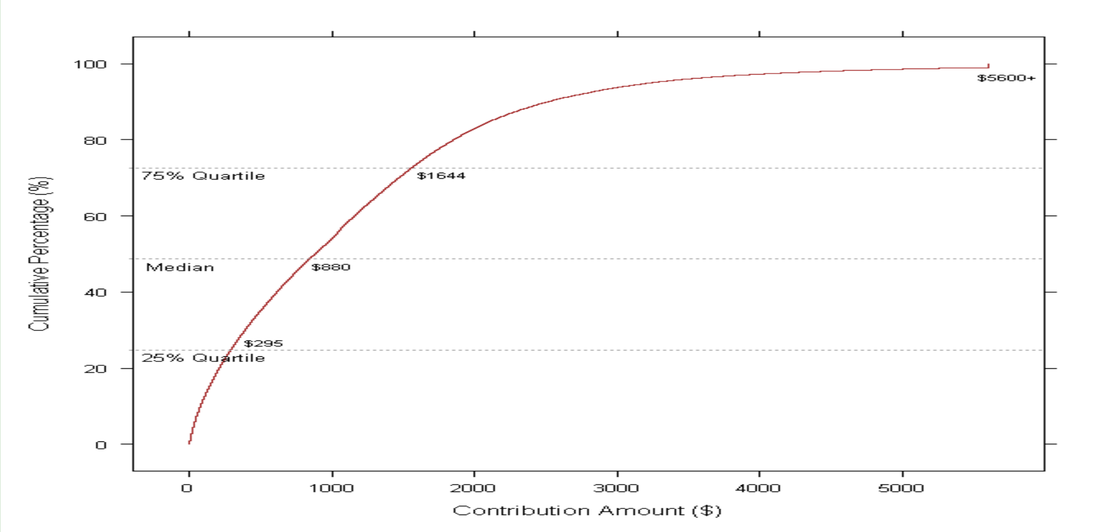
Contribution rate	Members joining before 1 April 2009	Members joining after 1 April 2009
2%	33%	80%
4%	62%	18%
8%	5%	2%
Other %	<1%	<1%
Total	**100%**	**100%**

Base: All members at 30 June 2011 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. In order to calculate a member's contribution rate at year end, individuals must have made two or more consistent contributions over the April to June period. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

The distribution of the value of contributions varies when the source of member's incomes is considered as shown in figures 7 to 9 below.

Currently, over half of members earn solely salary or wage income. The median annual contribution value made by these members contributing from all sources was $880. There is no obvious prevalent value, resulting in a smooth cumulative distribution as set out in figure 7 below.

Figure 7: Annual contribution for salary and wage earners (excluding beneficiaries)

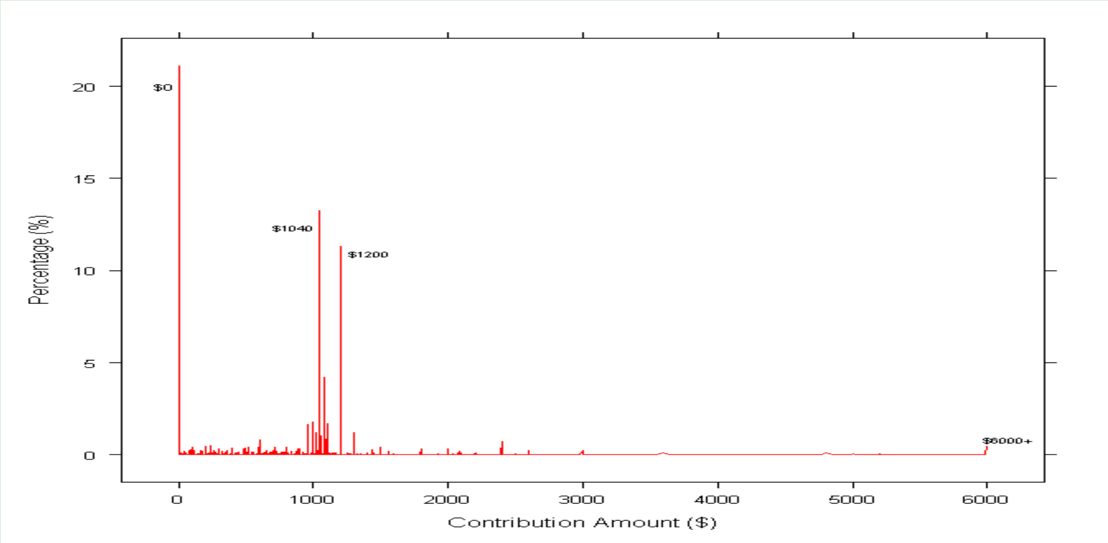


Base: Contributing members with a MTC claim submitting for the 2009/10 year with salary and wage income only for the 2010 tax year. Contributions include employee deductions through the EMS, voluntary contributions directly to providers and ad-hoc contributions to Inland Revenue not through the EMS process. These do not include employer contributions. Note: Only members aged 18 or over are eligible to make MTC claims.
Source: Inland Revenue administrative data.

The majority of members not earning a salary or wage who choose to opt in to KiwiSaver through scheme providers are not required to make contributions via salary or wage deductions. However, they can choose to make voluntary contributions directly to their providers.

Currently, 18% of members (of all ages) earn only non-salary or wage income. The median annual contribution value for members over 18 years of age with only non-salary or wage income was $1,040 with the distribution of the value of the contributions shown in figure 8 below. The two peaks at $1,040 and $1,200 suggest that those who do not make contributions through salary or wage deductions are contributing to maximise the value of the member tax credit that they receive. The high proportion of individuals who did not make contribution to their accounts in 2009/2010 year suggests they have opportunities to take a break from contributing, subject to any terms and conditions they have with their chosen provider.

