KiwiSaver Evaluation

Annual Report 1
1 July 2007 – 30 June 2008

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Inland Revenue

Ministry of Economic Development

Housing New Zealand Corporation

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Executive summary

Report purpose and scope

This is the first annual report of the KiwiSaver evaluation. It is part of the programme of reporting, agreed to by Ministers at the outset of the evaluation, which is intended to provide regular performance-related information on KiwiSaver. The objectives of the evaluation are to:

- Assess the early implementation and delivery of KiwiSaver to inform on-going development and service delivery;
- Assess whether KiwiSaver's key features are generating the expected outcomes;
- Monitor the response to KiwiSaver 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.

This report relates to the first full year of KiwiSaver's operation, 1 July 2007 to 30 June 2008, and brings together results from analysis of Inland Revenue's administrative data and recent research conducted by the evaluation. It focuses on the following:

- Describing the profile of the KiwiSaver membership base and drawing comparisons between KiwiSaver members and non-members;
- Outlining KiwiSaver's design features and examining the extent to which individuals are taking advantage of these features (for those features that are currently available to members);
- Discussing the implementation of KiwiSaver in year one, particularly implementation in the workplace and Inland Revenue's administration; and
- Describing features of the KiwiSaver market, including providing some provisional results of research on the early impact that KiwiSaver has had on New Zealand's superannuation industry.

From a research perspective, it is still relatively early days for KiwiSaver. Much of the evaluation work conducted to date raises as many questions as it provides answers. Further, given the long-term nature of retirement policy interventions, trends and expectations regarding the impact of KiwiSaver will take time to emerge. In light of this, this report is intended to be read as a commentary on the evaluation findings to date, and the emerging questions and priorities which require further research. The next evaluation report will be reported in March 2009.

Evaluation findings

KiwiSaver's introduction in 2007 marked a significant shift in New Zealand's retirement policy structure. Alongside New Zealand Superannuation, a universal publicly-funded pension scheme, KiwiSaver now sits as a voluntary, private contributory scheme with Crown and employer-funded incentives for membership.

As a result of the Budget 2007 announcements (which included the introduction of compulsory employer contributions and the member tax credit) KiwiSaver was forecast to have 346,000 members (including 70,000 members of complying funds) by the end of year one. The actual membership figure at 30 June 2008 of 716,637 (excluding complying fund members) was not forecast to be reached until 2011.

The Crown and employer-funded incentives, supported by changes to the taxation of investment income, as well as effective communications activity, and competitive and marketing activity on the part of providers, are likely contributing factors to the significant growth in KiwiSaver membership.

Enrolment patterns

As of 30 June 2008, 855,443 people had been enrolled in KiwiSaver.

- Of the 855,443 enrolments, 138,806 have either opted-out or have had their account closed, leaving a net enrolment figure of 716,637.
- Of net enrolments, 47% opted-in directly with a provider, 17% opted-in via their employer and 36% were automatically enrolled.
- Enrolments by opt-in methods peaked twice during the year, firstly in KiwiSaver's early months (July/August 2007) and secondly in the last quarter of the year (April/May 2008).
- Automatic enrolments grew steadily over the year and the rate at which individuals opted-out remained stable at approximately one-third of automatic enrolments.

Evaluation research shows that KiwiSaver's financial incentives (e.g. the compulsory employer contributions, the member tax credit and the kick-start payment) are encouraging individuals to join KiwiSaver along with the desire to save for retirement. The minimum 4% contribution rate is the main feature that is discouraging enrolments. Other factors discouraging participation include having other provisions made for retirement and concern that future governments might change, or discontinue, KiwiSaver.

Membership profile

At the conclusion of KiwiSaver's first year, the profile of members looks as follows:

- Members are equally split between men and women. This is consistent with the gender split in the total eligible population (i.e. those who are eligible to join KiwiSaver, whether or not they have joined).

- Age distribution of members differs notably by method of enrolment. Opt-ins via provider peak at the under 18 and older than 55 year bands. Those who opt-in via an employer tend to be older; nearly 50% are over 45 years of age. The profile of those who have been automatically enrolled is more heavily weighted towards younger individuals, suggesting that automatic enrolment has been effective in enlisting individuals who are new to the workforce and overcoming savings inertia.

- Just over half (55%) of KiwiSaver members earned income solely from salary and wages (which includes benefit payments received) for the 2007 tax year. A further 31% earn a portion of their income from salary and wages and the remainder from other sources (e.g. self-employment).

- Those who earn their income solely from salary and wages, and have opted-in to KiwiSaver, have average incomes approximately one-quarter higher than the average income for all eligible salary and wage earners aged 18 to 64 (i.e. those within the eligible population who earn their income solely from salary and/or wages). Those who have been automatically enrolled have average incomes approximately one-quarter lower than the total eligible salary and wage earner population (aged 18 to 64).

- Analysis on a sample of members, a sample of those that have had no interaction with KiwiSaver, and a sample of opt-outs shows that both members and those who have had no interaction with KiwiSaver are associated with mid to older age groups and mid to higher incomes. Opt-outs, however, are associated with lower incomes and younger age groups.

- While there are relationships evident between individuals' age, income and membership status, age and income alone are not strong predictors of whether or not an individual is a KiwiSaver member.

Savings choices

Approximately half (49%) of KiwiSaver members have made an active choice of scheme, over one-third has been allocated to a default scheme (38%) and the remaining 13% have been allocated to their employer's nominated scheme. For those who are automatically enrolled or opt-in via their employer, it appears that scheme membership is being influenced by the enrolment process rather than widespread proactive investment choices.

While regular contributions holidays could not be taken during the first year, 3,490 members have been granted a contributions holiday for reasons of financial hardship. Interestingly, of those, approximately two-thirds have made contributions to their accounts while on holiday. Possible explanations for this could include time lags in the deductions process, gaming of the system, or relatively low thresholds being applied by those determining financial hardship contributing to a high approval rate.

Research with the evaluation's employer panel and feedback from providers suggests there is still a need for financial education for both KiwiSaver members and potential members, in particular in the areas of how to choose a scheme provider and investment fund, understanding the products scheme providers invest in, and the information members should expect to receive from their provider.

Implementation and delivery

As a principally workplace-based initiative, KiwiSaver is reliant on employers understanding their obligations and implementing them effectively. Ongoing research with the evaluation's employer panel finds that employers are generally administering KiwiSaver as intended. Business size affects employers' approach to implementation; small businesses are implementing KiwiSaver on an as-needed basis and large employers have tended to determine how they will manage KiwiSaver over the longer term. Employers interviewed do not consider that administering KiwiSaver creates considerable compliance costs for their organisations.

The majority of employers that participated in the panel have deferred the decision about how they will accommodate compulsory employer contributions into their wage structures until the contributions affect their operating costs. For those employers that have planned ahead, the type of employment contracts in force appear to determine employers' approach to paying contributions. Amongst employers participating in the panel, there was a slight tendency to pay employer contributions in addition to existing gross pay for employees on collective contracts, and to suggest paying the contributions as part of total remuneration packages for employees on individual contracts.[1]

As the central administrator, Inland Revenue's implementation and delivery of KiwiSaver has the ability to impact individuals' KiwiSaver membership experience. In KiwiSaver's early months transferring funds and refunds through the system presented processing challenges, resulting in delays in funds being passed to providers and refunds being returned to those who opt-out. Changes made to the way Inland Revenue processes Employer Monthly Schedules (EMS) have resulted in improvements in KiwiSaver's administration and the performance target of 90% of EMS processed and funds ready to be passed to providers at the end of the month following the EMS filing date is now being met.

KiwiSaver market

At the end of the first year, there were 54 KiwiSaver schemes registered with the Government Actuary, delivered by 31 scheme providers. Thirty-seven of these schemes are open to the general public and the remaining 17 are schemes for employees of specific companies or industries.

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[1] These interviews had been completed prior to the government's announcement and passing of changes to the Employment Relations Act concerning KiwiSaver's compulsory employer contributions.

Inland Revenue has passed $1.037 billion in member, employer and Crown contributions to scheme providers. Over half (55%) of the contributions passed to providers are Crown contributions and the remaining 45% of funds are employee deductions and employer contributions.[2]

While there are many players in the market, funds and members are concentrated in a relatively small sub-set of providers and schemes.

- 77% of the membership base and 74% of the funds passed from Inland Revenue are held by six providers. Sixty four percent of the membership base and 62% of the funds passed are held in the six largest (determined by funds passed from Inland Revenue) schemes.

- Default schemes, while dominant in the market, do not account for the six largest schemes. Default providers have been successful in achieving a greater share of the market than that accounted for by their default schemes.

- Most KiwiSaver schemes are currently small; 45 of the 54 schemes have fewer than $40 million contributions and of those 45, 34 have fewer than $5 million contributions. Half of the schemes with fewer than $5 million are retail schemes and half are company or industry schemes.

Evaluation of the initial impact that KiwiSaver has had on the superannuation industry is nearing completion. Provisional results are included below and full results and conclusions will be included in the next evaluation report in March 2009.

Membership of superannuation schemes, both corporate and personal products, was in decline prior to the introduction of KiwiSaver. Many corporate superannuation products were being closed to new members, wound up or incorporated into master trusts to improve administrative efficiency. Individual superannuation schemes were also affected as individuals favoured alternative vehicles for retirement savings.

Many providers interviewed for the evaluation consider KiwiSaver's introduction has stimulated the managed funds industry by broadening the nature of the superannuation market. Entering the KiwiSaver market for existing superannuation providers was primarily driven by the need to continue to compete. For those who had not previously provided superannuation products, KiwiSaver was seen as an opportunity to expand their brand and product offerings. Despite concentration in the market, there is diversity evident in both providers and products, providing competitive opportunities for innovation in distribution, service and investment approach.

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2 Figures relating to funds passed from Inland Revenue to providers are gross (i.e. they exclude refunds from providers) and are provisional only. Inland Revenue is currently reconciling final payments.

Part one: Introduction

This is the first annual report of the KiwiSaver evaluation. It is part of the regular programme of reporting agreed to by Ministers at the outset of the evaluation.

The KiwiSaver evaluation project began in 2007/08 and is planned to be completed in 2012/13. The objectives of the evaluation are to:

a. Assess the early implementation and delivery of KiwiSaver to inform on-going development and service delivery;

b. Assess whether KiwiSaver's key features are generating the expected outcomes;

c. Monitor the response to KiwiSaver to understand the scale and pattern of take-up;

d. Examine the impact of KiwiSaver on individuals' saving habits and asset accumulation; and

e. Examine the impact of KiwiSaver on superannuation markets and the financial sector.

This report contributes to objectives a, b, c and e above. Planning is underway to address evaluation objective d but it is premature to draw conclusions on this subject after one year.

Report scope and structure

This report relates to the first year of KiwiSaver's operation, 1 July 2007 to 30 June 2008. It brings together analysis of Inland Revenue's administrative data and recent evaluation research. A summary of findings from earlier evaluation research (previously released in March 2008) is included in appendix six and results are used throughout the report to support conclusions.

It is still relatively early days for KiwiSaver. Much of the evaluation work conducted to date raises as many questions as it provides answers. Further, given the long-term nature of retirement policy interventions, trends and expectations regarding the impact of KiwiSaver will take time to emerge. In light of this, this report is intended to be read as a commentary on the evaluation findings to date and the emerging questions and priorities which require further research.

The remainder of this report is organised into the following sections:

- **Part two: KiwiSaver year one** describes the first year of KiwiSaver's operation;
- **Part three: KiwiSaver membership** profiles the KiwiSaver membership base at the conclusion of year one and compares and contrasts members and non-members;

- **Part four: Saving through KiwiSaver** describes the choices being made by members with regard to their accounts;
- **Part five: KiwiSaver implementation and delivery** comments on KiwiSaver's central administration and implementation in the workplace;
- **Part six: KiwiSaver in the market** profiles the KiwiSaver market and provides some provisional findings on the impact of KiwiSaver on the superannuation industry; and
- **Part seven: Conclusions and next steps** outlines the evaluation's conclusions after year one and sets out next steps.

Part two: KiwiSaver year one

This section describes the first year of KiwiSaver's operation. It highlights the phased introduction of KiwiSaver focusing on policy and operational milestones.

Changes to retirement policy settings

Prior to KiwiSaver's introduction in 2007, New Zealand's recent retirement policy history has been dominated by New Zealand Superannuation, a universal, publicly-funded (pay-as-you-go) pension scheme, although attempts were made to introduce compulsory superannuation in the mid-1990s. Accompanying the principle of universal provision of state pension was an emphasis on the neutrality of tax treatment for retirement saving for supplementary, voluntary savings undertaken by individuals.

KiwiSaver's introduction represented a change in both these areas, marking a shift in New Zealand's retirement policy settings.

- KiwiSaver added a voluntary, private contributory scheme to the policy mix which (following announcements in the 2007 Budget) includes contributions from employers and the Crown intended to act as incentives for enrolment and on-going contributions; and
- The introduction of exemptions to Employer Superannuation Contributions Tax (ESCT) for employers contributing to KiwiSaver schemes or complying funds and changes to the taxation arrangements for collective investment vehicles through the introduction of Portfolio Investment Entities (PIEs) create tax advantages from KiwiSaver membership, particularly for those on higher marginal tax rates.

KiwiSaver objective

The purpose of KiwiSaver is to:

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

To that end, the Act enables the establishment of schemes (KiwiSaver schemes) to facilitate individuals' savings, principally through the workplace.

Section 3, KiwiSaver Act 2006.

Year in review

Some key milestones from KiwiSaver's first year of operation include:

- **1 July 2007** – KiwiSaver introduced. When KiwiSaver was initially announced (in the 2005 Budget) it included 4% or 8% contributions by employees, a $1,000 kick-start payment by the Crown and an annual $40 fee subsidy also to be paid by the Crown. Shortly before its introduction, significant changes were made to the policy design including the announcement of the member tax credit (MTC), compulsory employer contributions (CEC) to be phased in over four years, and an accompanying employer tax credit (ETC) to partially offset the costs of CEC.

- **October 2007** – Inland Revenue passes first contributions to scheme providers after an initial holding period of three months. At the conclusion of the first year, Inland Revenue had passed $1.037 billion in employer, employee and Crown contributions to providers for investment in 54 schemes.[3]

- **March 2008** – KiwiSaver enrolments reach half a million, doubling forecasts for the full first year.

- **1 April 2008** – CEC and the ETC are introduced. Enrolments peaked immediately before and after the introduction of employer contributions (refer figure 1, part three).

Why has KiwiSaver membership exceeded expectations?

KiwiSaver membership in the first year has significantly exceeded forecasts. When KiwiSaver was first announced in Budget 2005, expectations of enrolments for the first year were approximately 186,000. Following the announcements of the CEC, MTC and ETC in Budget 2007, membership forecasts were revised upward to 346,000 (including 70,000 forecast members of complying funds). Actual membership figures at 30 June 2008 (716,637, excluding complying funds) were not forecast to be reached until 2011. Despite the extension of KiwiSaver incentives to complying funds, uptake of these schemes is lower than anticipated.

The financial incentives offered by the Crown and employers and associated changes to the taxation of investment income, described above, have likely been key drivers of membership. Further contributing factors could well have been the extensive and generally positive KiwiSaver media coverage and considerable marketing and active recruitment activity on the part of providers. Regular evaluation of media coverage has tracked the nature of content produced about KiwiSaver. Of 1,196 placements identified between August 2007 and June 2008, 895 were considered positive or neutral about KiwiSaver.

[3] Figures relating to funds passed from Inland Revenue to providers are gross (i.e. they exclude refunds from providers) and are provisional only. Inland Revenue is currently reconciling final payments.

To illustrate the attractiveness of KiwiSaver's financial incentives, the table below (table 1) shows two examples of the "return" on a member's deductions (by way of employer and Crown contributions) for the first five years of membership.

In example one, an individual earns a gross income of $35,000, joins KiwiSaver on 1 July 2007, and has an employer contributing to their account (1% from 1 April 2008 to 31 March 2009, 2% for the year to 31 March 2010, 3% for the year to 31 March 2011, and 4% hereafter).

In example two, an individual earns a gross income of $50,000, joins KiwiSaver on 1 July 2007, and has an employer contributing to their account (1% from 1 April 2008 to 31 March 2009, 2% for the year to 31 March 2010, 3% for the year to 31 March 2011, and 4% hereafter).

The figures in the tables exclude:

- Interest earned while member deductions and employer contributions are being processed by Inland Revenue (5.36% p.a. net of tax);
- Fee subsidies paid to providers ($40 p.a.); and
- Any positive or negative returns that may be earned once member funds are under management by providers and therefore also do not include the impact of taxation once funds are under management.

Table 1: Impact of employer and Crown contributions for member returns

Example one: Gross income $35,000					
Contribution source	**Year one**	**Year two**	**Year three**	**Year four**	**Year five**
Member deduction	$1,400.00	$1,400.00	$1,400.00	$1,400.00	$1,400.00
Employer contribution	$87.50	$437.50	$787.50	$1,137.50	$1,400.00
Crown kick start contribution	$1,000.00	$0.00	$0.00	$0.00	$0.00
Member tax credit	$1,042.86	$1,042.86	$1,042.86	$1,042.86	$1,042.86
Return on member deduction	**152%**	**106%**	**131%**	**156%**	**174%**
Example two: Gross income $50,000					
Contribution source	**Year one**	**Year two**	**Year three**	**Year four**	**Year five**
Member deduction	$2,000.00	$2,000.00	$2,000.00	$2,000.00	$2,000.00
Employer contribution	$125.00	$625.00	$1,125.00	$1,625.00	$2,000.00
Crown kick start contribution	$1,000.00	$0.00	$0.00	$0.00	$0.00
Member tax credit	$1,042.86	$1,042.86	$1,042.86	$1,042.86	$1,042.86
Return on member deduction	**108%**	**83%**	**108%**	**133%**	**152%**

Part three: KiwiSaver membership

This section profiles KiwiSaver members and their employers, describes patterns of enrolment, and compares and contrasts KiwiSaver members and non-members. This section draws on the following information:

- Inland Revenue's administrative data;
- Interviews with a panel of 34 employers (and a sample of their employees) carried out in June and July 2008. These interviews were phase two of staged qualitative research being conducted with the panel. The findings of the research are reported here to describe factors influencing individuals' membership decisions. The research cannot be used to draw general conclusions about the behaviour of the KiwiSaver member population due to its qualitative nature and small sample size; and
- Communications and awareness research with individuals completed in February 2008 (previously released in March 2008).

