KiwiSaver evaluation

Annual Report

July 2012 to June 2013

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Contents

Executive summary

This is the sixth annual report of the KiwiSaver evaluation. As in previous annual reports, it summarises the key trends and performance data for the year to June 2013, and the results of relevant research and analysis completed over the course of the year.

Of note are the following:

- KiwiSaver membership continues to grow, but the rate of growth has slowed from previous years.
- Over half of the eligible population are now members, including 72% of 18-24 year olds.
- Over half of eligible KiwiSaver members (55%) are not taking maximum advantage of the member tax credits as their contributions are less than $1,040.
- Preliminary findings indicate that more than a third of members eligible to withdraw their savings made a full withdrawal. This figure is expected to rise to nearly three-quarters in the next five years.
- KiwiSaver has had a strong positive impact on the managed funds market since it was introduced in 2007.

KiwiSaver at a glance as at 30 June 2013[1]

	Key statistics as at 30 June 2013
Total membership	2.15 million
Enrolment	61% of members proactively opted-in to KiwiSaver
Members in the eligible population	53% of the eligible population are members (includes 31% of eligible children and 72% of people between 18 – 24)
Individuals who opted-out and remained out of KiwiSaver (cumulative)	249,872
Contribution rates	58% of members contributing at the 3% default rate
Contributions holiday	101,415 members currently on a contributions holiday
Withdrawing for retirement	33,580 members will become eligible to withdraw in the coming year
Member contribution[2]	$1,560 million (five years to date $6.4 billion)
Employer contribution	$833 million (five years to date $3.5 billion)
Crown contribution	$677 million (five years to date $5.3 billion[3])
Total funds under management	Five years to date $16.6 billion[4]

[1] KiwiSaver data is for the financial year starting on 1 July and ending on 30 June the following year.

[2] This includes payments to scheme providers through Inland Revenue (gross) and voluntary contributions passed through Inland Revenue. It does not include voluntary contributions made directly to the scheme provider.

[3] This data is up to 31 March 2013.

[4] This data is up to 31 March 2013.

Enrolment trends

This year KiwiSaver membership reached 2.15 million, with the rate of growth in 2013 slower than previous years. Net membership grew on average by 15,000 individuals per month. This compares with, on average, 17,500 individuals a month last year. There has been continued growth of membership within all age groups in the eligible population, except those aged 65 and older (due to the first cohort of members aged 65 and over becoming eligible to make retirement withdrawals from 1 July 2012).

Over half (61%) of those who were members in 2013 have proactively opted-in to KiwiSaver (as opposed to being auto-enrolled). This proportion has remained relatively stable over the years. Approximately 31% of eligible children and nearly 72% of eligible people aged 18 to 24 years have enrolled, both higher than last year"s proportions. Although many people have joined and remained with the default KiwiSaver scheme to which they were initially allocated, the proportion of people choosing their own scheme has increased over the years. As at 30 June 2013, the cumulative number of individuals having opted-out of KiwiSaver (and remaining out of the scheme) was 249,872, a lower number compared to the same time in previous years.

Impact of KiwiSaver features and incentives

KiwiSaver has a range of features and incentives designed to encourage savings and asset accumulation among members. These include: choosing the level of contribution, receiving the kick-start payments and annual member tax credits, and the ability to take a contributions holiday, use savings to buy a home, choose between scheme providers and different fund investment mandates, and the ability to opt-out.

In 2013, 67% of members chose their scheme and 33% were default allocated by Inland Revenue or allocated to an employer-nominated scheme. The number of scheme transfers in 2013, 136,167, was 24% higher than last year after a drop in the number of transfers in 2011 and 2012. There were also slightly more transfers within the first three months of joining KiwiSaver this year compared with last year.

The default minimum contribution rate of 2% for members changed to 3% in April 2013, and as in previous years this appears to be influencing the level of members" contributions. Over half of KiwiSaver members (58%) are currently contributing 3% of their salary or wages to their accounts, similar to the proportion of members contributing 2% in 2012 (59%). As at 30 June 2013, there were 101,415 members on a contributions holiday (including those on a financial hardship holiday[5]).

The use of the KiwiSaver first home withdrawal (FHW) facility and the first home deposit subsidy (FDS) to purchase a first home has increased since the first home ownership package was launched. The increase in those using the first home ownership package partly reflects the growing numbers of people who have become eligible for the first home ownership package because they joined KiwiSaver over the early years of the scheme.

[5] A financial hardship holiday is a special type of contributions holiday that allows members who are experiencing financial hardship to take a break from making contributions within the first 12 months of membership.

The proportion of residential sales drawing on FDS support has increased from 0.1% in July 2010 to 5.3% in December 2012. Younger people (under 35 years) are the highest users of the FHW and FDS, as would be expected for a first home purchase package.

Eligibility to withdraw their savings for retirement purposes[6]

On 1 July 2012, the first KiwiSaver members who were aged 65 years and over and had been in the scheme for five years became eligible to withdraw their savings for retirement purposes. Of the 73,992 members who became eligible in the 2013 year, 28,549 (39%) withdrew their savings fully.