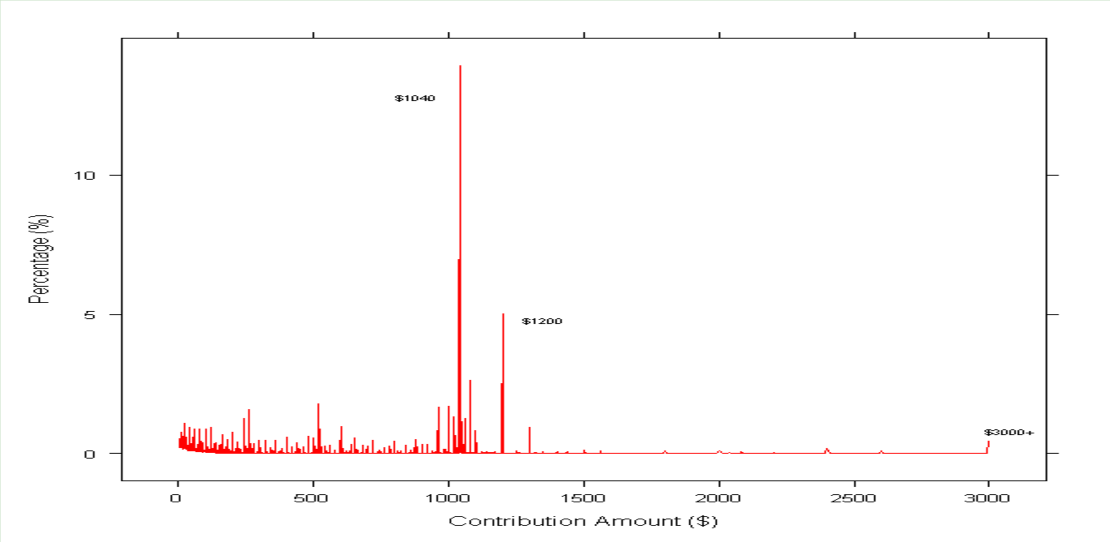
Figure 8: Annual contribution for non-salary and non-wage earners



Base: All members with a MTC claim submitted for the year 2009/2010 year who filed an IR3 without any salary or wage income for the 2010 tax year.
Source: Inland Revenue administrative data.

Currently, 23% of members (of all ages) earn no income and the majority of these members are aged 17 years of age or below. The two peaks at $1,040 and $1,200 in the distribution of contributions made by members over 18 years of age with no income and who had made contributions in 2010 and are set out in figure 9 below. These peaks are similar to those for those members with only non-salary or wage income.

Figure 9: Annual contribution for no income group



Base: Contributing members with a MTC claim submitted for the 2009/10 year with no income earned for the 2010 year.
Source: Inland Revenue administrative data.

Member tax credits

An annual Member Tax Credit (MTC) is paid to members 18 years or older until they are eligible to withdraw their savings. The maximum annual MTC payment was $1,042.86 for periods up to and including 30 June 2011, and will be reducing to $521.43 from 1 July 2011 onwards. In order to receive a maximum payment, a member must have been a member for a full 12-month period (July – June) and contributed at least $1,042.86 to their account. Employer contributions and government contributions, such as the kick-start, do not count towards eligibility for this credit. Any contributions made by members aged 17 or below are also not eligible for MTC payments.

Table 7: Member tax credit paid

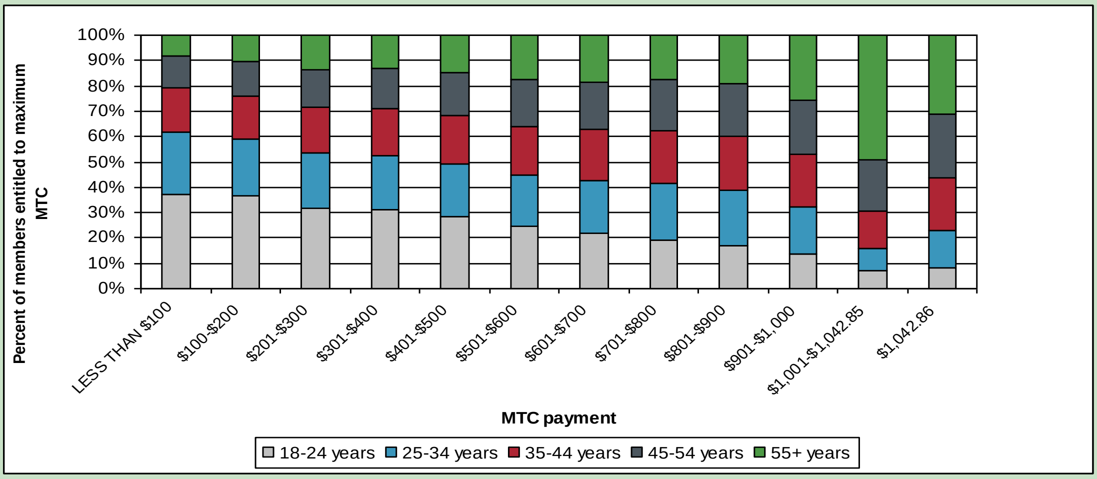
Member Tax Credit payment	2008		2009		2010	
	Members	Percent	Members	Percent	Members	Percent
Maximum payment*	83,146	14%	359,753	46%	420,525	45%
Less than maximum payment*	505,691	86%	414,270	54%	511,529	55%
Total	588,837	100%	774,023	100%	932,054	100%

Base: All individuals with non-zero MTC payments for contributions made in the 2009/2010 year, including MTC payments to Complying Funds
The maximum annual MTC members are entitled to was $1,042.86 for 2008/2009 year and 2009/2010 year, while the maximum MTC for 2007/2008 year was $1,045.72 due to a leap year.
Source: Inland Revenue administrative data.