Who is enrolling in KiwiSaver?

This section provides an overview of the profile of the KiwiSaver population as at 30 June 2008.

Enrolment and uptake

Table 2 sets out the total KiwiSaver members for the 2007/08 year, by method of enrolment. It also presents the numbers of individuals who have opted-out, closed their accounts, or taken a contributions holiday for reasons of financial hardship.

In total 855,443 people have been enrolled in KiwiSaver in its first year. Of those, 138,806 have either opted-out or have had their account closed, leaving a membership figure of 716,637 at the end of the year.

- Members are those individuals who have either opted-in to KiwiSaver via their employer or directly with a scheme provider, or have been automatically enrolled upon starting a new job. The total net membership figure (716,637) below includes provisional members; those who have been enrolled and are within the eight week opt-out period and those whose contributions have not yet been passed to providers (i.e. they are within the three-month period where Inland Revenue holds contributions).

- The closed accounts in the table are primarily due to individuals being incorrectly enrolled (e.g. a non-resident being automatically enrolled by their employer) rather than representing "genuinely" closed accounts (e.g. for reasons including death and permanent emigration).

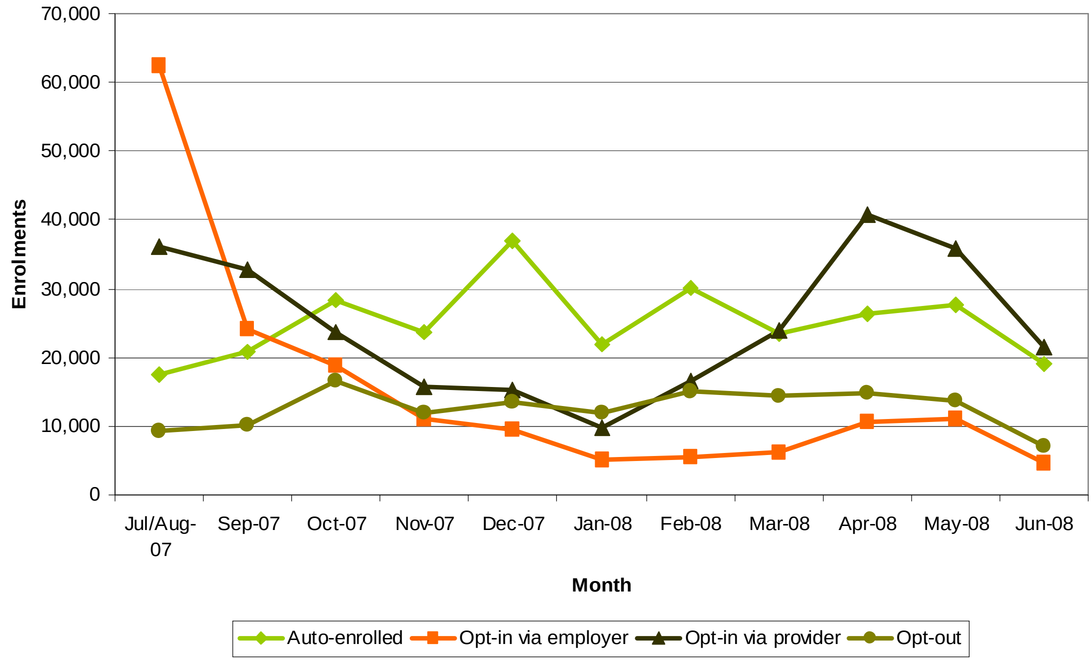
Table 2: Total enrolments

Enrolment status	Number	Percent gross	Percent net
Opt-in via provider	338,279	40%	47%
Opt-in via employer	119,059	14%	17%
Auto-enrolled	259,299	30%	36%
Total enrolments (net)	**716,637**	**-**	**100%**
Opt-out	137,762	16%	-
Closed account	1,044	0%	-
Total enrolments (gross)	**855,443**	**100%**	**-**
Financial hardship contributions holidays	3,543	-	-

Base: All enrolments (gross) 1 July 2007 to 30 June 2008.
Source: Inland Revenue administrative data.

Figure 1 below shows the prevalence of opt-in via provider and employer methods in the early months of KiwiSaver's operation. By the end of the 2007 calendar year, automatic enrolment had grown steadily as a method of enrolment. The rate of opt-outs has remained relatively consistent throughout the year at approximately one-third of those who are automatically enrolled.

Figure 1: Monthly enrolment by enrolment method



Base: All enrolments (gross) 1 July 2007 to 30 June 2008.
Source: Inland Revenue administrative data.

The latter months of the year saw a substantial increase in the number of enrolments through the opt-in via provider method (including an increase in the enrolment of children). Opt-ins via employer also rose in the last quarter of the year, but not as dramatically. By way of an explanation, it is possible that the introduction of CEC in April 2008, as well as marketing activity being carried out providers during the period, prompted a second 'wave' of opt-ins.

Demographic profile

The gender breakdown of members and those who have either opted-out or closed their accounts is evenly split between men and women (refer table 3 below). For a small percentage of enrolees, gender data are not available.

The eligible population in the table are those who are eligible to join KiwiSaver, whether or not they have joined. Refer to appendix four for further description and definition of the eligible population.

Table 3: Gender by enrolment status

Enrolment status	Female		Male		Unknown		Total	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Members	**367,384**	**51%**	**342,365**	**48%**	**6,888**	**1%**	**716,637**	**100%**
Active	329,476	51%	304,916	48%	6,120	1%	640,512	100%
Provisional	37,908	50%	37,449	49%	768	1%	76,125	100%
Non-members	**69,937**	**50%**	**67,412**	**49%**	**1,457**	**1%**	**138,806**	**100%**
Opt-out	69,416	50%	66,931	49%	1,415	1%	137,762	100%
Closed	521	50%	481	46%	42	4%	1,044	100%
Total	437,321	51%	409,777	48%	8,345	1%	855,443	100%
Total eligible population	1,629,673	49%	1,661,561	50%	14,141	0%	3,305,375	100%

Base: All enrolments (gross) 1 July 2007 to 30 June 2008. Eligible population is all those individuals who are eligible to join KiwiSaver.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

The age distribution of KiwiSaver members and method of enrolment appear to be related (multivariate analysis on a sample of members reported later in this section confirms the association between age and method of enrolment). Overall, those members who have opted-in to KiwiSaver through a provider are either younger or older than those being automatically enrolled, while those opting-in through their employer are older than those who have joined through the automatic enrolment process (refer table 4 and figure 2).

Table 4: Age of members by enrolment method

Age group	Enrolment method		
	Opt-in via provider (n=338,279)	**Auto-enrolled** (n=259,299)	**Opt-in via employer** (n=119,059)
	Percent	**Percent**	**Percent**
0 - 17 years	24%	3%	1%
18 - 24 years	6%	32%	10%
25 - 34 years	9%	23%	16%
35 - 44 years	14%	19%	21%
45 - 54 years	18%	14%	25%
55+ years	26%	7%	24%
No information	3%	2%	2%
Total	100%	100%	100%

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

The distribution for those members that opt-in via a provider peaks for less than 18 years and for greater than 55 years. This reflects the fact that:

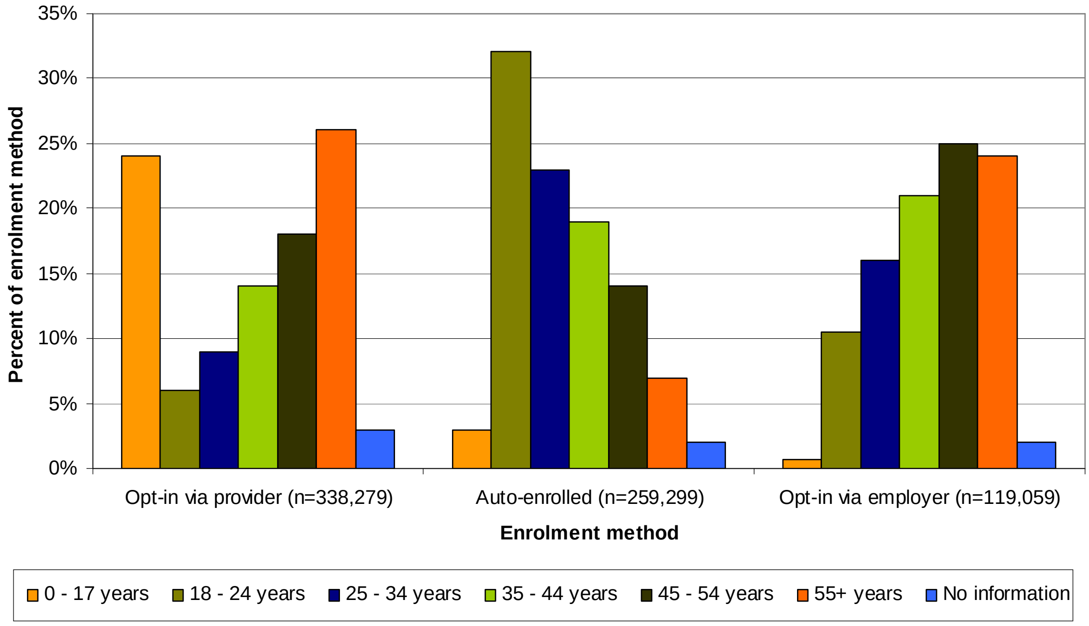
- Only those aged 18 to 64 years are eligible to be automatically enrolled[4];
- Those under 18 can only opt-in via a provider; and
- KiwiSaver's early adopters (those that proactively opted-in during the early months) were within 10 to 15 years of retirement and were more likely to make an active choice of provider.[5]

The distribution of members who have been automatically enrolled peaks in the 18 to 24 years age band. This is due to the fact that automatic enrolment occurs for those who change jobs from the age of 18. It is possible that there is also a higher rate of job churn (including holding down multiple jobs) amongst the younger working age population.

Those that opt-in via an employer tend to be older; nearly 50% are over 45 years.

[4] 3% of those who have been automatically enrolled, according to administrative data, appear to be under 18, and e may have been incorrectly enrolled by their employer.
[5] Inland Revenue. (2008). *KiwiSaver communications and Awareness Evaluation Research Report 1.3: Individuals Survey Results.* Wellington: Colmar Brunton.

Figure 2: Age profile of members by enrolment method



Base: All members at 30 June 2008.
Source: Inland Revenue administrative data.

Table 5 below shows that just over half (55%) of those who were KiwiSaver members as at 30 June 2008 earned their income solely from salary and/or wages in the 2007 tax year.[6] A further 31% earned a portion of their income from salary and wages and the remainder from other sources (e.g. self-employment). Twelve percent of members at 30 June (likely to be predominantly children) do not have earned income for 2007. Source of income information is not yet available for all members for the 2008 year due to extended time periods for filing income tax returns.

Table 5: Income source of members

Income source[7]	Member count	Percent
Salary and wage income only	391,080	55%
Salary and wage income AND other income sources	219,023	31%
Other income sources only	17,080	2%
No income sources	89,454	12%
Total	**716,637**	**100%**

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

The tables below are based on salary and wage earners only aged 18 to 64 years (where an individual's source of income is determined according to their source of income for the 2007 year but actual income

6 Salary and wage income includes income received from benefit payments.

7 Based on individual's tax type for the 2007 tax year i.e. if an individual had income solely from salary and wages in the 2007 tax year, they are included in the 'salary and wage income only' category in table 5. Salary and wage income includes income received from benefit payments.

figures relate to the 2008 tax year). Those individuals who earn income from multiple sources (i.e. salary and wage income and self-employment) are not included because full income information for the 2008 tax year is not yet available for these individuals due to extended time periods for filing income tax returns. Full income analysis will be available in evaluation reports in March each year.

The total eligible salary and wage population identified in tables below are those individuals who are eligible to join KiwiSaver and earned salary and wage income only during the 2007 tax year.[8] The figures include only those individuals of working age (18 to 64) so that income figures are not skewed due to the inclusion of children. Refer to appendix four for further explanation and definition of the eligible population.

Table 6 shows that the average and median gross income for members is similar to that for the total eligible salary and wage population. The mean and median income for those who have opted-out is 14% and 13% below that of the eligible salary and wage earner population respectively.

It is difficult to draw any conclusions about the income profile of those with closed accounts at this stage; closed accounts are largely a result of invalid or incorrect enrolments rather than a result of individuals closing their accounts for "legitimate" reasons such as migration, death or serious illness.

Table 6: Gross income for salary and wage earners by enrolment status

Enrolment status	Gross income (2007/2008 tax year)				
	Count	**Mean**	**% Diff in total mean**	**Median**	**% Diff in total median**
Members	**371,675**[9]	**$34,131**	2%	**$28,699**	1%
Active	324,032	$34,753	3%	$29,352	4%
Provisional	47,643	$29,902	-11%	$24,090	-15%
Non-Members	**94,958**	**$28,910**	-14%	**$24,640**	-13%
Opt-out	94,467	$28,868	-14%	$24,614	-13%
Closed	491	$36,935	10%	$31,206	10%
Total eligible salary & wage population (age 18-64)	1,593,020	$33,617		$28,316	

Base: All enrolees (aged 18 to 64) with earned income for 2007 tax year solely from salary and wages (including benefit payments). Eligible population are all those eligible to join KiwiSaver (aged 18 to 64) with earned income for 2007 year solely from salary and/or wages. Actual income figures relate to income earned in the 2008 tax year.
Source: Inland Revenue administrative data.

Figure 3 provides the income distribution for those members with income from salary and wages only and for the total eligible salary and wage earner population. The figure shows that approximately half (52%) of KiwiSaver salary and wage earners and eligible salary and wage earners (53%) had a gross income for 2008 of less than $30,000 and 80% of members and 79% of the eligible salary and wage earner population earned up to and including $50,000.

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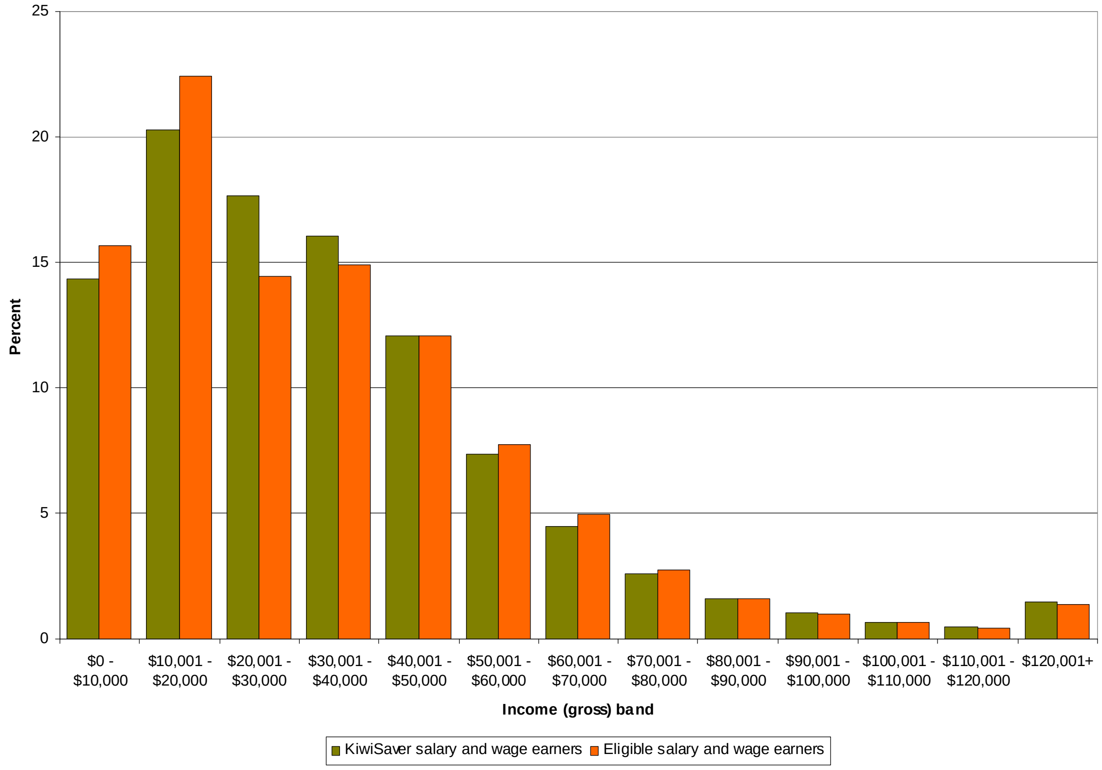
[8] Salary and wage income includes income received from benefit payments.

[9] The difference between the number of members included here (with salary and wage income) and the 391, 080 in table 5 above is likely to be due to the exclusion in table 6 of those members with salary and wage income who are under 18 years.

The figure also shows that there is a greater proportion of the eligible salary and wage earner population (compared to the KiwiSaver salary and wage earners) earning low incomes (up to $20,000) and higher proportions of KiwiSaver salary and wage earners than the eligible population with incomes of between $20,000 and $40,000.

Figure 3: Income distribution for salary and wage earner members and eligible salary and wage earner population



Base: All members (aged 18 to 64) with earned income for 2007 solely from salary and wages (including benefit payments). Eligible population are all those eligible to join KiwiSaver (aged 18 to 64) with earned income for 2007 year solely from salary and/or wages. Actual income data relates to the 2008 tax year.
Source: Inland Revenue administrative data.

Table 7 provides an assessment of members' income (those who are solely salary and wage earners) by their enrolment method, scheme choice and age.[10]

Those who opted-in via a provider or employer have average incomes that are 26% and 30% respectively higher than the average income for the eligible salary and wage earner population ($33,617). Those who were automatically enrolled have average incomes 26% lower than that of the eligible population. These findings are not surprising given that the age profiles of members differ by method of enrolment and table 7 shows that the average income increases steadily with age up to the 45 to 54 year old age bracket.