Research with members[7] who are eligible to withdraw their savings showed that nearly three-quarters of them plan to withdraw their savings within the next five years. The drivers to withdraw KiwiSaver savings centre on spending and re-investment, with some needing the savings to pay off debt. Further research[8] identified that scheme providers are aware of the need to better target their communications and products to eligible members as KiwiSaver balances grow.

KiwiSaver costs

Employers and the Crown continue to make significant contributions to KiwiSaver. This year, employers contributed $833 million. Over the five years to date, employers have contributed $3.5 billion to KiwiSaver accounts. Also this year, $677 million was transferred by the Crown to scheme providers. This figure comprises the $1,000 kick start to new members joining KiwiSaver and member tax credits. As a proportion of the total value of funds passed to providers for investment in members‟ accounts, the contribution from the Crown is declining over time. This reflects a reduction in the maximum amount of member tax credit following the 1 July 2011 changes.

Impact on retirement savings

KiwiSaver continues to be a growing part of the overall managed funds market, and was worth $16.6 billion at 31 March 2013; an estimated 19% of the market. Over the five years of the KiwiSaver initiative, assets have increased each year. This reflects both the increasing number of members and the accumulation of their contributions.

Current and future evaluation work

Current work: Linked KiwiSaver and Survey of Family Income and Employment (SoFIE) data analysis

This data analysis aims to assess the impact of KiwiSaver on individuals‟ saving habits and asset accumulation. It focuses on determining whether and how KiwiSaver has contributed towards any new or additional savings or asset accumulation among individuals who are currently under-saving or not saving for retirement. It uses data from the Survey of Family Income and Employment (SoFIE), a longitudinal survey that was run by Statistics New Zealand from 2002 to 2010 and included specific questions on KiwiSaver in 2010.

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[6] In these early years of the scheme, eligible members may be withdrawing their savings for reasons other than retirement purposes. However the term „retirement purposes‟ will be used throughout the report for those who are 65 years or older and are eligible to withdraw their savings from KiwiSaver because they have been in the scheme for five years.

[7] Colmar Brunton and Inland Revenue (2013).

[8] Inland Revenue (2013).

Future work: Value for money study

The value for money study will assess a broad set of KiwiSaver costs and benefits. The assessment will be an important input for future policy debate and decision making.

1. Introduction

Report purpose

KiwiSaver has now been in operation for six years. This report presents KiwiSaver trends and statistics for the year to June 2013, and the results of research and analysis completed over the course of the year.

KiwiSaver objective

KiwiSaver is primarily a work-based savings scheme designed to help people prepare for their retirement. The objective is to *encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.*[9]

2013 changes to KiwiSaver

A number of changes to employee and employer contribution rates from Budget 2011 came into effect this year:

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

A change from Budget 2012 that came into effect on 1 April 2013 introduced new disclosure rules which required KiwiSaver fund managers to report their performance and returns, fees and costs, assets and portfolio holdings, liquidity and liabilities, and key personnel, along with any conflicts of interest, in a standardised format.

KiwiSaver evaluation objectives

The KiwiSaver evaluation is a joint project between Inland Revenue and the Ministry of Business, Innovation and Employment. The evaluation seeks to assess KiwiSaver against its primary legislative objective as outlined above. However, KiwiSaver also has significant impacts on other outcomes that are of policy and public interest. These impacts include fiscal effects, effects on levels and forms of savings and investment, and on the financial sector, and redistributive effects that arise because the benefits and costs do not fall equally on all individuals.

The specific objectives of the evaluation are to:

- assess the implementation and delivery of KiwiSaver in order to inform on-going development and service delivery
- assess whether the key features of KiwiSaver are generating expected outcomes
- monitor KiwiSaver usage to understand the scale and pattern of take-up
- determine the impact of KiwiSaver on individuals" saving habits and asset accumulation
- determine the impact of KiwiSaver on superannuation markets and the financial sector.

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

To date, the evaluation has delivered on all but one of the objectives. Work undertaken and commissioned by Inland Revenue, the Ministry of Business, Innovation and Employment and the Treasury under the direction of the KiwiSaver Evaluation Steering Group has provided detailed analysis and a wide range of research on the early implementation and delivery of KiwiSaver and the impact of KiwiSaver on superannuation markets and the financial sector. There has also been annual reporting to Ministers on key trends and the performance of KiwiSaver"s key features, usage and patterns of take-up.

The outstanding objective and thus one of the remaining items in the evaluation work programme, is on measuring the impact on individuals" savings and net worth. Work is also planned on assessing value for money and overall effectiveness of KiwiSaver.

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

Notes for the report

Unless stated otherwise, any references to a year (for example, 2013), refer to the financial year which starts on 1 July and ends on 30 June of the year specified.