In the current year, $668 million in MTC payments were made to 932,054 members for contributions made in the 2009/10 year (including payments made to complying superannuation funds). For those members who received a MTC payment, 420,525 (or 45%) received the maximum MTC payment and 511,529 (or 55%) received less than a maximum payment (see table 7 below). The relatively low number of members who received a maximum payment in the 2007/08 year is a function of the length of their membership, not the value of their contributions.

For those eligible for the maximum MTC payment for 2009/10 year, figure 10 below illustrates the MTC payments distribution by age of members. For those members between mid-50s to 65 years of age the MTC payment distribution is more skewed toward the mid to higher levels, while the middle age group shows a stable pattern across the MTC payment levels. The results for those under 25 years of age reflect their lower income earning and hence lower contributions resulting in lower MTC values.

Figure 10: Member tax credit by age



Base: All members at 30 June 2011 who have submitted a MTC claim and are eligible for the maximum MTC.
The maximum annual MTC members are entitled to is $1042.86 per annum up to and include 30 June 2011
Source: Inland Revenue administrative data.

Contribution holidays

Members who have been making KiwiSaver contributions for 12 months or more can take a contributions holiday of between 3 months and 5 years. Early contributions holidays within the first 12 months of becoming a member are considered for members experiencing, or likely to experience, financial hardship.

Currently, contribution holiday numbers are at a given date. As at 30 June 2011, there were 63,707 members on a contribution holiday, including less than 1% on financial hardship holidays (see table 8 below).

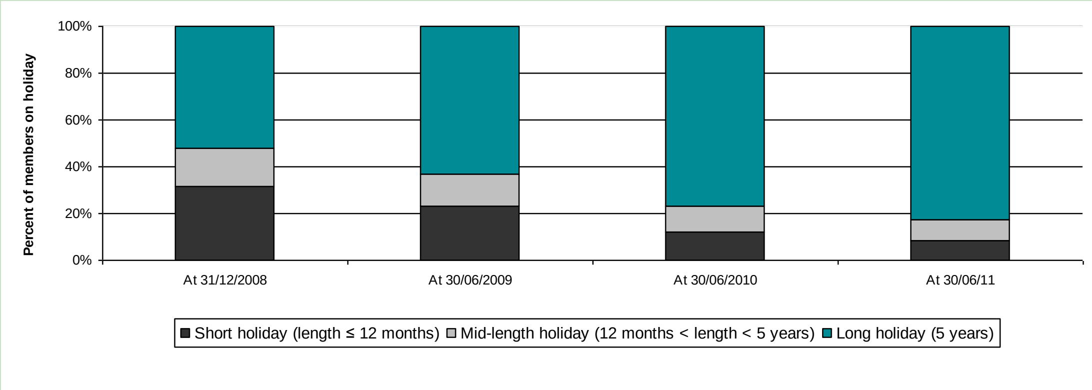
Table 8: Members on contribution holidays (years ended 30 June)

Holiday type	2008	2009	2010	2011
Ordinary holidays	-	25,122	45,069	63,324
Financial hardship holidays	3,280	813	494	383
Total active holidays	**3,280**	**25,935**	**45,563**	**63,707**

Base: All members at 30 June 2008, 2009, 2010 and 2011 who on contribution holidays as at 30 June.
Source: inland Revenue administrative data.

For those members who are on a contribution holiday at 30 June, the proportion of members who are on long contribution holidays (5 years) continues to increase and conversely the proportion who have taken short holidays (up to 12 months) has continued to decline in recent years (see figure 11 below).

Figure 11: Active contribution holiday duration



Base: All members at 30 June 2008, 2009, 2010 and 2011 on ordinary contribution holidays. Source: Inland Revenue administrative data.

Purchasing a home

The home ownership features of KiwiSaver – first home withdrawal and the first home deposit subsidy – became operational in July 2010. The home ownership features of KiwiSaver acknowledge the importance of home ownership in providing an adequate standard of living, particularly for those aged 65 and above.

The objective of the home ownership features is to assist members to enter home ownership by helping them overcome the barrier of not having sufficient funds for a deposit. After three years of membership, individuals may withdraw their KiwiSaver savings (excluding Government contributions) to put toward buying a first home, or a second home if the members' circumstances are the same as a first home buyer. They may also be eligible after three years of contributing to KiwSaver for a one-off subsidy payment toward buying a home of $1,000 for each year of contribution up to a maximum $5,000. A member who is a previous home owner may be eligible for either feature if their financial circumstances are the same as a first home buyer.

From 1 July 2010 to 31 March 2011, there have been 1,274 withdrawals from all providers at a total vale of $12.3 million. The average value of a withdrawal was $9,640. There were also 619 subsidies of $3,000 each.

To establish the take-up of the withdrawal an initial evaluation of some KiwiSaver providers was undertaken by Housing New Zealand this year[4]. All five default KiwiSaver providers, and eight of the 25 other providers responded to the evaluation.

The initial evaluation found that the number of KiwiSaver members receiving a first home withdrawal and/or being approved a subsidy was higher than forecast. The evaluation also found:

- Of the respondents to the evaluation, nearly 80% of KiwiSaver members who received a withdrawal were with default providers;

[4] Patricia Laing, Heather Nunns and Chris Ou: Housing New Zealand Corporation (June, 2011) *KiwiSaver Home Ownership package – Process Evaluation (Year One)*.

- 76% of applications for the subsidy were approved (the remaining applications were either declined or had lapsed); and
- Most of the approved subsidy applicants were young and buying a house was a new experience.