The average income for members who have actively chosen a scheme is approximately one-quarter higher than that of the eligible salary and wage earner population. Those who were allocated to either a

[10] Note, salary and wage income includes income received from benefit payments.

default or employer-nominated scheme have average incomes lower than the eligible salary and wage earner population.

Table 7: Profile of members with salary and wage income

	Gross income (2008 tax year)				
	Count	Mean	% Diff in total mean	Median	% Diff in total median
Enrolment method					
Opt-in via provider	116,682	$42,196	26%	$37,222	31%
Auto-enrolled	179,691	$24,844	-26%	$20,268	-28%
Opt-in via employer	75,302	$43,797	30%	$38,752	37%
Scheme choice					
Active choice	124,994	$42,275	26%	$37,256	32%
Default scheme	180,947	$29,406	-13%	$24,495	-13%
Employer nominated scheme	65,457	$31,673	-6%	$26,270	-7%
Not specified	277	$26,394	-21%	$22,984	-19%
Age					
18 - 24 years	93,493	$17,524	-48%	$15,157	-46%
25 - 34 years	78,149	$33,228	-1%	$30,108	6%
35 - 44 years	73,405	$41,271	23%	$35,102	24%
45 - 54 years	68,655	$44,359	32%	$38,187	35%
55+ years	57,973	$40,978	22%	$36,497	29%
Total eligible salary & wage population (age 18-64)	1,593,020	$33,617		$28,316	

Base: All members (aged 18 to 64) with earned income for 2007 solely from salary and wages (including benefit payments). Eligible population are those who are eligible to join KiwiSaver with earned income for 2007 solely from salary and wages (including benefit payments). Actual income figures relate to income for the 2008 tax year.
Source: Inland Revenue administrative data.

Location

Each region has approximately the same proportion of the KiwiSaver membership base across all methods of enrolment. The most material difference can be seen in the Auckland region; 32% of those who are automatically enrolled come from the Auckland region, compared with 38% of those who opted-in via an employer and 37% of those who opted-in via a provider (refer table 25, appendix three). The regional proportions do not change significantly when those who have either opted-out or had their accounts closed are considered (refer table 26, appendix three).

Employer profile

Although there is not great variation across industries, the service (property, finance and business services, health and community services and hospitality), infrastructure (electricity and transport) and retail sectors have the highest proportion of industry employees enrolled as KiwiSaver members (28% to 35% of employees). Health and community services is the industry with the highest rate of membership (35%).

Table 8: Industry classification by membership status

ANZSIC Division	Membership status			
	No interaction	Members	Opt-out and closed	Total
Agriculture, Forestry and Fishing	73%	20%	7%	100%
Mining	69%	24%	7%	100%
Manufacturing	65%	28%	7%	100%
Electricity, Gas and Water Supply	62%	32%	6%	100%
Construction	68%	25%	8%	100%
Wholesale Trade	65%	27%	8%	100%
Retail Trade	65%	28%	8%	100%
Accommodation, Cafes, Restaurants	61%	31%	9%	100%
Transport and Storage	61%	31%	7%	100%
Communication Services	76%	19%	5%	100%
Finance and Insurance	66%	28%	5%	100%
Property and Business Services	61%	31%	8%	100%
Government Administration and Defence	74%	23%	4%	100%
Education	69%	27%	5%	100%
Health and Community Services	60%	35%	6%	100%
Cultural and Recreational Services	69%	26%	5%	100%
Personal and Other Services	72%	23%	5%	100%
Unknown	66%	28%	7%	100%
Total	**66%**	**28%**	**7%**	**100%**

Base: All employers who had submitted an IR 348 as at 30 June 2008.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

Primary industries (agriculture, forestry and fishing), communications services and the government sector have the highest proportion of employees that have had no interaction with KiwiSaver. No interaction is defined as not having opted-in and not having been automatically enrolled as a result of changing jobs.

The higher incidence of no KiwiSaver interaction in the primary sector is not necessarily surprising given the large use of casual labour made by the sector (casual workers are not eligible for automatic enrolment). The result for the government sector is likely to be explained by the fact that public sector employers were exempt from automatically enrolling new staff until 1 April 2008 (and the education sector is exempt until October 2008) as well as the existence of other workplace-based superannuation schemes.

Table 9 sets out the proportion of employees who are KiwiSaver members, have opted-out or had no KiwiSaver interaction by the size (defined by the number of employees) of their employers. The percentage of employees that have had no KiwiSaver interaction is slightly higher for very small and very large employers. In the case of very small employers, it is possible that a lower rate of staff turnover means fewer automatic enrolments and therefore a lower rate of membership. The slightly lower rate of membership amongst large employers may be explained by the existence of other workplace superannuation schemes in those organisations.

Table 9: KiwiSaver uptake by size of employer (number of employees)

Employer size	Membership status			
	No interaction	Members	Opt-out or closed	Total
1 - 5 employees	67%	25%	7%	100%
6 - 19 employees	65%	27%	8%	100%
20 - 49 employees	63%	30%	8%	100%
50 - 99 employees	63%	30%	7%	100%
100 - 249 employees	64%	29%	7%	100%
250 - 499 employees	64%	30%	7%	100%
500+ employees	70%	25%	5%	100%
No data	83%	17%	0%	100%
Total	**66%**	**28%**	**7%**	**100%**

Base: All employers who had submitted an IR 348 as at 30 June 2008.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

How do members compare with non-members?

The objective of the following analysis is to understand the ways in which KiwiSaver members are similar and different to non-members and to understand what factors might influence an individual's membership status.

This analysis is based on samples of 10,000 KiwiSaver members drawn from the population of members as at 30 June 2008, 10,000 non-members who have not had any interaction with KiwiSaver, drawn from the population of those currently eligible to join KiwiSaver, and 10,000 individuals who have been automatically enrolled but have opted-out. In all three samples age is limited to 18 to 64 years and income source is limited to those who earn income from salary and wages only. Refer to appendix four for further explanation on the sampling parameters and approach.

In order to examine the relationships between membership status (i.e. member, opt-out or no KiwiSaver interaction) and individuals' socio-demographic characteristics, a correspondence analysis was carried out on the samples of members and non-members. Correspondence analysis is a multivariate technique which maps attributes (in this case age, income and gender) against key groupings of interest (in the examples below these groupings are membership status and enrolment method) allowing exploration of relationships. Appendix five contains an explanation of correspondence analysis and the maps which are the output of the analysis. The conclusions of the analysis are summarised below.

- Opting-out is associated with younger age groups (18-24 years and 25-34 years) and lower incomes ($10,000-$20,000 and $20,000-$30,000).

- Active membership and those who have had no interaction with KiwiSaver are both associated with mid to older age groups and mid to higher incomes. It appears as if those with no KiwiSaver interaction are more closely associated with higher incomes than the active member group.

- Whether individuals are male or female is not strongly associated with membership status.

- Age is a better differentiating factor for membership than income.

Similar analysis was undertaken on the sample of members only to understand the associations between members' method of enrolment, choice of scheme, and their demographic characteristics. The analysis found that:

- Opting-in via a provider is associated with high incomes (greater than $120,000), older age groups and making an active choice of scheme. The relationship between opting-in via a provider and an active scheme choice is not surprising as all those who opt-in with a provider, by definition, make an active scheme choice.

- Automatic enrolment and opting-in via an employer are associated with being a member of either a default scheme or an employer-nominated scheme.

- Mid to older ages and mid to higher incomes are not strongly associated specifically with either opting-in via a provider or employer. They are also not associated with individuals who are automatically enrolled. Automatic enrolment is associated with lower age groups and lower income brackets.

- Again, gender is not strongly associated with either enrolment method or scheme choice.

In an effort to further understand the drivers of KiwiSaver membership status and method of enrolment, logistic regression and discrimination analysis were carried out. While some results were statistically significant, the variance explained by the models was low, which is due, most likely, to the limited set of variables available in the administrative data. So, although there appear to be relationships between income, age and gender with membership status and enrolment method, there are obviously other factors involved in the decision-making process for which we currently lack information. Further description of the results of the analysis is contained in appendix five.

Further evaluation research with individuals (both members and non-members) is planned which will collect additional profile data, as well as information about individuals' savings attitudes and behaviours, in order to help the evaluation to understand what factors influence KiwiSaver membership decisions.

Membership motivations and barriers

Research with the evaluation's panel of employers and their employees shows that:

- KiwiSaver's financial incentives (e.g. the CEC, MTC and the kick-start payment) continue to influence uptake, as does the desire to save for retirement; and

- The minimum 4% contribution rate is the main feature discouraging panel employees from enrolling. Other factors discouraging participation amongst employees include having other provisions made for retirement and the possibility that future governments might change, or discontinue, KiwiSaver.[11]

These findings on motivations and barriers to membership are consistent with the findings of the communications and awareness survey research with individuals carried out in the early months of the evaluation.

Through the panel research, as well as feedback from scheme providers (at the annual meeting for scheme providers and Inland Revenue) the importance of financial education for both KiwiSaver members and potential members was highlighted. While the current state of financial literacy does not appear to have hindered the uptake of KiwiSaver, it may impact on members' ability to use their membership to their full advantage. In particular, panel participants expressed a desire to have more information and guidance made available on how to choose a scheme provider and investment fund, understanding risk profiles and the products providers invest in, and the information members should expect to receive from their provider.

[11] Note that the panel research is qualitative, with a small sample size. It cannot therefore be used to generalise about the population as a whole.

Part four: Saving through KiwiSaver

This section describes the choices KiwiSaver members are making in regards to their accounts. Understanding the way in which individuals use their accounts and the various features of KiwiSaver will assist in determining KiwiSaver's impact on savings outcomes over the longer term. This section draws on the following:

- Inland Revenue's administrative data; and
- Interviews with a panel of 34 employers (and a sample of their employees) carried out in June and July 2008. These interviews were phase two of staged qualitative research being conducted with the panel. The findings of the research are reported here to describe the ways in which particular individuals are approaching their saving decisions through KiwiSaver. The research cannot be used to draw general conclusions about the behaviour of the KiwiSaver member population due to its qualitative nature and small sample size.

KiwiSaver account management and choices

A key focus of the evaluation is to understand how individuals are using their KiwiSaver accounts over time and the decisions they make about KiwiSaver relative to other savings options available to them. This will assist the evaluation to understand whether the individual features of KiwiSaver are achieving their expected outcomes and, in the future, whether KiwiSaver has been effective in raising individuals' savings levels.

KiwiSaver's features are intended to reflect the fact that individuals' approach to savings will change over their working life; there are likely to be periods of time when individuals are focused on paying off debt as their primary means of saving (e.g. when taking out loans to pay for tertiary education or a mortgage for a first home) and other stages where their focus will be primarily on asset accumulation for retirement. Specifically:

- Implementation of KiwiSaver in the workplace, and particularly the automatic enrolment process for those changing jobs and deductions of member contributions at source, are intended to overcome savings inertia and embed a long-term savings habit;
- Choices in schemes, providers and contributions rates provide members with opportunities to exercise control over their investment choices and to choose a savings scheme that is appropriate for their circumstances;

- Contributions holidays are intended to recognise that, while regular and long-term savings assists in building wealth, there may be periods of time when individuals' financial priorities change and they choose not to contribute regularly to a superannuation scheme; and

- KiwiSaver's home ownership components (mortgage diversion, first home withdrawal and the first home deposit subsidy) are intended to assist individuals build their asset base and save through debt reduction.

The remainder of this section looks at some of the savings choices that KiwiSaver members have made in year one.

KiwiSaver scheme choices

Table 10 below provides the breakdown of KiwiSaver members according to whether they have made an active choice of scheme or have been allocated to either one of the six default schemes or to a scheme nominated by their employer.

Almost half (49%) of the membership base has made a choice of scheme (refer figure 4 and table 10), over one-third has been allocated to a default scheme (38%) and the remaining 13% have been allocated to their employer's nominated scheme.

By comparing table 10 and table 23 (in part six of this report), which shows the proportion of the market held by default schemes, it is apparent that some members making an active choice of scheme must be electing to join default schemes. It is not possible to conclude, however, that those who are actively choosing to join default schemes are making a conservative investment choice; these members may be selecting a balanced or growth fund within the default scheme. Scheme-level data do not allow conclusions about investment risk profile to be made.

Table 10: Membership by scheme type

Scheme	Membership	Percent
Default scheme	268,868	38%
Employer-nominated scheme	94,895	13%
Active choice scheme	352,483	49%
Unspecified at time of reporting	391	0%
Total	**716,637**	**100%**

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

Table 11 below presents individuals' scheme choices by their method of enrolment. The table provides an indication of the extent to which individual KiwiSaver members are exercising choice over their scheme.

Some care needs to be taken in interpreting table 11. The scheme choice column indicates the way in which an individual enters their scheme; it does not provide any information on the characteristics of the investment itself (e.g. its risk profile). Further when analysed by different enrolment methods the scheme "types" in the scheme choice column are not mutually exclusive groupings. For example, if an individual opts-in to KiwiSaver via a provider (one of the default providers) they may choose to join a default scheme. They have, however, made an active scheme choice and are counted accordingly. Similarly, a member who is automatically enrolled and allocated to their employer's nominated scheme (which also happens to be a default scheme) is counted as a member of an employer-nominated scheme.

Table 11: Scheme choice by enrolment method

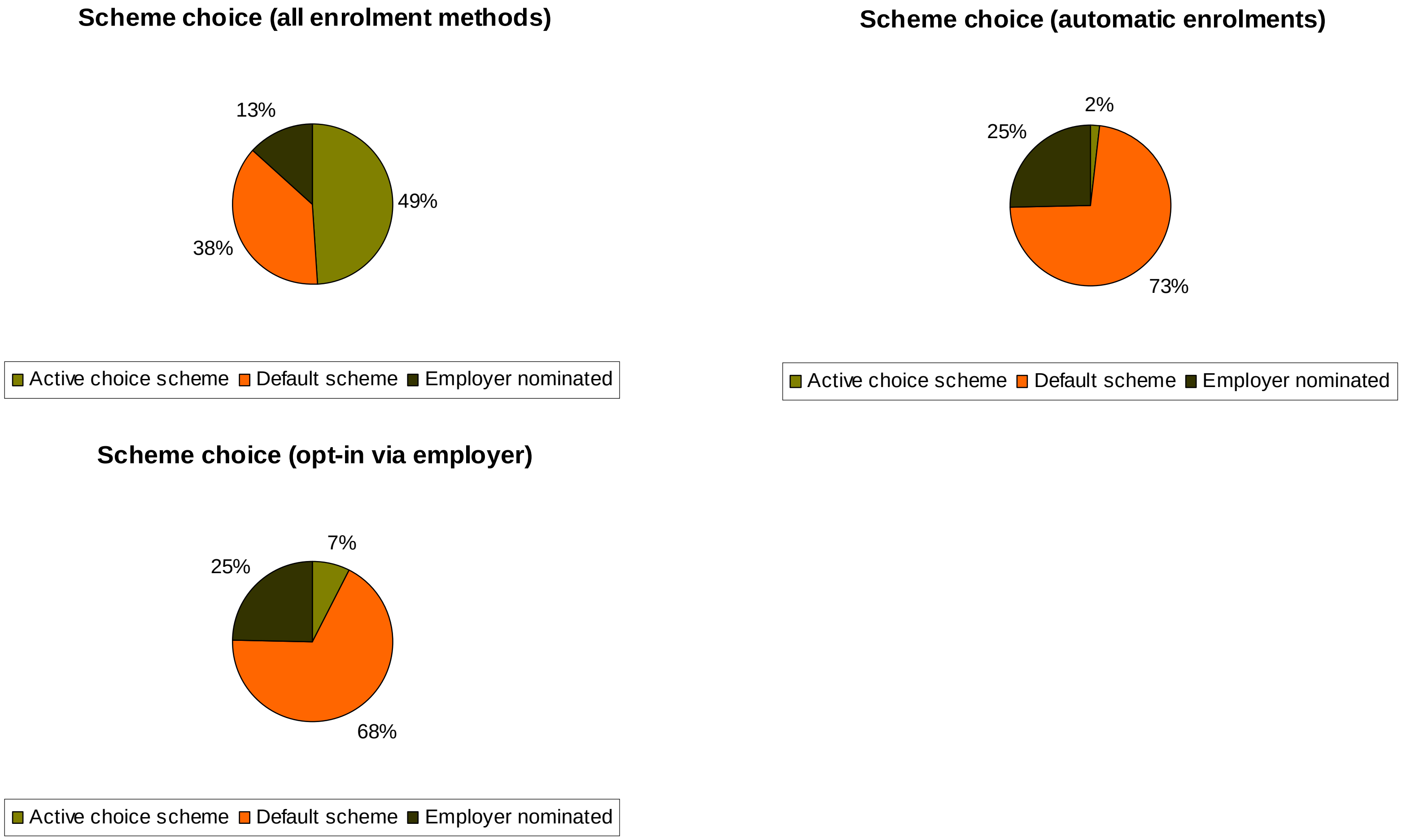
Enrolment method and scheme choice		Membership	Percent
Opt-in via provider		**338,279**	**47%**
	Active choice scheme	338,279	
	Default scheme	n/a	
	Employer nominated scheme	n/a	
	Unspecified at time of reporting	n/a	
Auto-enrolled		**259,299**	**36%**
	Active choice scheme	5,385	
	Default scheme	188,100	
	Employer nominated scheme	65,428	
	Unspecified at time of reporting	386	
Opt-in via employer		**119,059**	**17%**
	Active choice scheme	8,819	
	Default scheme	80,768	
	Employer nominated scheme	29,467	
	Unspecified at time of reporting	5	
	Total	**716,637**	**100%**

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

Given the small proportions of those who are either automatically enrolled or who opt-in via their employer making an active choice of scheme (refer figure 4 below and table 11 above), it would seem that scheme membership, for these members, is being influenced by the enrolment process rather than widespread proactive investment choices. As a result, members, particularly those who are young with considerable time to retirement, may not be in schemes or funds that are likely to maximise their investment returns over the long term. It is not possible, however, to conclude from the administrative data whether individuals have actively considered and chosen to remain in their allocated scheme or whether they are truly passive investors.