2. KiwiSaver membership

Enrolment trends

There continues to be growth in KiwiSaver enrolments and new monthly membership, with an average 20% annual growth rate in membership over the last six years. However, the year-on-year percentage growth in membership has been declining over time. For 2013, the 9% membership growth rate is lower compared with 12% in 2012 and 20% in 2011. In 2013, membership reached 2.15 million, compared with 1.97 million in 2012.

The number of individuals opting-in to KiwiSaver continues to grow, but again, at a lower rate of growth compared with previous years. However, the proportion of individuals opting-in as a proportion of all enrolments has remained relatively stable – over half (61%) of current KiwiSaver members have opted-in compared with 39% who were automatically enrolled. Enrolments directly through a scheme provider numbered approximately 84,000 members or 47% of all new members (the same proportion as in 2012), and those opting-in through employers (other than being automatically enrolled) numbered approximately 8,000 members, or 5% of all new members this year (slightly lower than the 8% in 2012).

In 2013, the cumulative number of individuals having opted-out of KiwiSaver (and remaining out of the scheme) was 249,872. The 2013 year was the first time the cumulative number of opt-outs decreased after four years of rises.

A further 71,720 individuals closed their accounts. This figure is more than double the number from 2012. Table 1 shows this to be an impact of the first KiwiSaver members being able to close their accounts for retirement purposes.

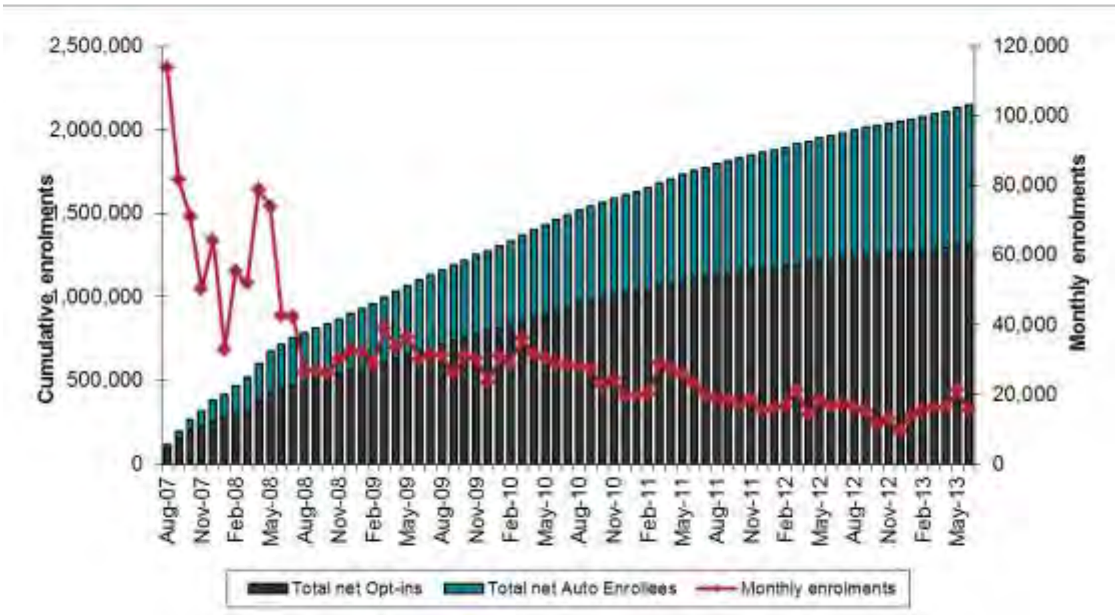
Table 1: Total enrolments (cumulative status as at 30 June)

Enrolment status	Year one (ended 30/06/08)		Year two (ended 30/06/09)		Year three (ended 30/06/10)		Year four (ended 30/06/11)		Year five (ended 30/06/12)		Year six (ended 30/06/13)	
	Members	**% net enrolment**	**Members**	**% net enrolment**	**Members**	**% net enrolment**	**Members**	**% net enrolment**	**Members**	**% net enrolment**	**Members**	**% net enrolment**
Opt-in via provider	273,948	38%	477,971	43%	706,290	48%	877,076	50%	975,743	50%	1,060,080	49%
Opt-in via employer	169,410	24%	195,940	18%	211,883	15%	232,131	13%	247,950	13%	256,302	12%
Auto-enrolled	273,279	38%	426,629	39%	541,769	37%	646,725	37%	742,751	38%	830,461	39%
Total enrolments (net)	**716,637**	**100%**	**1,100,540**	**100%**	**1,459,942**	**100%**	**1,755,932**	**100%**	**1,966,444**	**100%**	**2,146,843**	**100%**
% Change from previous year		**..**		**54%**		**33%**		**20%**		**12%**		**9%**
Opt-out	137,762		221,045		245,898		249,549		255,935		249,872	
Closed account												
Retirement withdrawals	n/a		n/a		n/a		n/a		n/a		28,549	
Other type	1,044		8,240		13,656		25,559		32,227		43,171	
Total Closed account	1,044		8,240		13,656		25,559		32,227		**71,720**	
Total enrolments (gross)	**856,487**		**1,338,065**		**1,733,152**		**2,056,599**		**2,286,833**		**2,468,435**	
% change from previous year			56%		30%		19%		11%		8%	

Base: All enrolments (gross) 1 July 2007 to 30 June 2013. Note that the approach to reporting enrolment method has changed and figures for 30 June 2008 have been revised. The figure for total enrolments for year one is unaffected, but the revised approach has led to reclassifications across enrolment groups. Source: Inland Revenue administrative data.