Many individuals experienced problems coordinating subsidy and withdrawal applications with Housing New Zealand, Inland Revenue, providers, banks, lawyers and real estate agents for a range of reasons, including:

- Information about the subsidy and withdrawal being located in different places;
- Confusion about the inclusion of ‘deposit’ in the name of first home deposit subsidy when it cannot be used until settlement;
- Eligibility criteria for the subsidy and withdrawal were different;
- Application processes and timeframes for the subsidy and withdrawal were different;
- Couples had to manage the differing requirements of different KiwiSaver providers;
- Lawyers lacked knowledge of the package; and
- To access the withdrawal a KiwiSaver member has to provide an unconditional sale and purchase agreement but this was difficult without knowing the availability of the subsidy or the amount of the withdrawal.

The findings and recommendations of the initial evaluation are being considered by officials and were shared with industry representatives who discussed ways to address the initial problems individuals experienced and review processes to improve their customer’s experience. Further work is planned over the next few years to assess the overall impact and effectiveness of the KiwiSaver home ownership features.

4. The cost of KiwiSaver

Employer contributions

As KiwiSaver is a primarily work-based savings scheme, employers play a significant role in its delivery. They are responsible for automatically enrolling new staff, facilitating opt-outs and making deductions from members' salary or wages. Employers also make contributions equivalent to 2% of each member's salary or wages.

Over the year to 30 June 2011, Inland Revenue passed $740 million in employer contributions to KiwiSaver providers for investment in their employees' accounts. Over the four years to date, employers have contributed $1.79 billion to KiwiSaver accounts. Most employers contribute the minimum 2% of the salary or wages of their employees (see table 10 below). Two percent are contributing 4% and 7% either do not contribute (as they may contribute to another workplace superannuation scheme) or contribute at another rate.

Table 10: Employer contribution rates

Contribution rate	Percent
2%	91%
4%	2%
8%	<1%
Other %	7%
Total	100%

Base: All members at 30 June 2011 with employer contributions through an EMS. Contribution rate is calculated using the period April to June. Those on contribution holidays are excluded. In order to calculate an employer's contribution rate that an employee received at year end, employers must have made two or more consistent contributions over the April to June period into their employees' account. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Crown contributions

Costs to the Crown of KiwiSaver come from the $1,000 kick start to new members joining and the annual member tax credit. In the year to 30 June 2011, KiwiSaver cost the Crown $998 million in contribution payments to members of KiwiSaver schemes and complying funds. Overall, in the four years to date, payments to members and employers have cost the Crown $3.6 billion (see table 11 below).

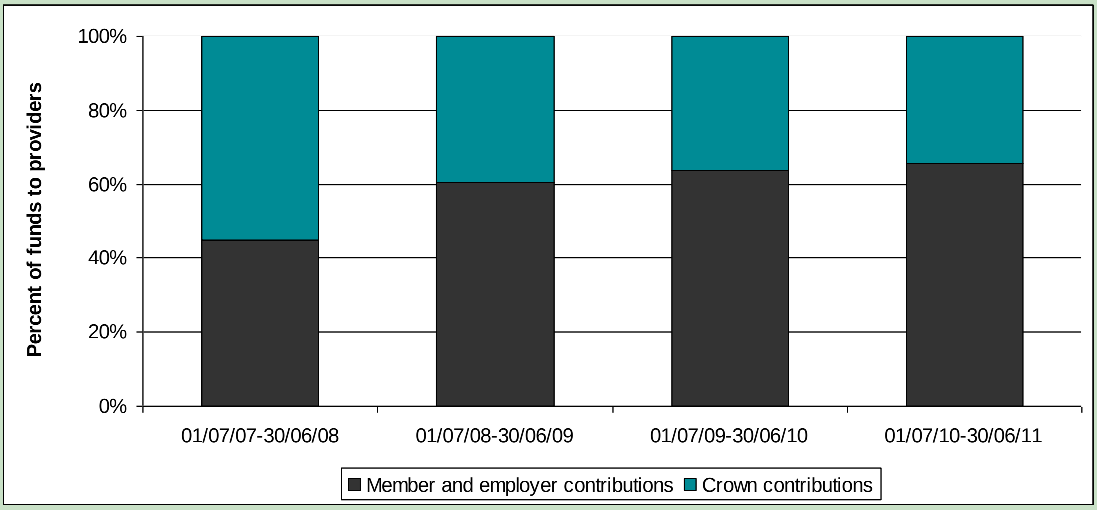
Table 11: Crown costs (years ended 30 June) ($m)

Cost	2008	2009	2010	2011	Total
Payments to members	572	842	970	998	3,382
Employer tax credit	38	206	n/a	n/a	244
Total	**610**	**1,048**	**970**	**998**	**3,626**

Base: All Crown contributions to members passed from Inland Revenue to providers for the period October 2007 to June 2011 (cash basis). All ETC payments for the years ended 30 June 2008 and 2009 (cash basis).
Source: Inland Revenue administrative data.

As a proportion of the total value of funds passed to providers for investment in members accounts, the contribution from the Crown is declining over time (see figure 12 below). The Crown has contributed 39% of the value of funds saved over the first four years. This proportion is expected to decline further as a result of the changes made in Budget 2011 to reduce Crown costs and encourage higher contribution rates from members.

Figure 12: Crown contribution as proportion of total funds passed to providers



Base: Crown contributions passed from Inland Revenue to providers for October 2007 to June 2011 (cash basis).
Source: Inland Revenue administrative data.

5. Impact on retirement saving

Superannuation and managed funds market

KiwiSaver continues to see significant inflows of members and significant investment has flowed into individuals' accounts. As at 31 March 2011, KiwiSaver providers hold $9.2 billion in KiwiSaver schemes consisting of member contributions, employer contributions, Crown payments mainly of member tax credits and the kick start payment (see table 12 below). As at 30 June 2011, there were three providers with assets of over $1 billion, representing 57% of all KiwiSaver assets.