Those who opt-in via a provider all make an active choice of provider and scheme because they approach a specific provider directly to be enrolled, and are therefore strongly influencing the overall figure of 49% active choice in figure 4 below and table 10 above.

Figure 4: Scheme choice by enrolment method



Base: All members at 30 June 2008.
Source: Inland Revenue administrative data.

Employee decisions on scheme choice

Interviews with employees as part of the phased panel research (described above in the introduction to this section of the report) supports the fact that those who join KiwiSaver through the workplace (either as a result of being automatically enrolled or by opting-in through an employer) seem to be more likely to be members of schemes they have been allocated to through the enrolment process than to change their scheme.

Most employees interviewed, who were KiwiSaver members at the time interviewing, had remained in the scheme they were allocated to through the enrolment process; either they had not given any thought to changing their scheme or provider, or they had actively chosen to stay where they were because the information they had received from the provider satisfied them or because they had an existing relationship with the provider.

Factors influencing the choices of individuals who had actively selected their own scheme (by either enrolling directly with a provider or electing to switch out of the default scheme they were allocated to) were the advice of others, existing relationships with other scheme providers, or being attracted to incentives that other providers were offering (e.g. lower fees or mortgage diversion). With regard to making a choice of fund within their schemes, these members considered factors such as rate of return, level of risk and the number of years before they reached retirement. Advice received from colleagues and scheme providers also featured in their decision making.

Contributions

KiwiSaver members can select the rate (either 4% or 8%) at which they want to contribute to their accounts from their salary and wages. Those who are either self-employed or not employed can determine their own level and frequency of contributions (subject to any requirement by their provider or scheme).

In order to improve affordability, employees and their employer can agree to adopt a transitional contributions arrangement (refer table 12 below) whereby employer contributions can be counted towards the minimum 4% employee contributions level. Subject to conditions being met, an employer can currently contribute at least 2% towards the employee's minimum 4% contribution. By 2011, employees will transition to a full 4% contribution with a matching 4% from their employers.

Table 12: Transitional contribution rates

Period	Employee contribution	Employer contribution	Total contribution
From 1 April 2008	2%	2%	4%
From 1 April 2009	2%	2%	4%
From 1 April 2010	3%	3%	6%
From 1 April 2011	4%	4%	8%

Those employees interviewed as part of the employer panel were exercising greater degree of choice over their level of contributions than over their choice of scheme or provider. All employees had consciously selected a contribution rate; most had opted for 4%.

- Four percent was favoured by employees largely for affordability reasons. Some felt that the additional financial gain from contributing 8% would be small because the $1,000 kick-start is a one-off payment, the MTC is capped and the maximum CEC rate is 4%.

- Those who selected 8% did so either for the tax advantages offered by KiwiSaver over other forms of saving or because they were nearing retirement age and had no other form of retirement provision.

Table 13 below shows that 61% of member contributions (including both member and employer contributions) have been made by those whose income is solely derived from salary and wages (including benefit payments).

Table 13: Source of contributions

Member income source and contribution source	Contributions ($000s)	Percent
Salary and wage earners	$321,851	61%
Member	$278,398	
Employer	$41,972	
Ad hoc	$1,481	
Other income earners	$208,407	39%
Member	$166,909	
Employer	$33,206	
Ad hoc	$8,292	
Total all contributions	**$530,258**	**100%**

Base: Contributions processed by Inland Revenue for members at 30 June 2008.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

How do members fund their contributions?

Whether or not KiwiSaver is effective in generating new and additional savings, over and above what would otherwise be the case, is a key question for the evaluation. While it is still too early to draw any reliable conclusions on this, panel participants were asked how they have funded their KiwiSaver contributions to date and what they would have done with the money had they not joined KiwiSaver. Again, note that the panel research is qualitative. It should be used to build an in-depth understanding of the "hows" and "whys" and cannot be used to generalise about the wider population.

Most members interviewed knew they could afford to fund their contributions from their existing pay but had not consciously considered what they had given up in order to join KiwiSaver. Other interviewees identified the following ways that they had funded their KiwiSaver contributions:

- Reduced the amount of money they spent on discretionary items;
- Using a pay rise they got when starting a new job to pay for their contributions; and
- Closing an existing retirement investment and redirecting those payments to a KiwiSaver account.

Had they not joined KiwiSaver, interviewees were asked to comment on their likely alternative use of the money. They identified the following uses:

- Saving it, most likely in a bank account;
- Spending it on “unessential items”; and
- Making additional mortgage payments.

Those individuals interviewed who were not currently members, but were considering joining KiwiSaver, expected that, if they elected to join, they would fund their contributions either by reducing their discretionary spending money or by redirecting money, currently being used to pay off debt, to their KiwiSaver account.

Beginning to understand individuals’ saving attitudes and behaviours, including whether members’ KiwiSaver contributions are new or diverted savings, is an important priority for the next phase of the evaluation.

Financial hardship contributions holidays

KiwiSaver members can take a contributions holiday during the first 12 months of membership for reasons of financial hardship (standard contributions holidays could not be taken in the first year). Taking a contributions holiday removes the *requirement* on an individual to contribute regularly from their salary or wages; members, however, can still make contributions to their accounts while on holiday if they choose.

At 30 June 2008, 3,490 members were on a financial hardship contributions holiday. Despite having a financial hardship holiday approved, almost two-thirds (64%) of those whose request was approved have made contributions to their accounts while on holiday.

While on first inspection the numbers of individuals contributing while on holiday seems unexpected, there are a number of possible explanations that warrant further investigation:

- Timing of applications processing and EMS deductions – in some cases individuals may have their application for holiday approved but a further deduction is made by the employer in the next pay period (due to a delay in the process between approval and notifying the employer) making it appear as though they are still actively contributing;

- Gaming – it is possible that individuals are "gaming" the system by applying for a holiday so that they are no longer required to contribute a set amount at set intervals, but are continuing to contribute to take advantage of the member tax credit. This explanation is particularly plausible when the dollar amount of contributions made by those on holiday is considered. Nearly all (98%) those who have contributed, have contributed a dollar value up to, or equal to, $1,042.86; the threshold for a maximum member tax credit claim; or

- Interpretation of financial hardship – a further explanation could be that the threshold for financial hardship has been set, to date, at a relatively low level, contributing to a high approval rate and low rate of decline of applications. This may mean that those on a financial hardship holiday could in fact afford to continue contributing.

KiwiSaver and existing workplace superannuation schemes

Evaluation panel research asked those employers with existing workplace superannuation schemes what the take up and response had been to KiwiSaver. Nine of the 34 employers interviewed had one or more existing workplace superannuation schemes.

- Most members of existing schemes had stayed exclusively in their current scheme. The few who had joined KiwiSaver too, did so because it was financially beneficial and they could afford any additional member contributions. No members of existing schemes had transferred all of their savings from that scheme to KiwiSaver.

- Some existing employees, who did not belong to the current scheme, had joined KiwiSaver. New employees compare eligibility criteria, financial benefits and ability to access savings when deciding to join KiwiSaver, the existing scheme, or neither.

The tables below (tables 14, 15 and 16) set out the specific findings from three employers to illustrate employers' and employees' approaches to accommodating KiwiSaver and existing workplace superannuation schemes.

Table 14: Take up of KiwiSaver and existing workplace scheme (large firm 1)

Employee categories	Response to KiwiSaver
New employees	Only one of the six existing schemes is open to new employees. New employees on permanent contracts can join the open existing scheme if they meet its eligibility criteria. Most new employees have joined the open existing scheme instead of KiwiSaver. The employer contributes 5% for the first five years of membership and 15% thereafter. Members can get free life insurance and can withdraw their savings when they leave the organisation.
Existing employees who had not joined the existing scheme	Existing employees, who are eligible to join the open existing scheme but had not done so, usually did not join KiwiSaver either.
Existing scheme members	Approximately 10 of the 300 existing scheme members belonged to KiwiSaver as well. The employer contribution to the current scheme counts towards the KiwiSaver CEC.

Table 15: Take up of KiwiSaver and existing workplace scheme (large firm 2)

Employee categories	Response to KiwiSaver
New employees	New employees on casual employment contracts are not allowed to join the existing scheme. Some of these employees had joined KiwiSaver. New employees on fixed term and permanent contracts tended to join the existing scheme rather than KiwiSaver as the existing scheme is more beneficial to members. For every 1% an employee contributes, up to 7%, the employer contributes 1.2%. The existing scheme had been in place for over 100 years so employees view it as a solid scheme that provides a reliable return.
Existing employees who had not joined the existing workplace scheme	Existing employees on casual contracts are ineligible for the existing scheme. A few had joined KiwiSaver.
Existing scheme members	Approximately 3% of the estimated 2,800 existing scheme members had joined KiwiSaver as well. Members of both schemes generally split their contribution between the existing scheme and KiwiSaver. For example a member split their 10% contribution by contributing 7% to the current scheme so they got the maximum employer contribution of 8.4% and put the remaining 3% plus an additional 1% into KiwiSaver and received the 1% CEC through salary sacrifice. The employer had given all employees a 1% pay increase when CEC were introduced on 1 April 2008. KiwiSaver members agreed to salary sacrifice the 1%.

Table 16: Take up of KiwiSaver and existing workplace scheme (small firm)

Employee categories	**Response to KiwiSaver**
New employees	The existing workplace scheme was offered to new employees in specific occupational roles. The employer believed that KiwiSaver would become the organisation's superannuation scheme and that the existing scheme would be closed to all new employees.
Existing employees who had not joined the current workplace scheme	Existing employees, who had had the opportunity to join the current scheme but had not done so, had joined KiwiSaver.
Existing scheme members	There were three existing scheme members; one had joined KiwiSaver as well. The organisation was making a 3% transitional rate contribution to the joint member's KiwiSaver account.

Measuring the impact of KiwiSaver on savings

Determining the impact that KiwiSaver has on individuals' savings behaviours and overall level of savings is an important component of the evaluation. While the evaluation has research planned to begin to address whether or not this objective has been achieved, the extension of one of Statistics New Zealand's existing research tools (the Survey of Family Income and Employment (SoFIE)) provides an additional means for the evaluation to address the question of savings additionality.

SoFIE is a longitudinal survey the purpose of which is to collect information on, amongst other things, individuals' income, employment and net worth over a period of eight years and to understand what factors influence changes in these areas.

What is the value of SoFIE for the evaluation?

There are two primary benefits of SoFIE for the evaluation. Firstly, SoFIE is a longitudinal dataset available with information on savings practice, participation in superannuation schemes, and net worth. For the evaluation to determine the impact of KiwiSaver on individuals' savings behaviours, requires a comparison of behaviour before and after the implementation of the scheme and an assessment of the counterfactual. A longitudinal data source like SoFIE supports this kind of analysis.

Secondly, SoFIE collects a greater range of socio-demographic data on individuals (e.g. ethnicity and educational attainment) than is available from Inland Revenue's administrative data. These data will contribute to the evaluation's understanding of the characteristics of members and non-members, and how these characteristics may influence membership decisions.

It is planned to collect KiwiSaver information through SoFIE under three categories:

- KiwiSaver membership status;
- Contributions to KiwiSaver accounts; and
- KiwiSaver scheme choices.

This information will be collected (subject to passing feasibility tests) as part of SoFIE's next assets and liabilities module which will be in the field between October 2009 and September 2010.

Part five: KiwiSaver implementation and delivery

This section discusses the implementation and delivery of KiwiSaver in year one, focusing on employers' implementation in the workplace and Inland Revenue's administration. It draws on the following:

- Inland Revenue's administrative data;
- Interviews with a panel of 34 employers (and a sample of their employees) carried out in June and July 2008. These interviews were phase two of staged qualitative research being conducted with the panel. The findings of the research are reported here to describe the ways in which particular employers are implementing KiwiSaver in their workplaces. The research cannot be used to draw general conclusions about the behaviour of employers, due to its qualitative nature and small sample size; and
- Qualitative research with employers and employees on the automatic enrolment process (previously released in March 2008).

KiwiSaver in the workplace

As a principally workplace-based initiative, KiwiSaver's effectiveness relies on employers understanding their responsibilities and executing them appropriately. In particular, the workplace is used to provide information to employees about KiwiSaver and the PAYE process is used to deduct employees' contributions at source.

Table 17 below sets out employers' KiwiSaver responsibilities and provides a brief assessment of employers' effectiveness in carrying out these responsibilities based on the findings from the employer panel research. Detailed discussion on these areas follows.

Table 17: Employer administrative responsibilities

Employer roles	Effectiveness
Deductions at source	Integration of KiwiSaver deductions with the PAYE process enables employers to easily integrate KiwiSaver into existing payroll systems. Most employers are using electronic payroll systems; some continue to run a manual process. Employers, both those with manual and electronic payroll systems, consider KiwiSaver administration to be relatively straightforward and to represent a low to moderate compliance cost.
Determining eligibility for automatic enrolment	Most employers have ways to determine employees' eligibility for enrolment in KiwiSaver. Determining eligibility is, however, a potential source of tension between employers and employees given that employees are not obliged to provide age information to employers, allowing for the possibility that ineligible individuals are being enrolled.
Providing information to staff	Providing information about KiwiSaver to new staff is a common part of employers' induction processes.
Compulsory employer contributions	Employers understand their CEC obligation. Most find the process of paying CEC and claiming the associated tax credit straightforward, although some have had difficulty determining what they are entitled to claim. Generally large employers have made decisions about how to accommodate the ongoing costs of CEC to their business; smaller employers have not.

Administration

In general, the interviewed employers are administering KiwiSaver as intended. KiwiSaver has become part of these employers' usual staff induction and payroll processes and most have ways of checking employees' eligibility (age and immigration status) for membership.

While in the early months of KiwiSaver there was some concern about an unexpectedly low level of automatic enrolments, research with employers and subsequent investigations by Inland Revenue indicated that, rather than being a case of genuine non-compliance (although this may be the case for some employers), lower than anticipated numbers of automatic enrolments were the result of :

- Forecasts of the number of anticipated job changes that did not initially take account of all criteria for individuals' exemption from automatic enrolment (including the fact that some employers were exempt from automatically enrolling new staff);
- Limited information available to Inland Revenue to identify employees subject to automatic enrolment rules;
- High level of take-up of KiwiSaver through opt-in methods, hereby reducing the pool of individuals who may otherwise have been automatically enrolled when they changed jobs; and
- Misunderstanding of the process on the part of employers.

Most employers interviewed as part of the employer panel have means to check individuals' eligibility. Employers were less likely to collect age-related information than immigration information from potential employees, because there is no legislative requirement to do so. Having to check whether employees meet KiwiSaver's age criteria or not is a potential source of tension between employers and employees, as some staff do not want to provide their age or date of birth. A small number of the participating employers know that they have mistakenly joined ineligible staff to KiwiSaver as a result. Given that KiwiSaver is still relatively new, and also that new businesses will start-up all the time, a continued focus for Inland Revenue on ensuring that employers understand their automatic enrolment obligations will be important.

In general, employers are more familiar with how KiwiSaver works and more certain now about their obligations than they were when interviewed for phase one of the research. For example, fewer employers expressed concern about the timing of contributions refunds for new employees who opt-out, than had done so in the first phase of research. This is likely to be the result of both improvements made by Inland Revenue in the speed to process employer monthly schedules and refunds, as well as a greater understanding on the part of employers of Inland Revenue's timeframes for administration.

Impact of business size on implementation approach

Feedback provided by the panel's employers, suggests that business size affects employers' approach to KiwiSaver implementation.

- SME employers tend to implement KiwiSaver on an "as needed basis". For example, while they have started paying the 1% CEC on top of members' gross pay from 1 April 2008, the majority have delayed deciding how they will accommodate the higher CEC rates into their wage costs until the ETC no longer offsets most of the CEC cost; many have not worked out when that will be.

- In contrast, the large enterprise employers have decided how they will manage KiwiSaver in the future, largely because they needed to determine how they were going to operate KiwiSaver and their existing workplace superannuation schemes. These employers also had to consider how to accommodate the CEC across different types of employment contracts.

- SMEs do not consider that they have incurred significant time or financial costs in implementing KiwiSaver and administering it on an ongoing basis. This is largely because they are administering KiwiSaver for a small number of staff. In comparison, the large enterprises' compliance costs have been relatively high. A key reason for this was the time required to administer KiwiSaver for a larger number of employees. Large enterprises also had the transition costs of deciding how to run KiwiSaver alongside existing workplace schemes, accommodating the CEC in different types of employment contracts, and building CEC and ETC functionality into complex payroll systems.

Compulsory employer contributions and the employer tax credit

Most employers interviewed find it relatively straightforward to include the CEC and ETC calculations in their PAYE process, and understand how to claim the tax credit. All but a few employers interviewed use an electronic payroll system to calculate their contributory obligations and credit entitlements.

Impact on wage costs and contract negotiations

At the time of interviewing, 29 of the 34 employers on the panel had at least one employee who had joined KiwiSaver. The majority of these employers have deferred the decision about how they will include the CEC in their pay structure until it increases their wage costs.

- For most of the employers (20), the 1% CEC currently has no effect on their wage costs because the ETC offsets the entire cost of the CEC.
- Four employers' wage costs have increased slightly because the ETC does not cover the entire cost of the 1% CEC.
- The remaining five have not calculated the extent to which the ETC offsets the cost of the CEC and therefore could not comment on the affect on their wage costs.

Of those employers with KiwiSaver members, most had not entered into employment contracts with employees which took into account the CEC. Those few that had, tended to pay the CEC on top of gross pay for employees covered by a collective agreement.

The most common suggestion for accommodating the CEC in individual employment contracts was to put such employees on a total remuneration package. Total remuneration packages are primarily seen as a way of preventing the CEC from becoming an extra cost to the organisation. Some employers also consider these packages as a way of maintaining equity between KiwiSaver and non-KiwiSaver members. Others were less concerned about maintaining equity between members and non-members, because they believed that all eligible employees could join KiwiSaver if they wanted to.

Recently passed changes to the Employment Relations Act relating to CEC will make it grounds for a personal grievance if an employee is adversely affected due to their KiwiSaver membership status. The impact of these changes on employers is a potential area for further investigation for the evaluation.