Membership continues to grow on average by 15,000 individuals per month. This is slightly slower compared to the average monthly growth of 17,500 in 2012 (see Figure 1).

Figure 1: Cumulative total and monthly enrolments

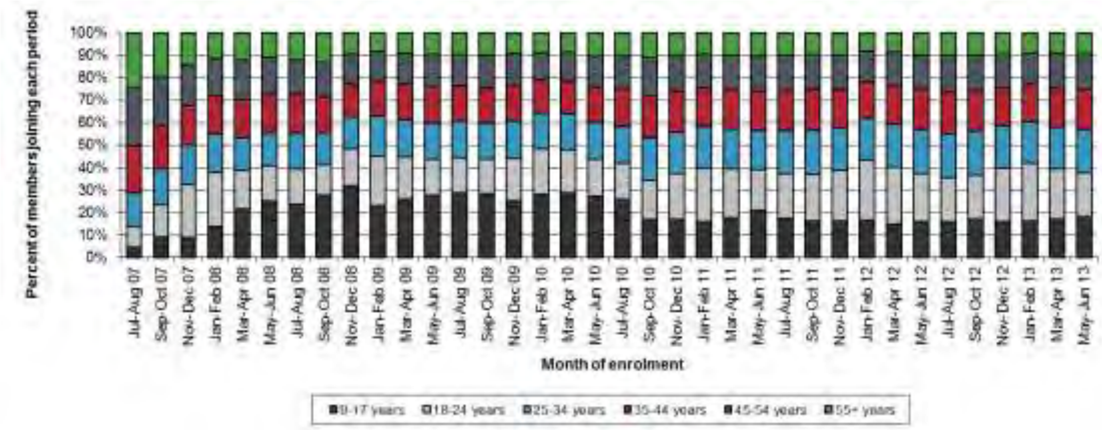


Base: All enrolments (net) 1 July 2007 to 30 June 2013.
Note: enrolments for July and August 2007 are combined.
Source: Inland Revenue administrative data.

Member and household characteristics

The gender distribution of KiwiSaver members has remained constant over the years with approximately 52% female and 48% male. The proportion of individuals in each age group has remained relatively constant since September 2010; see Figure 2.

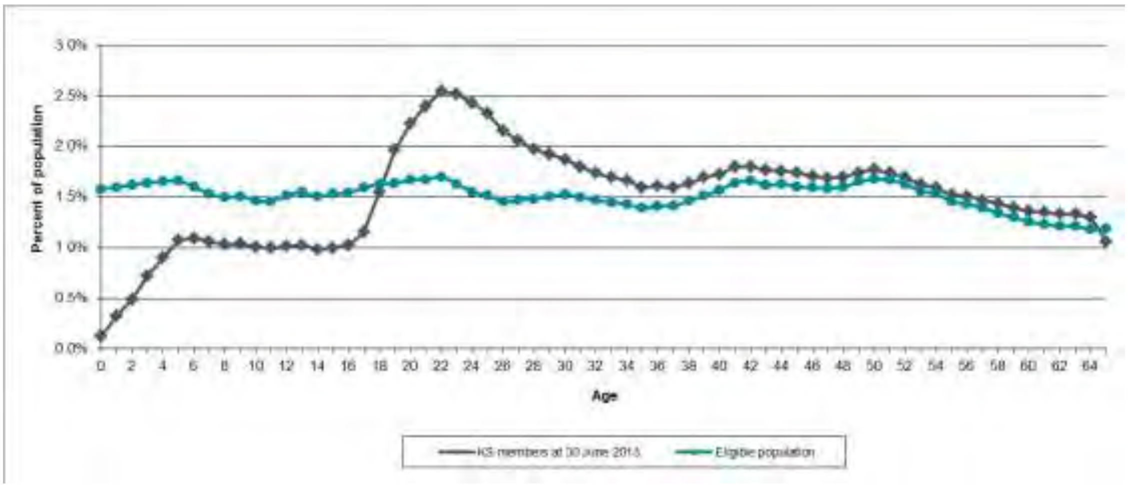
Figure 2: Member age at join date



Base: All members at 30 June 2013.
Source: Inland Revenue administrative data.

Forty-seven percent of the eligible KiwiSaver population are not KiwiSaver members (a drop from 51% in 2012), but membership is not evenly distributed across age groups. When compared to the eligible population, the age distribution of KiwiSaver members exhibit one significant peak from 18 years to the mid-20s (see Figure 3). This reflects those aged in their 20s entering the job market and being automatically enrolled.