Table 12: KiwiSaver scheme numbers and size ($m), March years

Scheme size	Number of schemes				Total assets $m			
	2008	2009	2010	2011	2008	2009	2010	2011
< $1m	17	14	10	10	5	9	2	2
$1m to < $2.5m	5	6	8	5*	9	8	14	8*
$2.5m to < $10m	9	10	5	5	45	51	27	20
$10m to < $25m	6	6	6	7	89	87	101	122
$25m to < $50m	3	6	4	4	130	210	132	140
$50m to < $100m	5	3	5	2	322	221	399	110
$100m to <$200+	1	4	3	7	101	659	364	1,049
$200m and over	0	5	11	12	0	1,415	4,812	7,736
Total	**46**	**54**	**52**	**52**	**701**	**2,660**	**5,851**	**9,187**

Base: Scheme size summary for all KiwiSaver schemes that provided statistical returns as required under section 125 of the KiwiSaver Act 2006 as at 31 March each year.
Source: Financial Markets Authority.

Over the four years of the KiwiSaver scheme, assets have increased substantially each year, more than doubling on each previous year until 2010. This reflects both the increasing number of members and the accumulation of their contributions. However, between 2010 and 2011 the growth in the value of assets slowed reflecting the downturn in the global economy over the past three years.

As previous research has highlighted[5], KiwiSaver remains a small but growing part of the overall managed funds market, with a value of $9.4 billion at 30 June 2011; an estimated 14% of the market (see figure 13 below).

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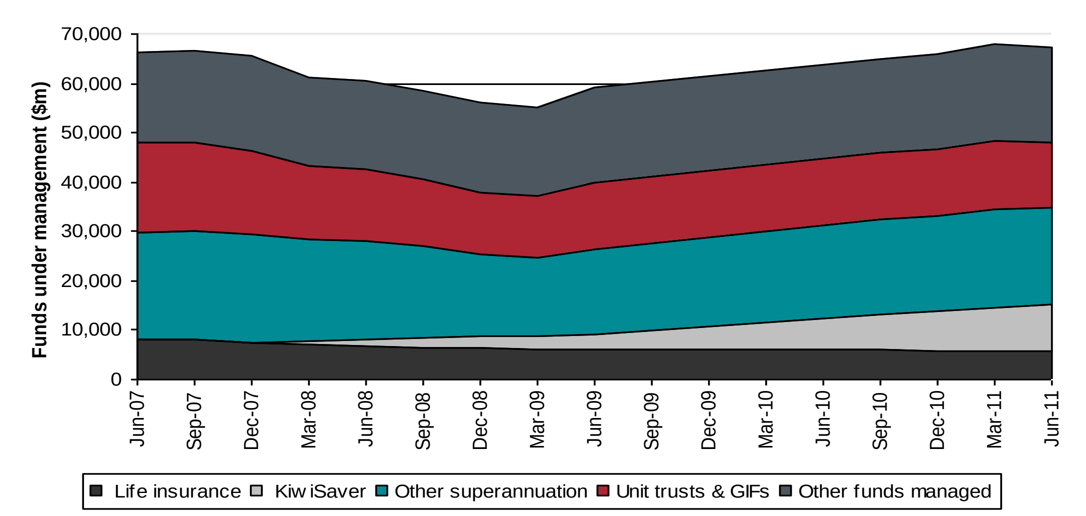
[5] Ministry of Economic Development (July, 2010) *Report on KiwiSaver Supply Side Evaluation;* and Price Waterhouse Coopers (November, 2008) *KiwiSaver – Evaluation of Supply Side Impacts*. A report commissioned by the Ministry of Economic Development.

Figure 13: Managed funds assets by product category



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

An initial evaluation of the impact of KiwiSaver on retirement saving

The KiwiSaver evaluation has moved into the phase of assessing the impacts of the scheme. One of the first pieces of work to assess the impact that KiwiSaver has had so far on savings behaviour was the face-to-face interviews conducted with 825 people 18 to 64 years of age in the period January to March 2010[6]. Preliminary findings from this IR commissioned survey, conducted for Inland Revenue, were reported in last year's annual report. The next phase is an initial evaluation of the impact of KiwiSaver on retirement saving undertaken this year, using the 2010 survey data.[7]

The following parts of this section outline and summarise some of the key findings from the initial evaluation of the impact of KiwiSaver on retirement saving. The findings outlined in this section relate to:

- Additionality of KiwiSaver contributions, or who has greater or lesser additional savings through KiwiSaver;
- Retirement income adequacy and the factors associated with any shortfall or excess in expected retirement income;
- Effectiveness of KiwiSaver in reaching the target population; and
- Impact on national savings.

Benefits and limitations of the initial evaluation

The initial evaluation of KiwiSaver on retirement saving is one of the most substantive pieces of analysis of its kind since the scheme began. The analysis benefited from the 2010 survey on which it was based being undertaken when the scheme had been in place for less than three years because survey respondents had good recall of the reasons for their membership or non-membership and how they would have used their contributions for other forms of saving or debt reduction. On the other hand, it cannot be inferred that the results to 2010 reflect the outcomes of the scheme once it has matured.

[6] Colmar Brunton (2010) *KiwiSaver Evaluation: Survey of Individuals*. Wellington:Colmar Brunton. http://www.ird.govt.nz/aboutir/reports/research/report-ks/research-ks-evaluation-report.html

[7] Grant M. Scobie, David Law and Lisa Meehan (2011) *KiwiSaver: An Initial Evaluation of the Impact on Retirement Saving*, Paper prepared for the 52nd NZAE Conference, Wellington, 29 June – 1 July 2011.