Claiming the ETC

From 1 April 2008, employers have been able to claim the ETC to help offset the cost of CEC to KiwiSaver and complying funds. For the period 1 April 2008 to 30 June 2008, approximately $47.3 million of ETC payments have been paid to employers. An employer can claim the lesser of the actual employer contributions for a member in a monthly payment period, or the maximum ETC an employer can claim per member per month (the amount given by calculating the precise number of weeks in a monthly payment period x $20).

Some employers interviewed had had difficulty understanding how to calculate the amount of ETC they could claim. It appears that employers were claiming the lesser of the actual employer contributions per member per week or the maximum tax credit of $20 per member per week. They should have been claiming the lesser of the actual monthly contributions per member or the maximum monthly tax credit per member. The uncertainty is due, no doubt, to the fact that the calculation is computed on a monthly basis but employers have a weekly entitlement to the credit. Further, where an employer has a pay cycle other than monthly, uneven distribution of payments will occur throughout the year, leading to a shortfall being paid to some employers. An annual ETC square-up process has been introduced at the end of each year to correct for any shortfalls in ETC payments to employers that may occur.

Inland Revenue administration

Inland Revenue is the central administrator for KiwiSaver and is responsible for receiving member and employer contributions (primarily through the PAYE process) and passing these contributions (along with the Crown contributions) on to scheme providers, providing information on KiwiSaver, allocating those members who do not choose their own scheme to one of the default schemes, and administering opt-out and contributions holiday requests.

Inland Revenue's administration of KiwiSaver has the ability to impact positively or negatively on individuals' KiwiSaver membership experience. Table 18 below describes the specific roles that Inland Revenue has and discusses each of these within the context of the year one member experience.

Table 18: Inland Revenue administrative roles

Inland Revenue roles	Effectiveness
Receiving member and employer contributions	Received $455 million contributions from members, $75 million contributions from employers and $9.8 million of ad hoc contributions at 30 June 2008 (table 13).
Passing funds to providers	$1.037 billion funds passed to providers (refer table 22 below).[12] Funds held by Inland Revenue in holding account for an initial period of three months following enrolment while members make their provider/scheme choice. Processing Employer Monthly Schedules (EMS) in order to pass funds to providers was a core implementation issue, delaying the passing of funds to providers in 2007. Changes to the way EMS are processed have meant that now 90% of EMS are processed and funds are ready for passing to providers by the end of the month following the due date for receipt of the EMS. 15% of KiwiSaver complaints for 2007/08 related to members' funds not passed to scheme providers.
Allocating members to default schemes	259,299 members allocated across six default schemes (refer table 2 above).
Opt-out and holiday requests	Processed 137,762 opt-outs Closed 1,044 accounts Processed 3,543 financial hardship contributions holidays Refunding contributions following opt-outs was also impacted by EMS processing. Changes to the way EMS are processed have meant that now 90% of EMS are processed by the end of the month following the due date for receipt of the EMS. Further, changes to Inland Revenue's refunds systems and processes resulted in improvements in timeliness and numbers of refunds outstanding from early 2008. 29% of KiwiSaver complaints for 2007/08 related to declined opt-out requests. 20% of complaints related to late refunds following opt-out.

Processing enrolments

That the implementation of KiwiSaver in the workplace has been relatively straightforward for employers is largely due to the fact that it relies on the existing Employer Monthly Schedule (EMS) filing process. The EMS was chosen as the vehicle for administering KiwiSaver in order to minimise additional compliance costs for employers (given that it is the vehicle by which employers file PAYE). Set out below is the process for collecting and processing member deductions through the EMS system.

- Employee's deductions are passed to Inland Revenue through the PAYE (EMS) process. Employers are required to file their EMS by the 5th or the 20th of the month after the month to which the EMS relates (i.e. an employer's EMS for January is due with Inland Revenue by either the 5th or 20th of February), meaning that some employee deductions for early January may not be received by Inland Revenue until mid to late February.

[12] Figures relating to funds passed from Inland Revenue to providers are gross (i.e. they exclude refunds from providers) and are provisional only. Inland Revenue is currently reconciling final payments.

- Inland Revenue targets 90% of EMS processed by the end of the month following the due date for the EMS (i.e. 90% of January EMS which are due no later than 20th February are targeted to be processed by the end of March).

- Inland Revenue holds a new member's contributions in a holding account for three months while they have the opportunity to choose their scheme and provider. Following the three-month period, funds are passed to the individual's provider (this is an allocated provider if the individual has not made an active choice of provider). After the three-month period, contributions are passed regularly to providers in accordance with the timeframes for EMS processing.

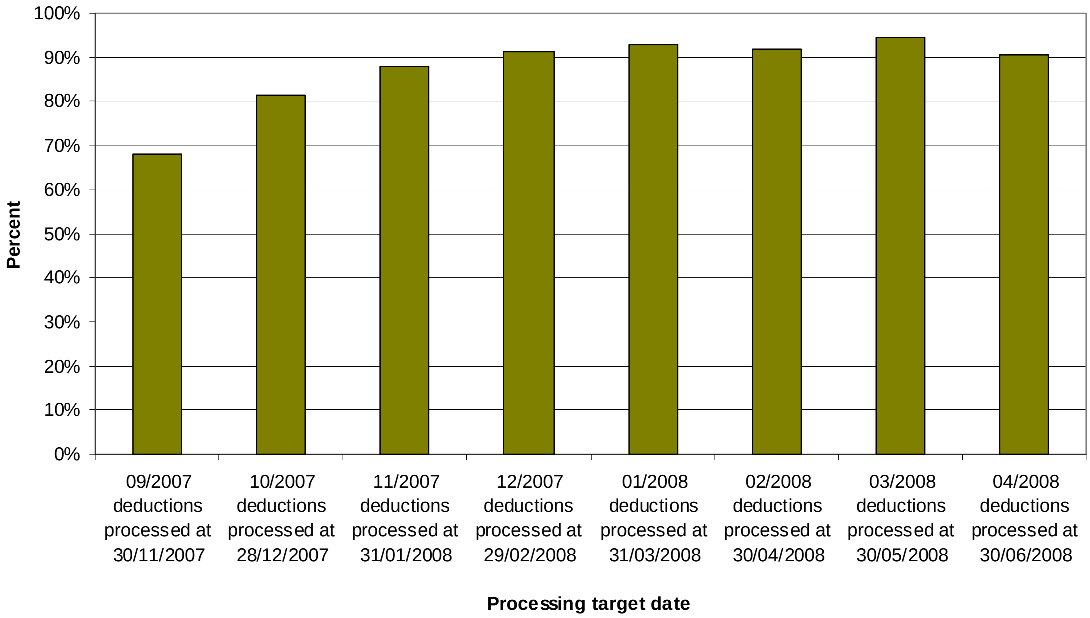
Using the EMS system for processing KiwiSaver contributions presented initial processing challenges for Inland Revenue. During KiwiSaver's early months, pressure on the system and, in a number of cases, late filing and insufficient or incorrect information provided on the EMS by employers, contributed to delays in both passing funds to providers and in processing opt-outs and refunds.

While overall KiwiSaver customer complaints were relatively low compared to Inland Revenue's other social policy functions, opt-outs, refunds and delays in passing funds to providers were the three most common sources of KiwiSaver customer complaints during 2007/08.

Of the 488 KiwiSaver complaints for the year (which represented 7% of all complaints received by Inland Revenue), 29% related to declined opt-out requests, 20% to refunds following opt-out, and 15% related to delays in funds transfer. It is worth noting however that 51% of the complaints received were resolved by providing additional information to customers (e.g. by explaining the fact that Inland Revenue holds member funds for an initial three-month period while a member makes their scheme choice). This suggests that ongoing communication to members about timeframes and processes for funds passing from pay packets to providers is an important priority.

Following early processing challenges, changes to the way in which Inland Revenue processes the EMS and directing resource to clearing a processing back-log, have meant that, since December 2007, the operational target of 90% of EMS processed and funds ready for passing to providers at the end of the month following the due date for filing has been consistently met (refer figure 5). Further, this improvement has been achieved over a period when the volume of deductions being processed has continued to increase. The 68% of September 2007 deductions processed by the end of November 2007 (refer figure 5) accounted for 152,418 employees, whereas the 91% of April 2008 deductions processed by June 2008 accounted for 397,416 employees.

Figure 5: Processing performance for employee contributions



Base: Employee deductions for September 2007 to April 2008 processed by 30 June 2008.
Source: Inland Revenue administrative data.

While significant improvements have been made, some employee deductions are not yet finalised (i.e. have not been either passed to providers or refunded as appropriate) for the July 2007 to May 2008 period. This delay is largely due to insufficient enrolment information being provided, meaning Inland Revenue is unable to confirm individuals' membership, and delayed filing of EMS by employers. The finalisation and clearing of EMS remain core administration priorities for Inland Revenue.

Part six: KiwiSaver in the market

This section discusses the supply-side of the KiwiSaver market. It describes the profile of the KiwiSaver market in terms of providers, schemes and funds under management, and provides some provisional findings on the impact that KiwiSaver's introduction has had on New Zealand's superannuation market. This section draws on the following:

- Inland Revenue's administrative data;
- Report of the Government Actuary to Parliament under section 194 of the KiwiSaver Act 2006; and
- Interview and survey research with KiwiSaver scheme providers. Interviews with 14 providers (six default providers and 8 active choice providers) were held through July and August 2008 and an online survey was sent to all 31 providers and administered in August 2008. This research has not yet been completed and the results that follow should be considered as provisional only. Full results and conclusions will be reported in the next evaluation report in March 2009.

Funds passed to providers

During KiwiSaver's first year, Inland Revenue passed $1.037 billion dollars to scheme providers. Of this, just over half (55%) were contributions from the Crown, over one-third (38%) were deductions from employees and 6% were employer contributions (table 19). Given that CEC were introduced in April 2008, little of the employer contributions are compulsory contributions as the EMS for this period would not have been due until either the 5th or 20th of May 2008.[13]

The tables and figures following in this part only relate to the contributions that have come through Inland Revenue. Members can make contributions directly to scheme providers so the figures here do not represent all of the contributions made to KiwiSaver accounts in the first year. The member sub-groups that are likely to be under-represented in the figures are children, the self-employed and those not working.

[13] Figures relating to funds passed from Inland Revenue to providers are gross (i.e. they exclude refunds from providers) and are provisional only. Inland Revenue is currently reconciling final payments.

Table 19: Gross funds passed to providers

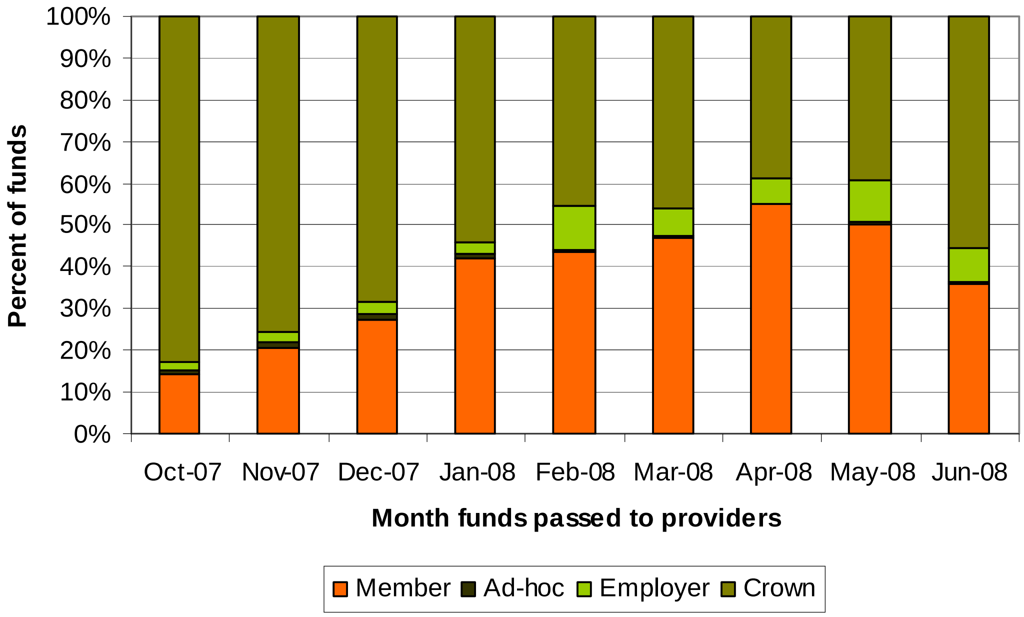
Payment types	Funds passed ($000s)	Percent
Member contributions	394,679	38%
Employer contributions	63,500	6%
Ad hoc contributions	7,372	1%
Total member contributions	**465,551**	**45%**
Kick-start	551,475	53%
Fee subsidy	15,387	1%
Interest	4,933	0%
Total Crown contributions	**571,795**	**55%**
Total contributions	**1,037,347**	**100%**

Base: All funds passed from Inland Revenue to providers to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. Figures here are provisional only. Inland Revenue is currently reconciling final payments.
Source: Inland Revenue administrative data.

Figure 6 provides a month-by-month breakdown of the composition of contributions being passed to providers (the first contributions were passed to providers in October 2007 following the three-month holding period).

The proportion of contributions coming from the Crown decreased until June 2008 at which point it increased 16% on the previous month. This increase reflects the significant growth in all enrolments occurring in March and April (and therefore kick-start payments being passed to providers in June).

Figure 6: Gross funds passed to providers by contributions source



Base: All funds passed to providers by Inland Revenue to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. Figures here are provisional only. Inland Revenue are currently reconciling final payments.
Source: Inland Revenue administrative data.

KiwiSaver providers and schemes

At the end of the first year, 54 KiwiSaver schemes were available to members provided by 31 scheme providers. In addition, 30 superannuation schemes covering 136 employers were registered as complying funds. The numbers of providers in the market and schemes on offer exceeded what was expected at KiwiSaver's introduction.

- Of the 31 providers, most (26) are operating one scheme only, two providers have two schemes each, and the remaining three providers have three, four and 17 schemes. Most of these 17 schemes are employer or industry specific schemes (i.e. not retail schemes) being administered by a single provider.

- Of the 54 schemes, 37 are retail schemes for members of the general public and the remaining 17 are employer (or industry) specific schemes which are only open to employees of particular companies or industries. Note that these employer specific schemes are different to employer-nominated schemes which individual employers can select for their staff should they not wish to make an active choice of scheme themselves. While the 17 employer-specific schemes are not open to the general public, they are included in the analysis of market share that follows as employees of the affected employers and industries have a choice to join their company scheme or any other retail scheme.

The funds columns in the tables below represent the funds that Inland Revenue has passed to providers at 30 June 2008. The membership column represents all the members of KiwiSaver at 30 June 2008. The funds passed will not correspond to all the members in the member column, largely because of the three-month holding period for new members' contributions. Provider and scheme individual rank is determined by funds passed (not membership numbers).

At a provider level, the six largest providers account for approximately three-quarters (74%) of the funds passed from Inland Revenue and the membership base (77%). The next six largest providers hold one-fifth of the market (refer table 20).

Table 20: Distribution of funds and membership by provider

Provider rank	Funds passed ($000)	Percent	Member count	Percent
1-6	770,841	74%	551,981	77%
7-12	208,797	20%	128,045	18%
13-18	43,997	4%	28,462	4%
19-24	12,445	1%	7,050	1%
25+	1,267	0%	722	0%
Total	**1,037,347**	**100%**	**716,260**	**100%**
Unspecified at time of reporting			377	
Total			**716,637**	

Base: All funds passed from Inland Revenue to providers to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. All members at 30 June 2008 for whom scheme and provider information is known. Figures here are provisional only. Inland Revenue is currently reconciling final payments.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

At a scheme level, the top six schemes account for 62% of the funds passed by Inland Revenue (table 21) highlighting when compared to table 23 that, while the default schemes are dominant in the market, they do not account for the top six scheme places.

While there have been a large number schemes registered during the first year, the market is dominated by a few large schemes and the remaining majority are small (both in terms of members and funds under management).

- Most schemes (45 of the 54 schemes) have fewer than $40 million contributions each and of those 45, 34 have fewer than $5 million contributions each (refer figure 8).

- Half of the schemes with fewer than $5 million in funds passed are retail schemes and half are only available to employees of specific companies or industries.

Table 21: Distribution of funds and membership by scheme (all schemes)

Scheme rank	Funds passed ($000)	Percent	Member count	Percent
1-6	641,858	62%	456,027	64%
7-12	262,711	25%	174,892	24%
13-18	84,857	8%	56,402	8%
19-24	28,042	3%	16,990	2%
25-30	13,848	1%	8,908	1%
31-36	4,477	0%	1,958	0%
37+	1,553	0%	1,093	0%
Total	**1,037,347**	**100%**	**716,260**	**100%**
Unspecified at time of reporting			377	
Total			**716,637**	

Base: All funds passed from Inland Revenue to providers to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. All members at 30 June 2008 for whom scheme and provider information is known. Figures here are provisional only. Inland Revenue is currently reconciling final payments.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

Table 22 provides the distribution of funds passed and members by retail schemes only. It shows little differences to table 21 above as the 24 largest schemes are retail schemes.

Table 22: Distribution of funds and membership by retail schemes

Scheme rank	Funds passed ($000)	Percent	Member count	Percent
1-6	641,858	62%	456,027	64%
7-12	262,711	25%	174,892	24%
13-18	84,857	8%	56,402	8%
19-24	28,042	3%	16,990	2%
25-30	13,731	1%	8,589	1%
31+	2,123	0%	1,315	0%
Total	**1,033,322**	**100%**	**714,215**	**100%**

Base: All funds passed from Inland Revenue to retail schemes to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. All members at 30 June 2008 for whom scheme and provider information is known. Figures here are provisional only. Inland Revenue is currently reconciling final payments.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

At the end of the first year the default schemes accounted for approximately 60 percent of both the membership and the funds passed from Inland Revenue to providers. Of the $1.037 billion funds passed to providers, 60% has been passed to the six default schemes and 40% to non-default (active choice) schemes (refer table 23 and figure 7).