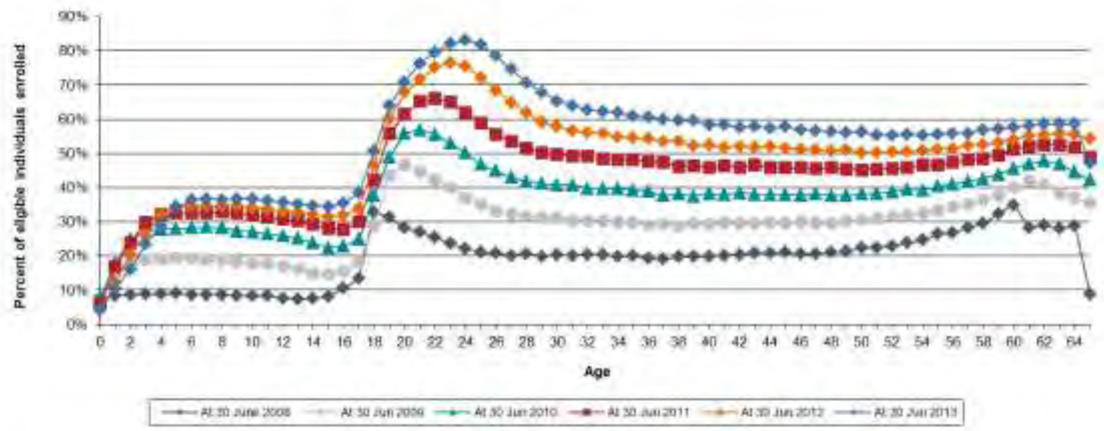
Figure 3: Age distribution of current KiwiSaver members and KiwiSaver eligible population at 30 June 2013



Base: All members at 30 June 2013. Eligible population are those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2012/13.

There is continued growth in KiwiSaver enrolments across all age groups, except those aged over 65 where there was a noticeable decrease compared to previous years due to the first cohort of members aged 65 and over becoming eligible to make retirement withdrawals from 1st July 2012. Approximately 31% of eligible children (17 years of age and under), and 72% of eligible people aged 18 to 24 have enrolled (see Figure 4 below). For those aged 18 and above, over half of eligible individuals have enrolled in KiwiSaver, peaking at 82% for enrolled 23 year olds.

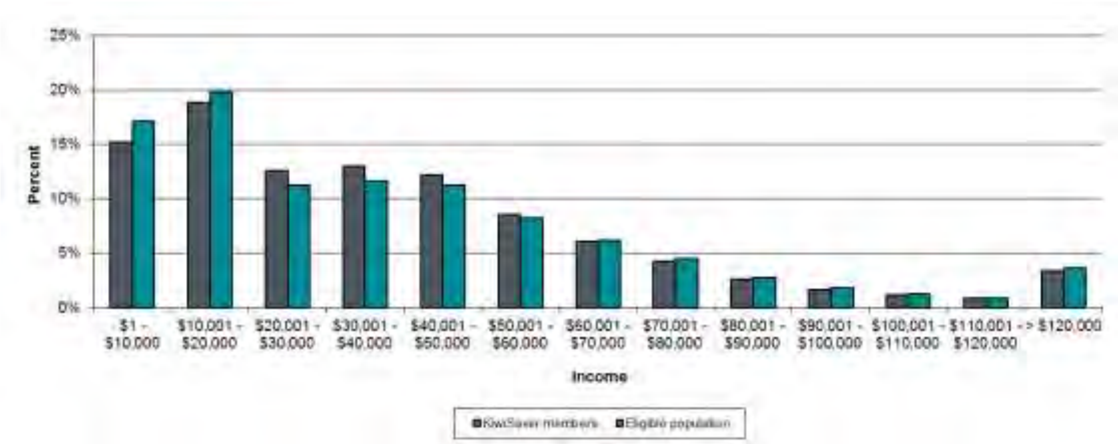
Figure 4: Age profile of membership as at 30 June 2013



Base: All members at 30 June 2013. Eligible population are those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2012/13.

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

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



Base: All members at 30 June 2013 with income for the 2012 tax year. Eligible population are those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined, with income for the 2012 tax year. Income relates to the 2012 tax year and includes income from salary and wages (including benefit payments), and IR3 returns (including income from self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Those members with no income for 2012 are excluded.
Source: Inland Revenue administrative data.

Over half of KiwiSaver members (55%) earned solely salary and/or wage income in 2012 (see Table 2). Approximately 22% of members received benefit payments as all or a part of their salary and/or wage income in 2012.[10]

Almost one quarter (23%) had no income source for the 2012 year. The remainder earned salary and/or wage plus other income, and other income only. As in previous years, children (17 years of age and under) were a significant percentage (64%) of members that had no income source.

Table 2: Member income sources

Income source	Members	Percentage
Salary and/or wage income only	1,187,989	55%
Salary and/or wage plus other income	376,922	18%
Other income only	91,173	4%
No income source	490,759	23%
Total	2,146,843	**100%**

Base: All members at 30 June 2013. Source of income relates to the 2012 tax year. Salary and wage income includes benefit payments and other income refers to income sources on IR3 returns (including income from self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

[10] These benefit payments include: ACC compensation, pension, student allowance, social development benefits, parental leave, ACC attendant care.