The analysis also had its limitations because of the survey. Although allowing for statistically valid population estimates, the 2010 survey provides a single ‘snap shot’ of respondents circumstances and expectations about the future at a particular point in time and therefore does not provide a comprehensive basis for assessing changes in individual or household saving behaviour over time. It also reflects the conditions and settings of the scheme at that time. Some questions from the 2010 survey required respondents to form expectations about the future, for example, those relating to levels of income and expenditure in retirement which was difficult for some to answer. Also, respondents under 25 years of age and those who had not undertaken any financial planning were not given the opportunity to provide their expectations of income and expenditure in retirement due to survey routing. Because this has the potential for sample selection bias to affect results, the analysis applied appropriate statistical techniques to address this issue.

Additionality of KiwiSaver contributions

The analysis examined the alternative use of funds going into the scheme. It found that while the scheme was encouraging individual savings, many members (particularly those who owned their own home) indicated that they would have used a substantial portion of their KiwiSaver contributions for other forms of saving or to reduce their debt.

The analysis examined whether KiwiSaver membership was associated with additional savings, as distinct from members diverting funds from other savings or debt reduction. It found that members reported that on average they would have applied 64% of the money they were contributing to KiwiSaver to other forms of saving and/or debt reduction, while 36% is, on average, money that would have otherwise been consumed, mainly for daily activities and outgoings. On average, those who owned their own home would have saved about 70% of their contributions to KiwiSaver in the absence of the scheme. This compares with about 55% for non-home owners. This difference was not due solely to paying mortgages and other debt reduction. In the absence of KiwiSaver, homeowners indicated that they would have saved more than non-homeowners in a variety of ways.

Retirement income adequacy

The analysis also examined retirement income adequacy to gain an understanding of factors associated with the shortfall between the income that respondents expected to have in retirement and that which they felt they would need to cover their basic needs or to live comfortably in retirement.

Results indicated that 78% of respondents had an expected excess retirement income with respect to meeting needs and 50% had an excess with respect to being comfortable in retirement. Conversely, the results indicated that 22% had a shortfall in expected retirement income based on needs. In contrast, 50% reported an expected shortfall with respect to being comfortable. These results were broadly similar for both KiwiSaver members and non-members.

Respondents were not asked in the 2010 survey if KiwiSaver had improved retirement income expectations, for example, from a shortfall to an excess. However, by comparing the outcomes of KiwiSaver members and non-members using regression analysis which controlled for an extensive set of variables likely to affect retirement income expectations, it was possible to test whether KiwiSaver membership was associated with changes in retirement income expectations. Factors that decreased retirement shortfalls included higher levels of income and having an employment status of less than full time work. Factors that increased retirement shortfalls included having very good or fair health relative to excellent health and owning a home. There was no evidence that KiwiSaver membership was associated (either positively or negatively) with the expected shortfalls.

Effectiveness in reaching the target population

As outlined in section one, the objective of KiwiSaver 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*. This suggests there may be a 'target population' for which the scheme is intended to help. The analysis explored the effectiveness of the scheme in reaching this population.

As living standards are difficult to measure, for the purposes of the analysis the target population was defined by two conditions which could be measured. The first being that an individual expected to have income in retirement that was less than what they required to meet their basic needs or to live comfortably, respectively. The second condition was that if the individual were to join KiwiSaver their savings would increase significantly, specifically that at least 30% of their contributions to KiwiSaver would be additional saving. Measures of target effectiveness and leakage for the scheme were then constructed and projected for the entire target population. For the analysis, 'leakage' refers those members benefiting from KiwiSaver membership that were not members of the target population.

The analysis found that target effectiveness was a third for those who had an expected shortfall in retirement income relative to their basic needs or a half if living comfortably (see table 13 below). Leakage was estimated as being as high as 93% when the measure was based on retirement income shortfalls with respect to meeting basic needs, and 78% based on being comfortable.

The analysis estimated 33% of the target population based on need became members and 46% based on being comfortable became members. For each of those members who were in the target population a further four to 14 people joined from outside the target population. This implied that the ongoing cost of the scheme for each target member could be around $4,000 per year (if the standard is living comfortably) or around $13,000 per year (if the standard is meeting needs). These estimates of the cost per target member will decrease due to the reduction in member tax credit and removal of the employer superannuation contribution tax exemption proposed from 2012 onwards.

Table 13: Target and leakage measures for KiwiSaver adjusted for savings behaviour

	Based on need	Based on being comfortable
Target Effectiveness	33%	46%
Leakage	93%	78%
Ratio of target members to non-target members	1:14	1:4
Cost to Crown of each target member	$13,050	$4,350

Base: People aged 25-64, who have done some financial planning and can estimate desired and expected income in retirement. Estimates are valid for the entire population as appropriate statistical techniques were applied to adjust for any selection bias that might have occurred due to survey routing. Costs based on Treasury and Inland Revenue forecasts of membership and costs for the 2011/12 year. Source: Grant M. Scobie, David Law and Lisa Meehan (2011).

Impact on national savings

The analysis also explored the impact of the scheme on national savings. After weighting for individuals' income (as individuals with higher incomes, all else equal, will contribute more to national savings), the analysis found that around 29% of respondents' contributions to KiwiSaver represent new savings. To arrive at an estimate of the impact of KiwiSaver on national savings two key assumptions were made. First, that this estimate of additionality applies to the other components of KiwiSaver contributions (from employers and the Crown) and second, that each additional dollar of subsidy provided by the Crown to an individual's KiwiSaver account represents a dollar less saving by the Crown.

The analysis estimated, on the conditions and settings of the scheme at that time, that over the ten years to 2021 the net contribution of KiwiSaver to national savings would be marginal at best in the longer term, and may in fact reduce national savings. When sensitivity analysis in the form of allowing for much higher rates of additionality on employer and Crown contributions were conducted, the analysis found modest increases in national saving. In either case, fiscal costs over the period were projected to total nearly $8 billion in net present value terms. As outlined above, this estimate will decrease due to the reduction in member tax credit and removal of the employer superannuation contribution tax exemption proposed from 2012 onwards.