The share of the market held by default schemes is particularly interesting when considered alongside enrolment information. While the default schemes hold 60% of the funds passed from Inland Revenue, automatic enrolments and opt-ins via an employer account for 52% combined of net enrolments for the year (automatic enrolments account for 36% of net enrolments and opt-in via employer for 17%). This suggests that the default schemes have captured a greater share of the market than what an understanding of the enrolment process would suggest they would achieve. However, as noted above in part four, scheme-level data do not enable conclusions to be drawn about the risk profile of individuals' investments; data at the fund level is required.

Table 23: Distribution of funds and membership by default and non-default schemes

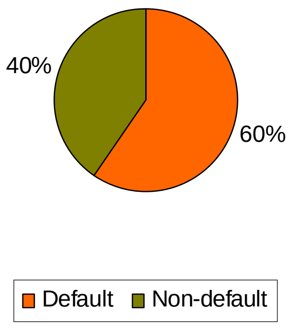
Scheme status	Funds passed ($000)	Percent	Member count	Percent
Default schemes	618,680	60%	421,697	59%
Non-default schemes	418,666	40%	294,563	41%
Total	**1,037,347**	**100%**	**716,260**	**100%**
Unspecified at time of reporting			377	
Total			**716,637**	

Base: All funds passed from Inland Revenue to providers to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. All members at 30 June 2008 for whom scheme and provider information is known. Figures here are provisional only. Inland Revenue is currently reconciling final payments.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

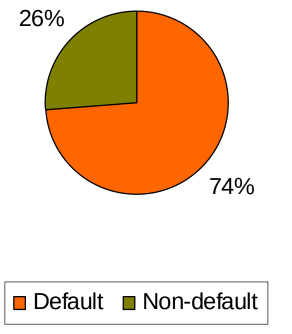
When considered at the provider level, default providers hold a greater share of the market (74% of contributions passed by Inland Revenue and 73% of the membership base) suggesting that default providers have been successful in achieving considerable membership in their non-default schemes.

Figure 7: Funds passed and membership by provider and scheme status (all schemes)

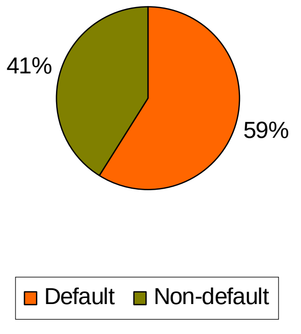
Contributions passed by scheme status



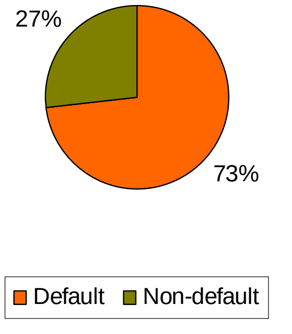
Contributions passed by provider status



Membership by scheme status

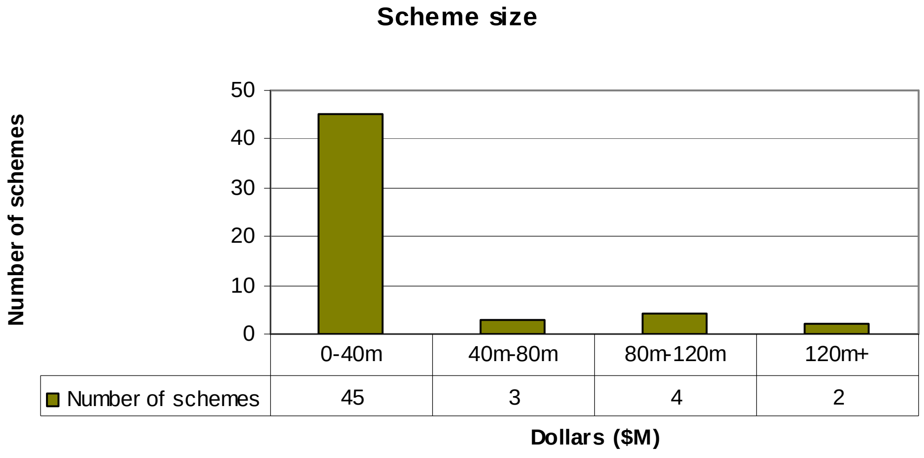


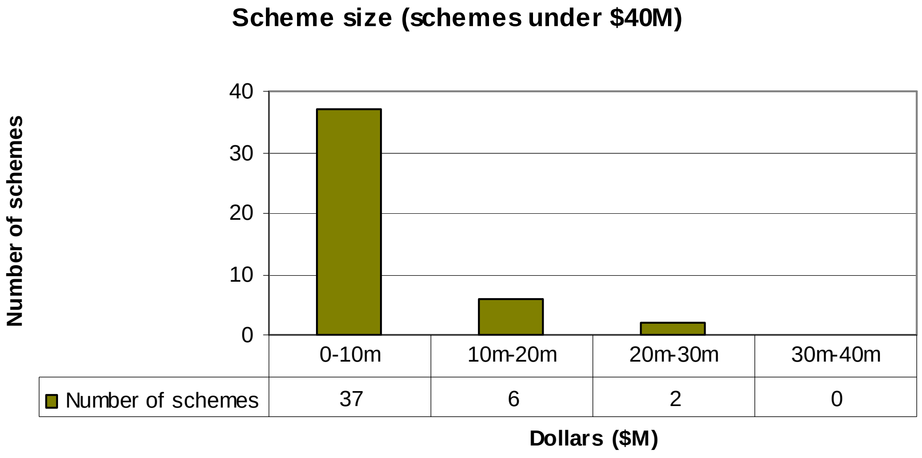
Membership by provider status

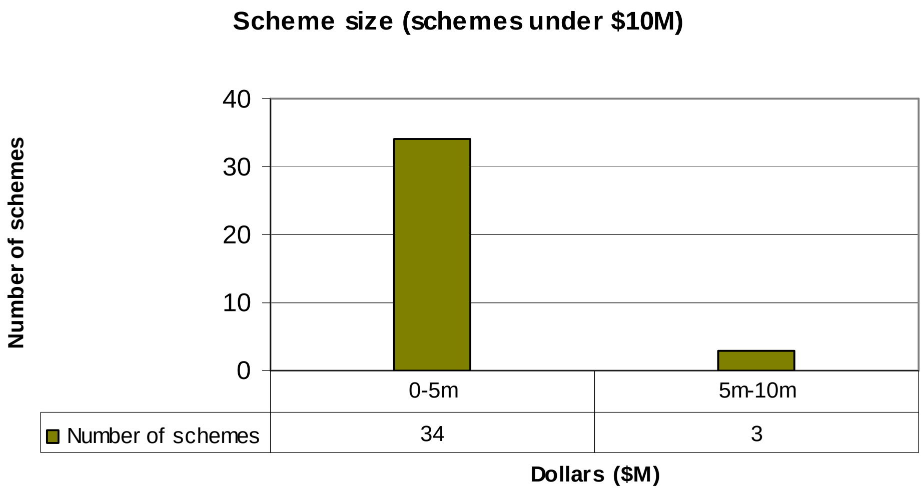


Base: All funds passed from Inland Revenue to providers to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. All members at 30 June 2008 for whom scheme and provider information is known. Figures here are provisional only. Inland Revenue is currently reconciling final payments.
Source: Inland Revenue administrative data.

Figure 8: Scheme size by funds passed







Base: All funds passed from Inland Revenue to providers to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. Figures here are provisional only. Inland Revenue is currently reconciling final payments.
Source: Inland Revenue administrative data.

Asset allocation

The table below (table 24) provides an overview of the way in which KiwiSaver funds are being invested. The table is based on the statistical returns that providers supply each year to the Government Actuary (under section 125 of the KiwiSaver Act 2006) and shows the benchmark investment asset mix for the ten largest schemes (where size is determined by assets under management) and for the default funds. Note that the default funds are excluded from the general conservative portfolio distribution.

The table shows that balanced and growth portfolios are more heavily weighted towards shares and property than conservative and default funds, which are mostly invested (approximately three-quarters) in cash and fixed interest products. The default funds are more heavily cash-based than the general conservative portfolio, which reflects the requirement the government placed on default funds.

Table 24: Benchmark investment asset mix

Asset	Ten largest KiwiSaver schemes			Default funds
	Conservative portfolio	Balanced portfolio	Growth portfolio	
Cash	28%	13%	13%	38%
Fixed interest	18%	13%	4%	13%
International fixed interest	27%	20%	8%	26%
Shares	7%	14%	22%	6%
International shares	14%	31%	43%	12%
Property	4%	7%	8%	3%
Other	2%	2%	3%	2%
Total	100%	100%	100%	100%

Base: Asset allocation for 46 schemes (registered with the Government Actuary as at 31 March 2008) that provided statistical returns to the Government Actuary as required by section 125 of the KiwiSaver Act 2006.
Source: Report of the Government Actuary for the year ended 30 June 2008.

Superannuation and financial sector impact

The following are provisional conclusions from the evaluation's research into the supply-side impact of KiwiSaver. The first phase of this research is nearing completion. Full results and conclusions will be included in the next evaluation report in March 2009.

Pre-KiwiSaver market

Prior to the introduction of KiwiSaver, membership of superannuation schemes had been in decline since the 1990s. While membership numbers were falling, ongoing new contributions and returns on investment ensured that the superannuation asset base continued to grow.

Company superannuation schemes had been most affected by the general decline in membership base. Increases in the compliance costs associated with providing these products required employers to revisit their approach to workplace based superannuation schemes. Many schemes were closed to new members, wound up or incorporated into master trusts. Individual superannuation schemes have also been impacted in recent years as individuals favoured alternative vehicles for retirement savings, including property and direct investment in shares, bonds and deposits.

The nature of product on offer in the superannuation market has also changed over the past 15 to 20 years. Defined contribution schemes (where the individual bears the risk associated with investment returns) have grown in popularity at the expense of defined benefit schemes. This may in part be the result of changes in employment trends, with fewer workers spending their career with a single employer.

Year one market changes

As described above, KiwiSaver represented a significant change in New Zealand's retirement policy settings. In a similar way, its introduction marked a change for the way the superannuation market operated. Many providers interviewed for the evaluation considered KiwiSaver's introduction had provided a "boost" to the managed funds industry.

Entering the KiwiSaver market for existing superannuation providers was primarily driven by the need to continue to compete in the superannuation market. For those who had not previously provided superannuation products, KiwiSaver was seen as an opportunity to expand their brand and product offerings.

Research with providers highlighted the following impacts on New Zealand's superannuation industry in KiwiSaver's first year:

- KiwiSaver has broadened the nature of the superannuation market. Despite concentration in the market, there is diversity in both providers and products, providing competitive opportunities for innovation in distribution, service and investment approach;
- While upfront investment required of providers' has been significant, KiwiSaver has provided opportunities for providers to invest in systems infrastructure that will also benefit non-KiwiSaver products; and
- Regulatory oversight of fees has kept the cost of KiwiSaver membership lower than that of similar products. In some cases, providers have had to adapt to what they consider to be a new low-cost, low-touch delivery model.

As expected, after the first year, KiwiSaver assets are small relative to other superannuation funds and total managed funds. The future impact of KiwiSaver on capital markets will depend on the asset allocations of KiwiSaver funds and the choice of funds by members. Statistics New Zealand's (SNZ) Managed Funds Survey figures indicate that, at the March quarter 2008, 61% of total KiwiSaver funds were invested in New Zealand and 21% of total KiwiSaver funds were invested in New Zealand equities. Some care needs to be taken in drawing conclusions from this data as the March quarter is the first period for which KiwiSaver data has been collected as part of the Managed Funds Survey.

Monitoring supply-side impact

The first phase of the evaluation of the supply-side impact of KiwiSaver is nearing completion. The focus of the current work is to:

- Determine the baseline picture (both quantitative and qualitative) of the pre-KiwiSaver environment;
- Examine the early impacts on the superannuation market and, to the extent possible, on the wider financial sector; and
- Determine a framework for monitoring the impact on the industry over the longer term.

Full results and conclusions from the current baseline research (provisionally reported above) and the framework for ongoing monitoring and evaluation of the supply-side impact will be discussed in the next evaluation report.

Part seven: Conclusions and next steps

This is the first annual report for the KiwiSaver evaluation. It is part of the programme of reporting, agreed to by Ministers at the outset of the evaluation, which is intended to provide regular performance-related information on KiwiSaver. It has focused on drawing together the conclusions of various pieces of evaluation research undertaken throughout the year. In particular, it has:

- Profiled the KiwiSaver membership base and drawn some early comparisons between KiwiSaver members and non-members;
- Outlined the extent to which KiwiSaver members have taken advantage of the flexibilities built into the scheme;
- Discussed the implementation of KiwiSaver, focusing on Inland Revenue's administration and implementation in the workplace; and
- Provided an early assessment of size and nature of the KiwiSaver market and the impact that KiwiSaver has had to date on New Zealand's superannuation industry.

Over the first year of the project the evaluation has undertaken the following research:

- Qualitative research with scheme providers to determine how effectively Inland Revenue had engaged with providers in the lead up to and launch of KiwiSaver;
- Communications and awareness research with employers and individuals looking at what these groups knew about KiwiSaver and how effective Inland Revenue's communications activity had been at reaching these audiences;
- Two phases of research with a panel of employers and a sample of their employees to understand employers' approaches to implementing KiwiSaver in the workplace;
- Research with employers and employees looking specifically at whether the automatic enrolment process is working as intended; and
- Qualitative and quantitative research (in progress) with scheme providers to understand the early impact that KiwiSaver has had on the superannuation industry.

From a research perspective, it is still relatively early days for KiwiSaver. Much of the evaluation work conducted to date raises as many questions as it provides answers. Further, given the long-term nature of retirement policy interventions, trends and expectations regarding the impact of KiwiSaver will take time to emerge. In light of this, this report has provided a commentary on the evaluation findings to date as well as identifying questions and priorities for further research.

Are people enrolling?

The higher than expected level of uptake of KiwiSaver has been the recurring theme in reporting throughout this first year. Forecasts have repeatedly under-estimated the rate of membership growth as well as over estimated the rate at which automatic-enrolees would opt-out.

Of the 716,637 members at the end of the first year, 47% had enrolled directly with a provider, 36% were automatically enrolled, and 17% had opted-in via their employer. Opt-ins peaked twice during the year, firstly in the early months and secondly during April/May 2008. Automatic enrolments grew steadily over the year.

Analysis of samples of members and non-members shows that both KiwiSaver members and those who have had no interaction with KiwiSaver are associated with mid to higher incomes and mid to higher age groups, suggesting that, according to these profile characteristics, they may not be substantially different groups. Opting-out of KiwiSaver is associated with lower incomes and younger age groups. Gender is not associated with membership status.

Evaluation research suggests that enrolment is being motivated by the financial incentives on offer, as well as a desire by individuals to save for their retirement. The minimum 4% contribution rate, having other provisions for retirement, and concern about future changes to KiwiSaver are discouraging enrolments.

Are members saving?

Of the $1.037 billion contributions that have been passed to providers, just over one-third (38%) are contributions from members.[14] It is too early to confidently say whether these contributions have been funded by diverting savings from other sources (including debt reduction) or whether they represent new savings that would otherwise not have been saved.

While it is too early to draw conclusions on the levels of new and displaced saving, some interviewed employees consider that, had they not joined KiwiSaver, they would have saved their contributions in other ways (including reducing debt and maintaining previous levels of commitment to existing workplace superannuation schemes), and others consider they would have spent their contributions on what they consider to be discretionary, or unessential, items. Addressing the question of new and displaced saving is a core priority for the evaluation and will be the focus of research planned over the coming year.

KiwiSaver is principally a work-based scheme which is intended to accommodate changes in individuals' financial and savings priorities over their lifetime. This report has examined some of the early savings choices that members are making with regard to their KiwiSaver accounts.

[14] Figures relating to funds passed from Inland Revenue to providers are gross (i.e. they exclude refunds from providers) and are provisional only. Inland Revenue is currently reconciling final payments.

It has found that, while almost half (49%) of KiwiSaver members have made an active choice of scheme, almost all of those who have done so have opted-in to KiwiSaver via a provider. Those who have either opted-in via their employer or been automatically enrolled tend to be members of either a default or employer-nominated scheme that they were allocated to, suggesting that their scheme membership is being influenced largely by the enrolment process rather than active investment choice.

Research with employees suggests that individuals are exercising greater choice over the rate at which they save than they are over their scheme choice, with the 4% contribution rate favoured by those interviewed, largely for affordability reasons.

Is KiwiSaver being administered as intended?

Under tight timeframes for implementation, employers have found implementing KiwiSaver in their workplaces relatively straightforward. In the early stages, the largest compliance cost faced by employers was the time required to learn about KiwiSaver and communicate it to staff. In terms of ongoing administration, employers interviewed do not, on the whole, consider KiwiSaver compliance costs to be significant.

The evaluation research has found that, in general, employers are administering KiwiSaver as intended. While in the early months there was some concern about an unexpectedly low level of automatic enrolments, research with employers and subsequent investigations by Inland Revenue indicated that, rather than being a case of genuine non-compliance (although this may still be the case for some employers), lower than anticipated numbers of automatic enrolments were the result of misunderstanding the process on the part of employers, forecasting that did not sufficiently account for all the criteria for exemption from automatic enrolment, and a high level of uptake through opt-in methods. Recent research with employers shows that employers understand the eligibility requirements for automatic enrolment and have ways of checking whether or not new staff are eligible to join KiwiSaver. In some cases, asking for age information from employees is a source of tension in the workplace.

The size of business affects interviewed employers' approach to KiwiSaver implementation and has had some bearing on their approach to accommodating CEC and managing wage costs over the longer term; small businesses tend to be administering KiwiSaver on an as-needed basis, while large enterprises have generally planned how they will manage KiwiSaver in coming years. Recently passed changes to the Employment Relations Act relating to CEC will make it grounds for a personal grievance if an employee is adversely affected due to their KiwiSaver membership status. The impact of these changes on employers is a potential area for further investigation for the evaluation.