3. KiwiSaver features and incentives

Choosing a provider and fund

Members can choose their own KiwiSaver scheme, be nominated for one by their employer or be allocated to a default scheme by Inland Revenue. The proportion of those choosing their own scheme has been gradually increasing from 49% in 2008 to 67% in 2013 (see Table 3).[11]

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

	2008		2009		2010		2011		2012		2013	
Scheme entry method	Members	%	Members	%	Members*	%*	Members	%	Members	%	Members	%
Default allocated	268,868	38%	369,577	34%	419,250	29%	458,013	26%	503,826	26%	527,325	25%
Employer nominated	94,895	13%	129,963	12%	150,157	10%	165,500	9%	183,097	9%	190,112	9%
Active choice	352,483	49%	600,709	55%	890,356	61%	1,132,193	64%	1,279,256	65%	1,429,048	67%
Unspecified at year end	391	<1%	291	<1%	179	<1%	226	<1%	265	<1%	358	<1%
Total	**716,637**	**100%**	**1,100,540**	**100%**	**1,459,942**	**100%**	**1,755,932**	**100%**	**1,966,444**	**100%**	**2,146,843**	**100%**

Base: All members at 30 June 2008, 2009, 2010, 2011, 2012 and 2013. Totals may not add to 100% due to rounding.
* Figures for 2010 have been revised as more information became available.
Source: Inland Revenue administrative data.

Members who have been automatically enrolled can transfer schemes within the provisional holding period of three months when they initially join KiwiSaver. Members can elect to change schemes at any point during their membership. The total volume of scheme transfers for the 2013 year increased by 24% from 2012 to 136,167, which is the highest number of transfers recorded (see Table 4). This comes after a drop in the number of transfers in 2011 and 2012 after a high of 123,308 in 2010. In the last five years, scheme transfers have continued to peak in March and May each year (see Figure 6).

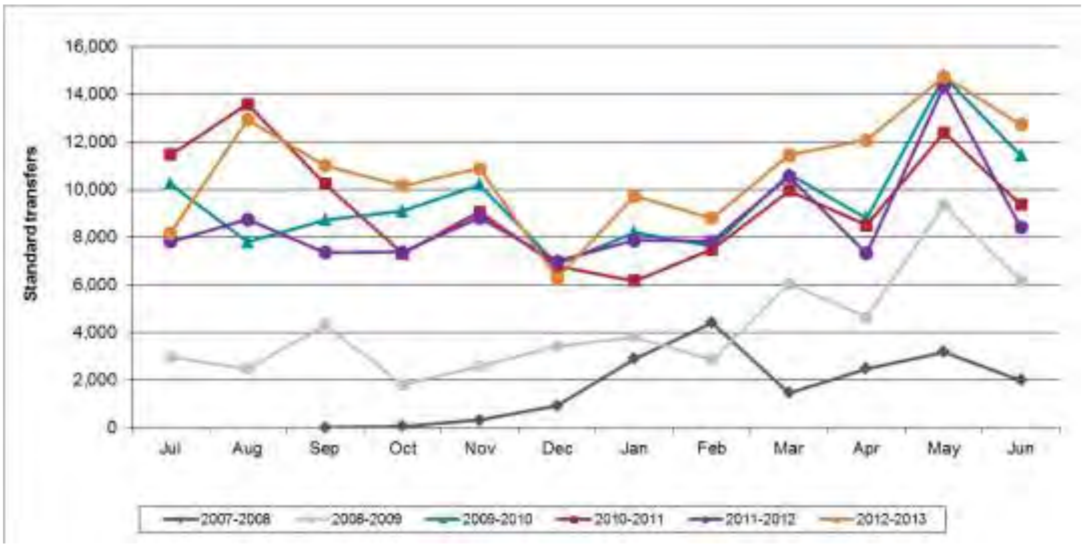
Table 4: Scheme transfers

Transfer type	2008	2009	2010	2011	2012	2013
Standard	17,757	50,457	113,555	112,234	103,441	128,932
Holding period	53,355	12,262	9,753	9,533	6,609	7,235
Total transfers	**71,112**	**62,719**	**123,308**	**121,767**	**110,050**	**136,167**

Base: All scheme transfers for the period 1 July 2007 to 30 June 2013. Transfers due to mergers of scheme providers have been excluded.
Source: Inland Revenue administrative data.

[11] This does not include those who move funds within a scheme provider. There has also been active recruitment by some scheme providers.

Figure 6: Monthly scheme transfers



Base: All scheme transfers for the period 1 July 2007 to 30 June 2013. Transfers due to mergers of scheme providers have been excluded.
Source: Inland Revenue administrative data.