Further work – saving, net worth and retirement income

Given the importance of KiwiSaver as an element of New Zealand's retirement income savings policies, further work is required to evaluate the initial impact of the scheme on individuals' saving and net worth. This work is based on providing a comprehensive basis for assessing changes in individual or household saving behaviour over time from the longitudinal survey, Survey of Family Income and Employment (SoFIE).

SoFIE is a longitudinal survey that was run by Statistics New Zealand from 2002 to 2010. It collected information on individual and family income, as well as the factors that influence changes to income, such as involvement in the labour force, family composition as well as detailed information on assets and liabilities. SoFIE ran for eight years and respondents were revisited yearly to build a picture of how their circumstances changed during this time. In every second year (or wave) of the survey, respondents were asked questions about their assets and liabilities and in the final year (wave 8) this included specific questions about KiwiSaver.

In the coming year, the KiwiSaver evaluation team proposes to link KiwiSaver administrative data from Inland Revenue with SoFIE data in order to gain greater insights into the actual savings behaviour of those who are members of KiwiSaver compared to those who are non-members. The linking is necessary to enable the evaluation to address key questions of KiwiSaver's impact and effectiveness. The objectives of the work are to understand:

- the different characteristics of KiwiSaver members and non-members;
- the differences in savings rates and net worth between members and non-members; and
- their implications for net worth at the point of retirement, along with estimates of the adequacy of expected retirement income.

Also in the coming year, to continue to monitor KiwiSaver usage the evaluation will seek to understand better the types of individuals who have opted-out and taken contribution holidays. The work on modelling retirement income and assessing value for money will be undertaken within the following two years. Other work planned in the coming years includes a follow up by the Department of Building and Housing of the initial survey on the home ownership package to assess the impact and effectiveness of the package against its agreed outcomes. The Ministry of Economic Development also plan to update its work on the KiwiSaver Supply Side evaluation.

The planned work in the coming years will put the KiwiSaver evaluation in a strong position to provide further assessment of the overall impact of the scheme on individual and national savings. However, this assessment will only span the early years of KiwiSaver. Given KiwiSaver represents an important part of New Zealand's retirement income policies, it will be crucial to continue ongoing assessment and evaluation of the performance of the scheme as it matures. This ongoing assessment and evaluation will require access to relevant and reliable sources of information and data, particularly longitudinal data that can track saving behaviour over time. At present, there are no active sources of longitudinal data available. Without this information and data there will be limited ability to assess the ongoing performance of the KiwiSaver in the future.

Conclusions

KiwiSaver membership continues to grow steadily

Although the rate of growth this year has not been as high as the previous year, over the four years since its introduction KiwiSaver membership continues to grow steadily. This year membership reached 1.76 million (about 20% higher than last year) and most members (63%) continue to opt-in to the scheme.

There has been continued growth of KiwiSaver membership within the eligible population. Approximately 28% of eligible children, nearly 60% of eligible people aged 18 to 24, and approximately half of those in the middle age groups (mid 20s to mid 50s) have enrolled in KiwiSaver. As the scheme settles, growth in enrolments is expected to be more in line with population growth.

Most people are continuing to enrol in KiwiSaver because they recognise that it is a good way to save for their retirement. Financial incentives from government and employers continue to be a key reason for people enrolling in KiwiSaver.

Although membership continues to grow steadily, there are still 56% of the eligible population who have not enrolled in the scheme. Along with not being able to afford to join, research this year found a key reason that people had not joined KiwiSaver was because they had other sufficient savings and investments for retirement. Another reason that ranked highly for people not joining KiwiSaver was concern about the uncertainty of the structure of the scheme due to a belief that changes were likely in the future. The research also highlighted some circumstances surrounding higher education, ethnicity and whether people have been planning for retirement as other potential influencing factors in some people's decision to join KiwiSaver.

KiwiSaver members are continuing to use its key features and incentives

KiwiSaver has a range of features and incentives designed to encourage savings and asset accumulation among members. These features and incentives are designed to be flexible to recognise members' circumstances and include: the ability to opt-out, choose between schemes, choose the level of contribution, member tax credits, contribution holidays and use savings to buy a home.

The percentage of members who had been enrolled automatically and chose to opt-out, as at 30 June, has declined over the past three years from 34% for 2009 to 28% for 2011. Although many people have joined the default KiwiSaver scheme chosen for them, most people are choosing their own scheme. This year 64% of KiwiSaver members have chosen their scheme and 36% were default allocated by Inland Revenue or allocated to an employer-nominated scheme. In each of the past two years there were more than 120,000 transfers, around 7% of members. Research this year found that the reason many people switch provider is a preference for having their KiwiSaver account at their bank.

The default contribution rate of 2% for new members has been in place now for over two years and this appears to be influencing the level of members' contributions. Over half of KiwiSaver members are currently contributing 2% of their salary or wages to their accounts. As at 30 June 2011, there were 63,707 members on a contribution holiday, including less than 1% on financial hardship holidays.

KiwiSaver home ownership features are being taken up by some members

The KiwiSaver home ownership features became operational in July 2010. Their objective is to assist members to enter home ownership by helping them overcome the barrier of not having sufficient funds for a deposit. After three years of membership, individuals may withdraw their KiwiSaver savings (excluding Government contributions) to put towards buying a first home, or a second home if the members' circumstances are the same as a first home buyer. After three years of contributing to KiwiSaver a member may also be eligible for a one-off subsidy payment toward buying a home of $1,000 for each year of contribution up to a maximum $5,000. A member who is a previous home owner may be eligible for either feature if their financial circumstances are the same as a first home buyer.