As the central administrator, Inland Revenue's implementation and delivery of KiwiSaver has the ability to impact individuals' KiwiSaver membership experience. In KiwiSaver's early months transferring funds and refunds through the system presented processing challenges, resulting in delays in funds being passed to providers and refunds being returned to those who opt-out. Changes made to the way Inland Revenue processes EMS have resulted in improvements in KiwiSaver's administration and the performance target of 90% of EMS processed and funds ready to be passed to providers at the end of the month following the EMS filing date is now being met.

Has the KiwiSaver market grown?

The KiwiSaver market has grown in the first year to include 31 scheme providers and 54 schemes. The market however is relatively concentrated in terms of the membership base and funds under management by providers. Approximately three-quarters of the membership base and funds passed from Inland Revenue to providers are held by six of the 31 providers and two-thirds of the funds and members are held in the six largest schemes. Despite this concentration, there are already a number of niche players in the market promoting innovation in investment products and targeting particular investor sub-groups.

Membership of superannuation schemes, both corporate and personal products, was in decline prior to the introduction of KiwiSaver. Many corporate superannuation products were being closed to new members, wound up or incorporated into master trusts to improve administrative efficiency. Individual superannuation schemes were also affected as individuals favoured alternative vehicles for retirement savings.

Many providers interviewed for the evaluation considered KiwiSaver's introduction had stimulated the managed funds industry by broadening the nature of the superannuation market. Entering the KiwiSaver market for existing superannuation providers was primarily driven by the need to continue to compete. For those who had not previously provided superannuation products, KiwiSaver was seen as an opportunity to expand their brand and product offerings.

Research into the supply-side impacts of KiwiSaver is only just underway and will continue over the duration of the evaluation project. Full results and conclusions of the first phase of this research will be available in the next evaluation report as will the framework for monitoring the impact on the superannuation industry over the longer-term.

Evaluation next steps

Over the course of the 2008/09 year, priorities for the evaluation project are to focus on scoping work on the impact of KiwiSaver on individuals' savings attitudes and behaviours. A core part of this will be finalising KiwiSaver content for the assets and liabilities module in SoFIE as well as planning the evaluation's own research with individuals. Finalising the framework and work programme for the supply-side evaluation is also a priority.

Research conducted during this first year has highlighted opportunities for undertaking additional research in the following areas:

- Understanding different factors that influence individuals' membership of KiwiSaver;

- Understanding what factors influence applications for contributions holidays;
- Investigating whether those who are enrolled in KiwiSaver as children exhibit different savings behaviours over time to those who enrol as adults;
- Understanding the impact that changes to the Employment Relations Act have on employers' approach to CEC and wage negotiation; and
- Investigating the extent to which the 4% minimum contribution rate is influencing participation.

The next evaluation report will be reported to Ministers by March 2009.

APPENDICES

Appendix one: Report inputs

Inland Revenue. (2007). *KiwiSaver Communications and Awareness Evaluation Research Report 1.1: Provider feedback on the engagement mode*l. Wellington: Inland Revenue.

Inland Revenue. (2007). *KiwiSaver Evaluation of Implementation in the Workplace Research Report 2.1: Employer Panel Phase 1.* Wellington: Inland Revenue.

Inland Revenue. (2008). *KiwiSaver Communications and Awareness Evaluation Research Report 1.2: Employer Survey Results.* Wellington: Inland Revenue.

Inland Revenue. (2008). *KiwiSaver Communications and Awareness Evaluation Research Report 1.3: Individuals Survey Results.* Wellington: Inland Revenue.

Inland Revenue. (2008). *KiwiSaver Evaluation of Implementation in the Workplace Research Report 2.2: KiwiSaver automatic enrolment process*. Wellington: Inland Revenue.

Inland Revenue. (2008). *KiwiSaver Evaluation of Implementation in the Workplace Research Report 2.3: Employer Panel Phase 2.* Wellington: Inland Revenue.

Inland Revenue. (2008). *KiwiSaver Evaluation: Six-monthly Report 1, 1 July 2007 – 31 December 2007.* Wellington: Inland Revenue

Ministry of Economic Development. (2008). *KiwiSaver – Evaluation of Supply-Side Impacts*. Wellington: Ministry of Economic Development (provisional at time of reporting).

Report of the Government Actuary (in respect of the KiwiSaver Act 2006) for the year ended 30 June 2008. Presented to the House of Representatives pursuant to Section 194 of the KiwiSaver Act 2006.

Appendix two: KiwiSaver features and incentives

Features	
Work-based scheme	KiwiSaver is a work-based initiative meaning that information is provided by employers, and employees' contributions are deducted directly from their pay.
Eligibility requirements	To be eligible to join KiwiSaver, individuals must be a New Zealand citizen (or entitled to live in New Zealand indefinitely), and personally present or normally personally present in New Zealand, and under the age of eligibility for New Zealand superannuation (currently 65).
Default providers	Those individuals who are automatically-enrolled will be allocated to one of six government selected default schemes. These members have three months to choose their own scheme and if they do not they will be enrolled into the default scheme to which they were allocated.
Opt-in	Individuals can elect to join KiwiSaver directly, either through their employer or by contacting a scheme provider.
Automatic-enrolment and opt-out	Provided they are eligible for KiwiSaver, all new employees (i.e. those starting a new job) will be automatically enrolled in KiwiSaver unless they meet one of the conditions for exemption. Individuals may choose to opt-out within eight weeks (but not within the first two weeks) of starting the new job.
Scheme and contributions choice	KiwiSaver members can choose from a range of superannuation schemes and providers. They can also elect to contribute either 4% or 8% of their gross income.
Savings locked in	Savings cannot be withdrawn until the age of eligibility for New Zealand superannuation or until they have been a member for five years, whichever is the later.
Self- and non-employed	Those who are self-employed or not-employed can opt-in to KiwiSaver and can determine their level of contributions.
Employer tax credit	An employer tax credit of up to a maximum of $20 per week for each employee to reimburse employers for their contributions to employees' accounts.
Incentives	
Kick-start payment	Initial payment of $1,000 to an individual's account upon joining.
Member tax credit	Members are entitled to a tax credit of up to $1,042.86 per year ($20 per week) from 1 July 2007. The tax credit is paid automatically to an individual's KiwiSaver account, based on the level of contributions made.
Employer contributions	From 1 April 2008, employers are required to match individuals' contributions up to 1% from 1 April 2008, rising 1% a year to 4% from 1 April 2011.
Contributions holiday	Members are able to take a contributions holiday of between three months and five years after contributing for an initial 12-month period. Individuals can apply for a contributions holiday within the first 12 months for reasons of financial hardship.
First home deposit subsidy	After three years of contributions, an individual can access a conditional grant towards buying a home, equal to $1,000 per year of contribution up to $5,000.
First home withdrawal	After being a member for three years, individual's can withdraw all or part of their savings to contribute to a deposit on a first home.
Mortgage diversion facility	After being a member for 12 months an individual can split their contributions between their KiwiSaver account and their mortgage payments.
Fee subsidy	Members are entitled to a $40 provider fee subsidy each year.

Appendix three: Supporting data tables

Table 25: KiwiSaver members by region and method of enrolment

Regional authority	Auto-enrolled	Percent	Opt-in via employer	Percent	Opt-in via provider	Percent	Total	Percent
Auckland	80122	32%	43754	38%	122456	37%	246332	35%
Bay of Plenty	15957	6%	6206	5%	19140	6%	41303	6%
Canterbury/West Coast	36008	14%	15918	14%	45549	14%	97475	14%
Gisborne	3234	1%	1335	1%	3156	1%	7725	1%
Hawke's Bay	10171	4%	3846	3%	13030	4%	27047	4%
Nelson/Marlborough	8840	4%	3242	3%	10864	3%	22946	3%
Northland	11298	5%	4949	4%	13885	4%	30132	4%
Otago/Southland	13452	5%	4649	4%	16488	5%	34589	5%
Taranaki/Wanganui	11337	5%	4725	4%	13242	4%	29304	4%
Waikato	27181	11%	10416	9%	31794	10%	69391	10%
Wellington/Manawatu	32504	13%	16472	14%	40431	12%	89407	13%
Total	250104	100%	115512	100%	330035	100%	695651	100%

Base: All members at 30 June 2008 where regional data is known.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

Table 26: KiwiSaver opt outs and closed accounts by region

Regional authority	Closed	Percent	Opt-out	Percent	Total	Percent
Auckland	375	40%	43984	33%	44359	33%
Bay of Plenty	54	6%	8891	7%	8945	7%
Canterbury/West Coast	142	15%	19372	15%	19514	15%
Gisborne	4	0%	1192	1%	1196	1%
Hawke's Bay	29	3%	5540	4%	5569	4%
Nelson/Marlborough	42	4%	5000	4%	5042	4%
Northland	34	4%	5778	4%	5812	4%
Otago/Southland	35	4%	6895	5%	6930	5%
Taranaki/Wanganui	38	4%	5588	4%	5626	4%
Waikato	71	7%	14990	11%	15061	11%
Wellington/Manawatu	125	13%	15307	12%	15432	12%
Total	949	100%	132537	100%	133486	100%

Base: All closed accounts and opt-outs at 30 June 2008 where regional data is known.
Source: Inland Revenue administrative data.
Totals may not add to 100% due to rounding.

Table 27: Funds passed to providers by month

Month	Member contributions ($000s)	Percent	Ad hoc contributions ($000s)	Percent	Employer contributions ($000s)	Percent	Total Crown ($000s)	Percent	Total contributions ($000s)	Percent
Oct-07	9,653	14%	756	1%	1,388	2%	56,215	83%	68,012	100%
Nov-07	26,161	20%	1,832	1%	3,255	3%	96,735	76%	127,982	100%
Dec-07	28,567	27%	1,225	1%	3,088	3%	71,213	68%	104,093	100%
Jan-08	59,482	42%	1,296	1%	4,407	3%	76,484	54%	141,670	100%
Feb-08	66,794	44%	494	0%	16,325	11%	69,744	45%	153,357	100%
Mar-08	47,855	47%	467	0%	7,255	7%	46,862	46%	102,439	100%
Apr-08	50,539	55%	427	0%	5,462	6%	35,815	39%	92,241	100%
May-08	57,476	50%	359	0%	11,271	10%	44,890	39%	113,996	100%
Jun-08	48,151	36%	517	0%	11,049	8%	73,838	55%	133,555	100%
Total	**394,679**	**38%**	**7,372**	**1%**	**63,500**	**6%**	**571,795**	**55%**	**1,037,347**	**100%**

Base: All funds passed to providers by Inland Revenue to 30 June 2008. Excludes refunds to Inland Revenue and contributions made directly to providers. Figures here are provisional only. Inland Revenue are currently reconciling final payments.
Source: Inland Revenue administrative data.

Appendix four: Sampling approach

Defining the eligible population

Throughout, this report refers to the eligible KiwiSaver population. In order to compare KiwiSaver members to non-members, the evaluation had to define the eligible population and identify them within Inland Revenue's administrative data. The following parameters were used to identify the eligible population:

- Individuals cannot have an overseas address as their most recent address provided to Inland Revenue;
- Individuals must be currently under the age of 65;
- Individuals must be identified as 'active' in the Inland Revenue database;
- Individuals must be identified as individuals (i.e. as opposed to companies, for example) in Inland Revenue's database;
- Individuals must be resident in New Zealand for tax purposes; and
- Individuals must have had some contact with Inland Revenue in the last 10 years. Contact includes paying PAYE or filing a tax return, making a student loan payment, or receiving entitlement payments such as Working for Families, child support or benefit.

This generates an estimate of the eligible population of 3.305 million.

While these parameters will generate a robust population estimate, there are some groups that are likely to be excluded or under-represented in the population.

- The population estimate will under-represent the children who are eligible for KiwiSaver due to the fact that not all children will have an IRD number. Those children who have a bank account or those whose parents receive Working for Families payments will have IRD numbers.
- The estimate will not capture those individuals who are eligible but do not have an IRD number.

Sampling for member and non-member groups

For the comparison of members and non-members the sampling approach was used.

- The analysis uses three member and non-member subgroups; active members, opt-outs, and no KiwiSaver interaction.

- Active members are those who have been enrolled in KiwiSaver for at least three months so that their contributions will have passed from the Inland Revenue holding account to their scheme providers. The Inland Revenue system records those within the initial three-month period as provisional members. In addition to those who have been members for more than three months, those who have opted in-via a provider or their employer but are within the three-month holding period are included in the active member sample. These members have been included because they have opted-in to KiwiSaver and so cannot opt-out. The only exclusion made from the active member group (that is not made from the analysis of the KiwiSaver member population in part three) are those that have been automatically enrolled but are within their eight-week opt-out period. These individuals have been excluded from the analysis as, based on previous data, approximately a third of these individuals will opt-out.

- The sample of opt-outs are those who have been automatically enrolled but have opted-out within the eight week opt-out period. These individuals have made an active choice not to participate in KiwiSaver.

- The sample of those who have had no KiwiSaver interaction are those that are eligible to join KiwiSaver but have not opted-in of their own choice and have not changed jobs within the past year so have not been through the automatic enrolment process.

- For all three samples, restrictions have been applied to age and source of income. Only those of working age (18-65) have been included. The groups are also restricted to those whose sole source of income is salary and wages.

- Samples have been taken in preference to comparing populations of members and non-members to ensure that equal sized groups of members and non-members are used, that the data used is clean and complete as far as possible, and for practical purposes for computation and analysis.

- Samples of the three groups (active members, opt-outs and no KiwiSaver interaction) will be redrawn for each report to capture the changing profile of members and non-members over time.

Appendix five: Additional data analysis

Correspondence analysis

Correspondence analysis is a multivariate technique which maps attributes against key groupings of interest allowing description of data patterns and exploration of relationships. The analysis uses chi-square measures to standardise frequency values as the basis for associations. Correspondence analysis summarizes information and provides a visual representation of data distribution in a two-dimensional map. Placement on the map (using axes of the chi-square distances) is used to draw conclusions about the strength of association.

The variables currently available for analysing KiwiSaver membership are very limited in number and in type. The primary variables are gender, income, age and membership categories/status. The means and median values of the age and income variables are very limiting in their descriptive abilities. However, creating income and age bands provides us with more flexibility for interpreting membership characteristics.

Figures 9 and 10 below are out-puts of the correspondence analysis. Figure 9 maps KiwiSaver members and non-members (opt-outs and those that have had no KiwiSaver interaction) to assess the strength of the association between selected socio-demographic characteristics and membership status. Figure 10 maps the scheme choices of active members.

For interpreting the figures note that:

- The further the attributes are from the origin (0,0) the stronger, or more conclusive, the association;
- Attributes that are clustering together are demonstrating an association. Dotted ellipses have been added to the figures to assist in visualising the variable associations;
- The values on each axis indicate the extent of the variance explained by the variable the axis represents. The extent of the variance explained on one axis is relative to that explained by the other; and
- The variables represented by each axis are determined by interpretation, rather than being set prior to mapping. In both figures, the horizontal axis can be interpreted as an age axis and the vertical axis as representing income. Above the horizontal line that runs through the origin can be considered higher income and below, lower. Similarly, to the left of the vertical reference line through the origin can be considered younger age groups and to the right, older.

In figure 9, the correspondence analysis map positions the points corresponding to the three membership status column profiles (opt-out, no KiwiSaver interaction, and members) in relation to the 19 row profiles corresponding to gender, income group and age group. The horizontal axis splits the groups of those who have opted-out to the left, and the groups of active members and those with no KiwiSaver interaction to the right side of the map. This axis captures 84% of the explanatory power of the dimension. The vertical scale differentiates less well between opt-out, members, and those who have had no KiwiSaver interaction (15.87%).

In figure 10, the correspondence analysis map positions the points corresponding to the three member enrolment column profiles (opt-in via employer, opt-in via provider and auto-enrolled) in relation to the 22 row profiles corresponding to scheme choices (employer scheme, default scheme, and active choice scheme), gender, income group and age group. The horizontal axis splits the groups of those who have opted-in via employer or auto-enrolled to the left, and those who opted-in via provider to the right side of the map. This axis captures 87% of the explanatory power of the dimension. The vertical scale differentiates less well (12.59%). This is probably due to most of the row profiles clustering on their own in the upper right-hand quadrant.

The conclusions drawn from these maps are described in part three of the report.