Choosing a contribution rate

In the past, members contributing to KiwiSaver through deductions from their salary or wages could choose to contribute 2%, 4% or 8% of their gross salary or wage. From 1 April 2013, the minimum contribution rate of 2% increased to 3%. As at 30 June 2013, over half of KiwiSaver members (58%) were contributing 3% of their salary or wages to their accounts; 36% of members were contributing 4% and 5% were contributing 8% (see Table 5). The default contribution rate for new members continues to be the main influence on members" contribution rate.

Table 5: Current member contribution rates

Contribution rate	Proportion of members 2010	Proportion of members 2011	Proportion of members 2012	Proportion of members 2013
2%	41%	53%	59%	n/a
3%	n/a	n/a	n/a	58%
4%	55%	43%	36%	36%
8%	4%	4%	4%	5%
Other %	<1%	<1%	<1%	1%
Total	100%	100%	100%	100%

Base: All members at 30 June 2010, 2011, 2012 and 2013 with EMS deductions, excluding those on contributions holiday and those who contribute directly to providers or make ad-hoc contributions to Inland Revenue not through the EMS process. In order to calculate a member's contribution rate at year end, individuals must have made two or more contributions at the same rate over the April to June period. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Employer superannuation contribution tax

The exemption to Employer Superannuation Contribution Tax (ESCT) was removed from the KiwiSaver employer contribution in April 2012.[12] Prior to this, any amount employers contributed above the compulsory 2% was subject to ESCT.

The effect of ESCT on members" employer contribution rates more heavily impacts members who earn more than $57,601, with the 1% increase in employer contribution in 2013 nearly completely offset by

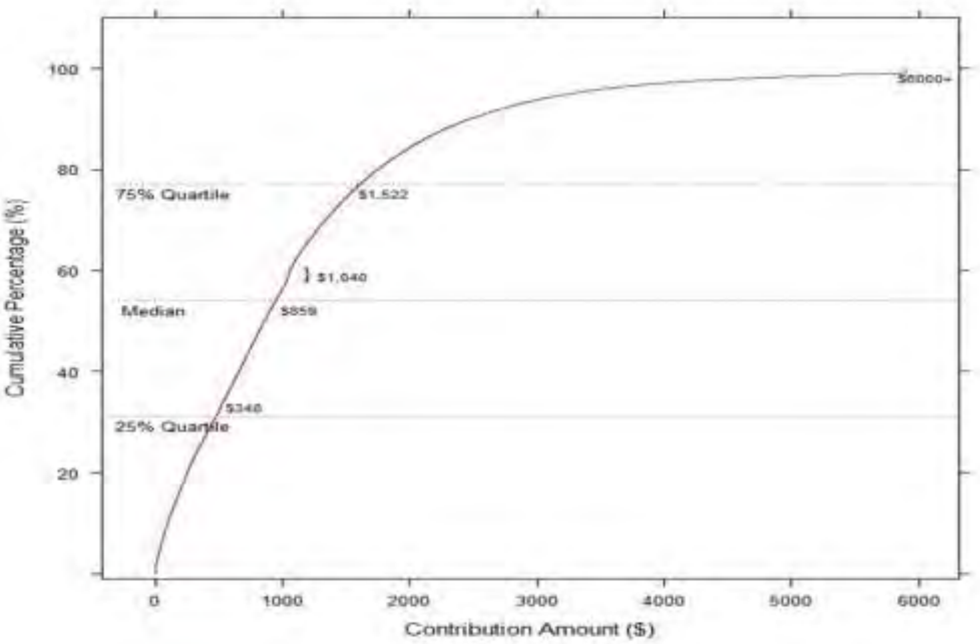
[12] For more information see: http://www.ird.govt.nz/payroll-employers/make-deductions/deductions/super-contributions/

ESCT. However, for those earning $57,600 or less there was a net 0.5% increase in the contribution from employers with the shift from 2% to 3% contribution.[13]

Value of annual contributions

Over half of members (56%) earn solely salary or wage income. The median annual contribution value made by these members contributing from all sources was $859.