From 1 July 2010 to 31 March 2011, there have been 1,274 withdrawals with an average value of $9,640. There were also 619 subsidies, of $3,000 each. An initial evaluation this year found the number of KiwiSaver members receiving a first home withdrawal and/or being approved a subsidy was higher than forecast.

However, many individuals experienced problems coordinating subsidy and withdrawal applications with providers, Housing New Zealand, Inland Revenue, banks, lawyers and real estate agents for a range of reasons. The problems included getting access to information, differences in eligibility criteria and application processes for the subsidy and withdrawal, managing differing requirements of providers and difficulties in providing an unconditional sale and purchase agreement (a requirement to access a withdrawal) without knowing the availability of the subsidy or withdrawal.

The findings and recommendations of the initial evaluation are being considered by officials and were shared with industry representatives who discussed ways to address the initial problems individuals experienced and review processes to improve their customer's experience. Further work is planned over the next few years to assess the overall impact and effectiveness of the KiwiSaver home ownership features.

The KiwiSaver market is small but growing

KiwiSaver remains a small but growing part of the overall managed funds market. The value of KiwiSaver funds under management at June 2011 is $9.4 billion; an estimated 14% of the managed funds market.

Over the four years of the KiwiSaver scheme assets have increased substantially each year, more than doubling on each previous year until 2010. This reflects both the increasing number of members and the accumulation of their contributions. However, between 2010 and 2011, the growth in the value of assets slowed to 57%, reflecting the downturn in the global economy over the past three years.

Although successful in encouraging additional saving by some individuals, the effect of KiwiSaver on retirement income and national saving is uncertain at this early stage

Recent analysis of the initial impact of KiwiSaver on retirement saving examined the alternative use of funds going into KiwiSaver, the adequacy of income in retirement, the effectiveness of the scheme in reaching its target population and its impact on national savings using information collected in the 2010 KiwiSaver survey of 825 people.

The analysis found that KiwiSaver was encouraging individual savings, some of which would have otherwise been consumed. But many respondents, particularly those that own their own home, indicated that they would have used a substantial proportion of their KiwiSaver contributions for other forms of saving or to reduce their debt. The analysis also found that most respondents expected their retirement incomes would be adequate to meet their basic needs. About one half felt that their expected retirement income would be sufficiently comfortable. The results indicated that 22% had a shortfall in expected retirement income based on needs. In contrast, 50% reported an expected shortfall with respect to being comfortable. These results were broadly similar for both KiwiSaver members and non-members. After controlling for the effects of other factors likely to affect retirement income outcomes, the analysis found no evidence that KiwiSaver membership was associated (either positively or negatively) with the expected shortfalls found.

The analysis explored the effectiveness of KiwiSaver in reaching the target population the scheme is intended to help; namely those who would not otherwise have saved enough to maintain their standard of living in retirement. It estimated 33% of the target population based on need became members and 46% based on being comfortable became members. For each of those members who were in the target population a further four to 14 people joined from outside the target population. This implied that the ongoing cost of the scheme for each target member could be around $4,000 per year (if the standard is living comfortably) or around $13,000 per year (if the standard is meeting needs). These estimates of the cost per target member will decrease due to the reduction in member tax credit and removal of the employer superannuation contribution tax exemption proposed from 2012 onwards.

The analysis also explored the impact of the scheme on national savings. It estimated, on the conditions and settings of the scheme at that time, that over the ten years to 2021 the net contribution of KiwiSaver to national savings would be marginal at best in the longer term, and may in fact reduce national savings. When sensitivity analysis in the form of allowing for much higher rates of additionality on employer and Crown contributions were conducted, the analysis found modest increases in national saving. In either case, fiscal costs over the period were projected to total nearly $8 billion in net present value terms. As outlined above, this estimate will decrease due to the reduction in member tax credit and removal of the employer superannuation contribution tax exemption proposed from 2012 onwards.

Further work is required to evaluate the initial impact of KiwiSaver on savings and net worth

Further evaluation work is required to evaluate the initial impact of KiwiSaver on saving and net worth. This work is based on providing a comprehensive basis for assessing changes in individual or household saving behaviour over time from the longitudinal survey, Survey of Family Income and Employment (SoFIE).

SoFIE will play a key role in further work planned as part of the KiwiSaver evaluation in the coming year. The KiwiSaver evaluation team proposes to link selected KiwiSaver administrative data with SoFIE data subject to approval by Statistics New Zealand. The linked dataset would provide greater insights into actual savings behaviour of those who are members of KiwiSaver compared to those who are non-members and would provide valuable information in terms of assessing KiwiSaver's impact and effectiveness.

Other work planned in the coming years includes a follow up by the Department of Building and Housing of the initial survey on the home ownership package to assess the impact and effectiveness of the package against its agreed outcomes. The Ministry of Economic Development also plan to update its work on the KiwiSaver Supply Side evaluation. The evaluation also intends to investigate opting out and contributions holidays with an aim of better understanding those who take up these KiwiSaver features.

Ongoing assessment of the performance of KiwiSaver will require relevant and reliable sources of information and data

The planned work in the coming years will put the KiwiSaver evaluation in a strong position to provide further assessment of the overall impact of the scheme on individual and national savings. However, this assessment will only span the early years of the scheme.

Given KiwiSaver represents an important part of New Zealand's retirement income policies, it will be crucial to continue ongoing assessment and evaluation of the performance of the scheme as it matures. This ongoing assessment and evaluation will require access to relevant and reliable sources of information and data, particularly longitudinal data that can track saving behaviour over time. At present, there are no active sources of longitudinal data available. Without this information and data there will be limited ability to assess the ongoing performance of the KiwiSaver in the future.

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