Figure 9: Mapping of members and non-members

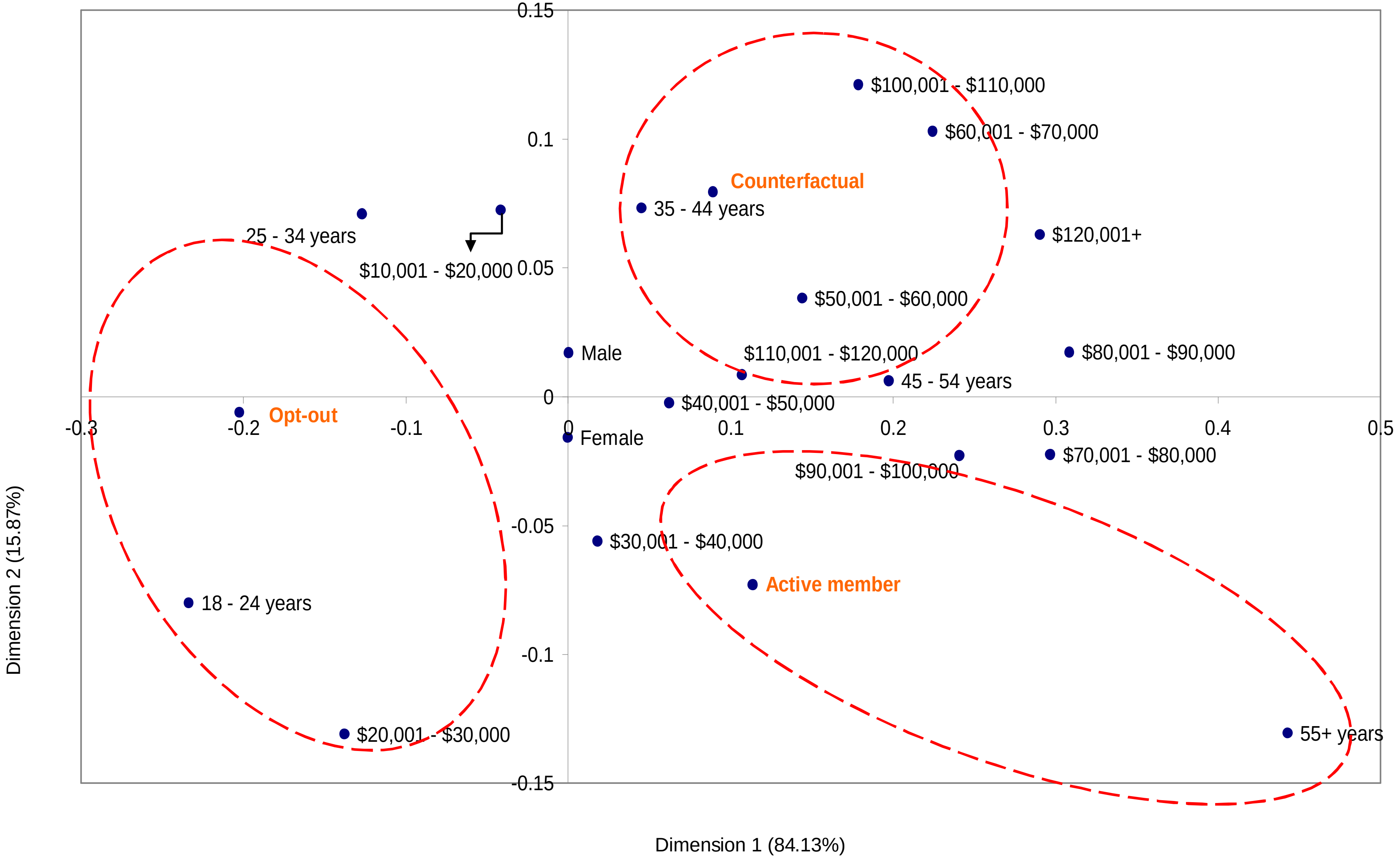
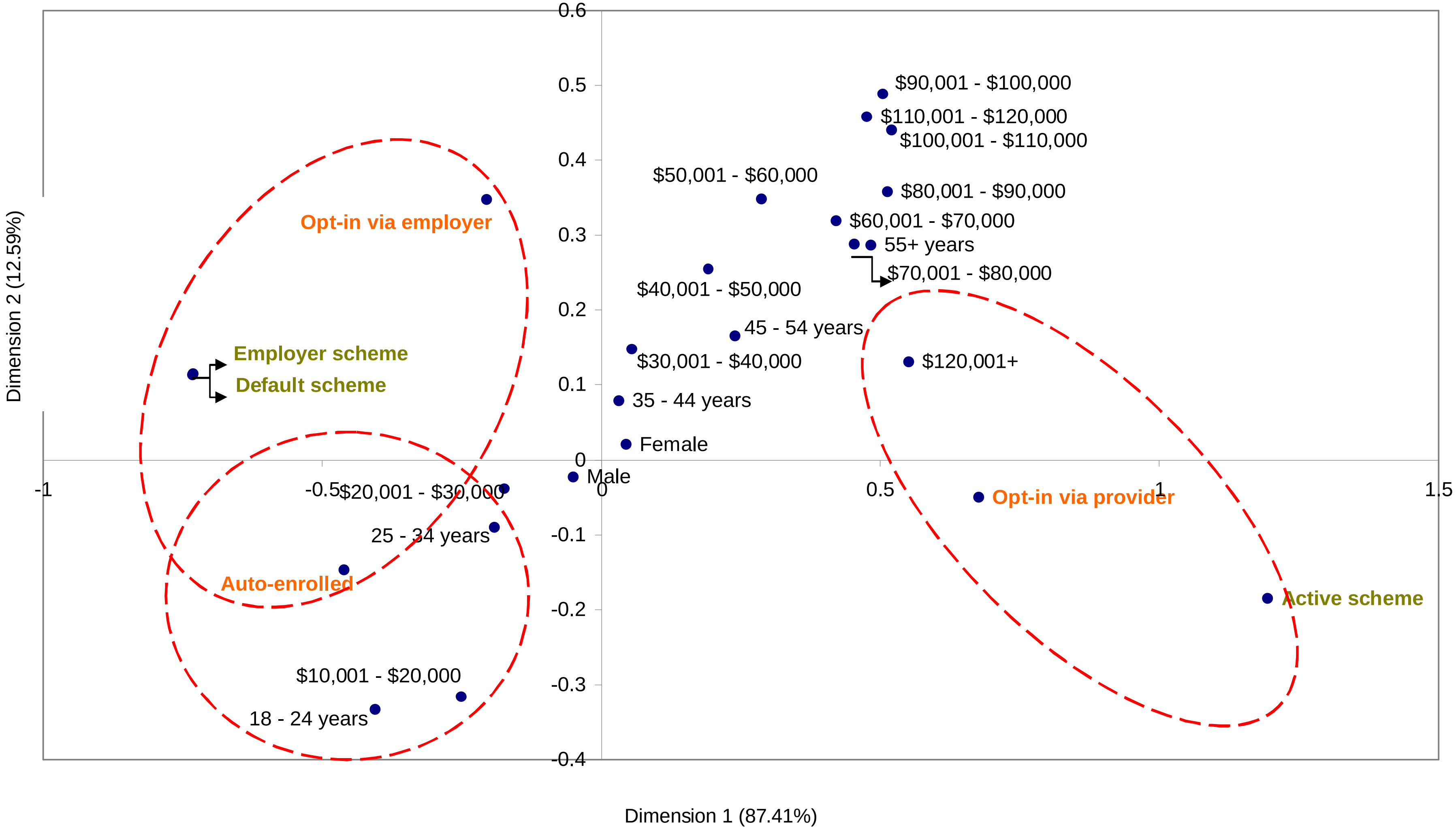


Figure 10: Mapping active members by enrolment method



Logistic regression and discriminant analysis results

Membership drivers

In an effort to further understand the drivers around KiwiSaver membership, logistic regression was applied to a combined sample of 10,000 members, 10,000 of those who had opted-out, and 10,000 individuals who had not had any contact with KiwiSaver, but who appear to be eligible to participate.

Two logistic regressions were conducted, each modelling a member status of "active". The first, excluded the group that had had no KiwiSaver interaction and the second, included it.

The first model only looked at "active" members versus "opt-outs". Significant differences ($p<.0001$) were found for gross income, age, and the cross-product of age by gross income. A significant difference was also found for gender ($p = 0.04$). The maximum likelihood estimates were all very close to zero, but the slightly larger values indicate: older persons were more likely to be active members, and so were males. However, the explanatory power of these drivers is weak with a maximum rescaled $R^2 = 0.09$.

The counterfactual group was then added to the logistic regression analysis and modelled for active members. In addition to the significant parameters found in the first analysis, the cross product of age by gender was also significant ($p = 0.002$). Again, most of the estimates were near zero, but contrary to our previous model, the age variable indicated that older persons were less likely to be active members and more likely to be female. The maximum rescaled R^2 is about half that of the previous model ($R^{2=}$ 0.05).

Irrespective of the logistic model used, the strongest drivers were gender and age.

Discriminant analysis does not include gender; however the results indicate that age provides a much higher level of discrimination between member types than income.

When the counterfactual group was excluded from analysis, the combination of age and income accurately identified 55% of active members and 65% of opt-outs. When the group that had had no interaction with KiwiSaver was included in the analysis, accuracy declined. The combination of age and income accurately identified nearly 50% of active members, 64% of opt-outs, but only 8% of the no interaction group.

With regard to membership status, gender and age seem to be the strongest determinants of association. Over all, the group that had had no KiwiSaver interaction tends to confound the analyses. This is not surprising as we would expect this group to combine aspects of the other two groups, in addition to possible other profiles.

Method of enrolment

The same processes were conducted to examine influences on the enrolment method of KiwiSaver members. In this case the entire data-set of KiwiSaver members for whom age and income data are available was utilised. For the discriminant analysis, prior probabilities were determined proportionally since the group sizes were not equal.

In the logistic regression the only parameter not significant was the interaction of age by gross income by gender; for all others $p < .0001$. As was seen in the previous examination of membership status, the strongest estimates were gender followed by age.

Discriminant analysis does not include gender; however the results indicate that age provides a much higher level of discrimination between enrolment methods than income. The combination of age and income accurately identified nearly 39% of members who had opted-in via a provider, over 90% of automatically-enrolled members, and less than 1% of those opting-in via an employer. In fact, the model had a pronounced tendency to classify all members as automatically-enrolled; further evidence of the need for more information.

Appendix six: Previous evaluation research

The references for the following pieces of research are found in appendix one above and the full reports are available on the Inland Revenue website.

Communications and awareness research

Providers

In general terms, the providers interviewed in July 2007 considered that implementing KiwiSaver has been a huge challenge for both the superannuation industry and Inland Revenue, particularly given the tight timeframes and range of stakeholders and providers associated with the implementation. Nonetheless, Inland Revenue was considered the natural choice for KiwiSaver administration. It was seen by providers as a stable 'hub' for employees to retain a connection with the scheme providers over the course of their working career.

Overall, providers considered the engagement model to be successful and an innovative development by Inland Revenue. More specifically, interviews generated the following conclusions:

- *Inland Revenue is perceived to be listening and consulting* – although Inland Revenue was initially perceived to have little experience in the superannuation industry, the department gained knowledge by consulting effectively with the industry;

- *Relationship managers and industry forums are strengths* – the relationship managers provided a point of contact within the department and were generally regarded as responsive, customer-focused and helpful. Their experience of the superannuation industry reassured providers that Inland Revenue was "speaking their language". The forums were appreciated as informative, timely and a valuable opportunity to discuss KiwiSaver with others in the industry;

- *Variation in levels of customer service* – providers considered there was variation in customer service throughout the engagement period. While large providers were generally happy with the level of service received, some smaller providers considered Inland Revenue had not been sufficiently responsive. It was generally accepted by providers that engagement with default providers was prioritised; and

- *Short timeframes and lack of adequate communication* – the weaknesses in the engagement arise from the context within which the department is operating. Providers considered there was a lack of consultation on the interpretation of the KiwiSaver Act 2006 and that the tight timeframes meant in some cases there was insufficient notice given for the scheduling of provider forums. There was also considered to be too few relationship managers given the number of scheme providers, in some cases compromising customer service. Since July 2007, Inland Revenue has recruited a third relationship manager to help support the industry interface.

The providers recommended Inland Revenue retain the key features of the provider engagement model (particularly the relationship managers) until at least July 2008 to allow it to become part of providers' normal business.

Employers

A survey of 500 employers conducted in September and October 2007 found that Inland Revenue's employer specific communications were central to the successful implementation of KiwiSaver. The campaign has reached all employers and there are very high levels of awareness around most of Inland Revenue's communication materials.

Eighty percent of employers were spontaneously aware of at least one aspect of the Inland Revenue campaign targeted specifically at employers. Virtually all employers in our sample were aware of the Inland Revenue campaign after it was described to them (only one claimed to be unaware of any Inland Revenue communications).

Although there is a mixture of positive and negative views about the initiative itself, this mix of views has not translated into ratings of the material itself. Eighty-one percent of employers agreed that the Inland Revenue communication was straightforward and easy to understand. Those that disagreed tended to say the information was too confusing or not clearly explained. Ninety-one percent of employers said the employer guide was helpful. Other Inland Revenue communications to employers were regarded as being helpful by most employers.

The majority of employers (62%) said that KiwiSaver related information was sent to them in time, however some said the information did not come in time to help them get organised for KiwiSaver. The long term impact is likely to be minimal because those employers that say they did not receive the employee packs or employer guides in time were no more likely to be negative about the KiwiSaver initiative overall.

Most employers (86%) say they feel informed about their obligations under KiwiSaver. In terms of knowledge of specific legal obligations, nine in ten employers were aware that they had to check if new employees were eligible to join KiwiSaver, distribute KiwiSaver employee packs to new employees who qualify or existing employees that ask for one, and deduct KiwiSaver contributions and forward them to Inland Revenue with PAYE payments.

Levels of awareness were lower when it came to understanding the need to send details of new employees who are enrolled automatically to Inland Revenue (82%), act upon an employee's contributions holiday notice (52%), and provide new employees with an investment statement if the employer had an approved alternative KiwiSaver scheme (50%).

Some, particularly owner-operators of small businesses, are still not fully aware about their obligations. It is possible that these employers will not fully grapple with the issues until they are forced to do so by circumstances.

Individuals

A face-to-face survey of 715 individuals carried out between October 2007 and January 2008 found that the Inland Revenue campaign has reached almost all of those within the target audience. The advertising and communication were particularly well recognised by the younger population. The campaign has operated in a largely favourable media environment – there is a lot of buzz around KiwiSaver and public opinion of the initiative is mostly positive or mixed.

The advertising campaign was well received by the public with very high likeability scores and high scores for relevance and timeliness. The campaign has communicated its intended messages to most people.

Whereas the advertising was central to raising awareness, the employee information pack and Inland Revenue information on websites were valuable resources used to inform people about the details of KiwiSaver. Inland Revenue sources, as well as communication with friends, family and workmates, were found to be useful for people making decisions about KiwiSaver.

Some of the KiwiSaver incentives were well known by the public, while others were less well known, such as the potential first home subsidy and government payments for scheme provider fees.

Although the majority of the population have a reasonable understanding of how KiwiSaver works, some groups such as those on lower income, those who are not employed, and Maori and Pacific peoples, were generally less knowledgeable about KiwiSaver compared to the rest of the population.

It was expected that knowledge about KiwiSaver would be higher for those who had started a new job or changed jobs recently (because they were more likely to encounter KiwiSaver). However, this proved not to be the case. Many were unaware of the obligation on employers to automatically enrol new (eligible) employees.

The focus of communication should now provide more detailed information around the key benefits of KiwiSaver. An increased focus on targeted communication aimed at particular groups should be considered because the motivations and barriers to joining are different for different groups. For example, potential home owners could be made more aware of the options for using KiwiSaver towards a deposit. Wealthier individuals often say they will not join KiwiSaver because they have an existing superannuation scheme – focused communication about how KiwiSaver impacts existing schemes may redress this issue for some. Those entering the job market could be made more aware about how KiwiSaver will affect them.

It is possible that an increased focus on targeting those who are less financially literate will increase take up because many within these groups are responsive to the idea of KiwiSaver but are not fully aware of the benefits – using KiwiSaver for family savings or to save towards a home deposit is attractive for these groups. Further review of the process and communication surrounding automatic enrolment should also act to increase membership among younger and lower income groups. Ideally, awareness of the benefits of KiwiSaver should be high across all groups of the population regardless of background or level of financial literacy.

Implementation research: employer panel phase one

Semi-structured interviews with 34 employers and 63 employees from 25 of the organisations were conducted during phase one of the employer panel research. The interviews were held during September and October 2007. Key conclusions from the research include:

- Employers found implementing KiwiSaver in their workplace straightforward. They were able to understand Inland Revenue's KiwiSaver employer guide and set up processes for administering the scheme. Their largest compliance cost was the time they spent learning about KiwiSaver and communicating it to staff. Most employers seemed to accept this transition cost as an inevitable part of implementing a new government initiative.

- Business size influenced employers' experience of implementing KiwiSaver. The large enterprises experienced more difficulties and spent a greater amount of time implementing the scheme than the SMEs did. The reason for this was that the former had a larger number of employees so had more complex human resources processes and payroll systems. They also had to coordinate a team of people who were implementing KiwiSaver. In SMEs, the owner/director or payroll/accounts administrator tended to have sole responsibility for implementing the scheme.

- Employers were generally unperturbed by the potential for staff to ask for financial advice. The message from government that employers are not to give such advice was cited often. Many had avoided the possibility of being seen as giving employees financial advice by referring staff, who asked them about the scheme, on to other information sources.

- Generally, employers had put off deciding how they would manage the compulsory employer contributions until closer to April 2008 (when the contributions will be introduced).

- Some design features and incentives were working as intended. Staff were encouraged to join KiwiSaver because of the ease with which they could save (e.g. having contributions deducted at source) and they felt like they were getting "free money" (e.g. the kick-start payment).

- Other design features which were intended to ensure that employees were saving adequately for retirement (e.g. having a minimum contribution rate) and maximise the benefit of saving (e.g.

locked-in savings) appear to have stopped some staff from taking up the scheme because they made it seem inflexible.

- Personal circumstances had stopped some employees from taking up KiwiSaver (e.g. they had other investments). Conversely, personal circumstances had motivated a smaller number of staff to take up the scheme (e.g. they had reached a stage in their life when they wanted to start saving for retirement). Other contextual factors (e.g. the possibility that future governments might "tinker" with KiwiSaver) had led some existing employees to postpone joining the scheme until they believed it was running smoothly.

Implementation research: automatic enrolment

Qualitative research on the automatic-enrolment process identified the following factors as having a likely impact on the level of "compliance" or "non-compliance" with the automatic-enrolment process (note that this research was undertaken on a small sample basis in order to understand various ways that the automatic-enrolment process was being applied):

- *Misunderstanding or confusion about details of the enrolment process* - some employers are confused about the process. They provide employees with information packs on request but believe they have discretion over enrolling employees and so do not do so unless an employee specifically asks them to do so. In other cases, employers understand that automatic-enrolment is compulsory and believe that they have undertaken the required process but do not understand that they have to complete the process by forwarding the correct enrolment information (with employee details) to Inland Revenue along with their EMS;

- *Employees' KiwiSaver membership intentions* – research with employees suggests that if an employee wishes to participate in KiwiSaver, they are likely to mention this to their employer, and to be enrolled. Conversely, if an employee does not want to take part in KiwiSaver, some are successful in requesting their employer does not automatically-enrol them or in simply 'keeping their mouth shut' so they do not bring the fact that they have not been automatically-enrolled to the employers' attention; and

- *Employers' views of automatic-enrolment* – some employers do not like the automatic-enrolment process being compulsory for new workers and so ignore it if an employee does not raise it or are happy to go along with employees' requests not to be enrolled (as mentioned above).

This would seem to confirm that the non-compliance of employers is related to either confusion about the process for automatic-enrolment, or results from interactions between themselves and workers.