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

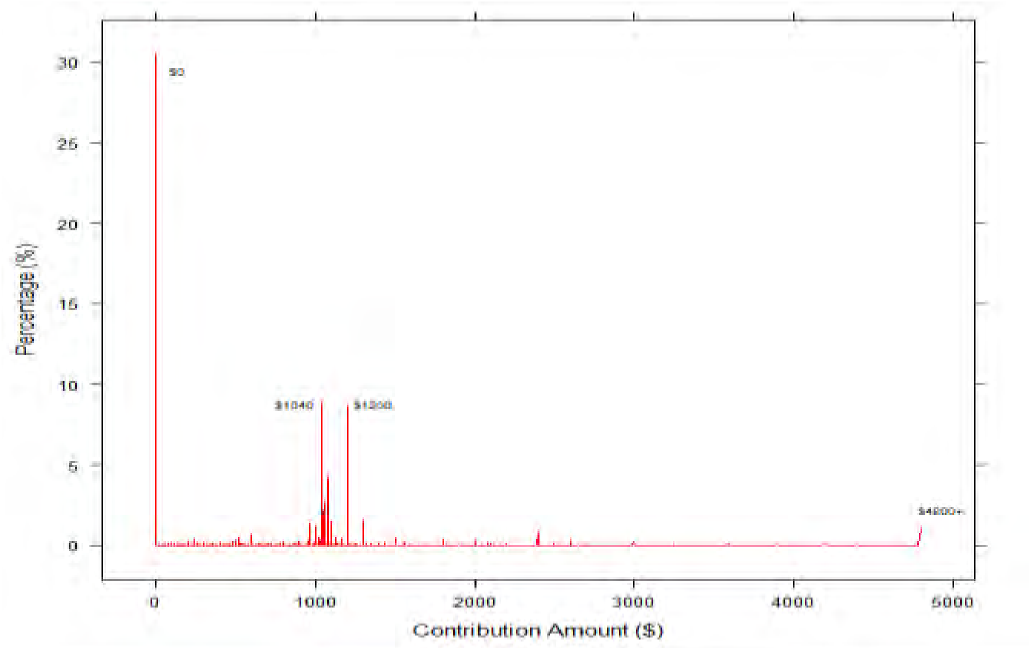


Base: Contributing members as at 30 June 2012 with a Member Tax Credit MTC claim submitted for the 2011/2012 year and with salary and wage income only for the 2012 tax year. Data has a one-year lag due to MTC payments credited to members in the next financial year for contributions made in the previous year. Contributions include employee deductions through the Employer Monthly Schedule (EMS), voluntary contributions directly to providers and ad-hoc contributions to Inland Revenue not through the EMS process. These do not include employer contributions and crown contributions, such as MTC.
Note: Only members aged 18 or over are eligible to make MTC claims.
Source: Inland Revenue administrative data.

Members not earning a salary or wage can choose to make voluntary contributions directly to their providers. Four percent of members (of all ages) earn only non-salary or wage income. The median annual contribution value for members over 18 years of age with only non-salary or wage income was $1,040. The distribution of the value of the contributions is shown in Figure 8. The two peaks at $1,040 and $1,200 suggest that, as in previous years, those who do not make contributions through salary or wage deductions are contributing in order to maximise the value of the member tax credit that they receive. The distribution of the value of contributions made by members varies according to the source of members" incomes as shown in figures 8 and 9.

[13] Appendix One details this further.

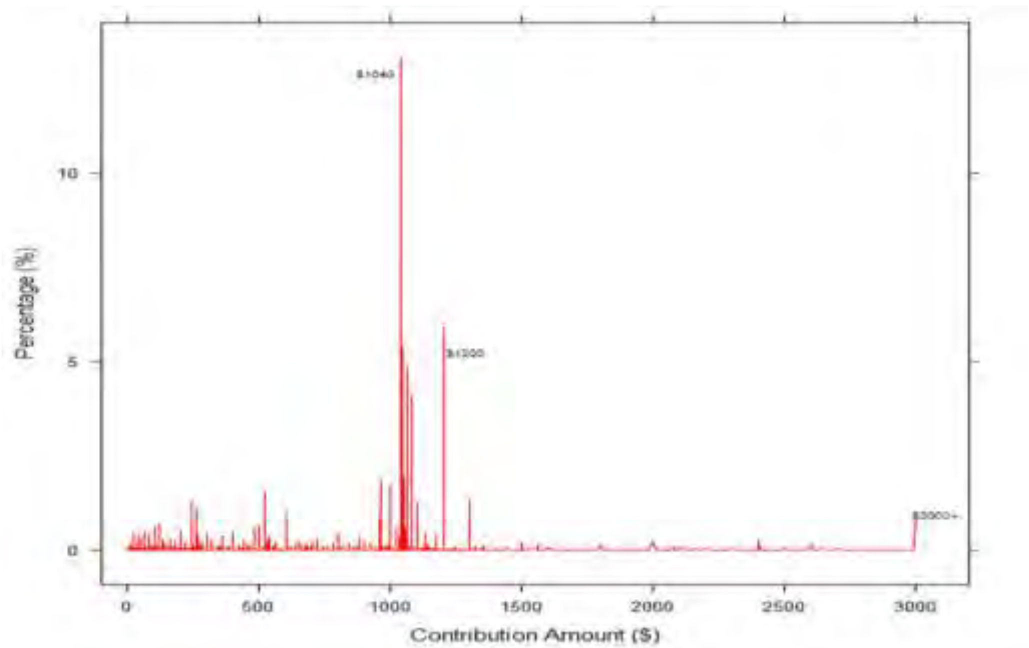
Figure 8: Annual contribution for IR3 filers without salary and wages



Base: All members as at 30 June 2012 who submitted a Member Tax Credit (MTC) claim for the 2011/2012 year and filed an IR3 without any salary or wage income for the 2012 tax year.
Source: Inland Revenue administrative data.

Currently, 23% of members (of all ages) earn no income at all and the majority of these members are aged 17 or younger. The distribution of contributions made by members over 18 years of age with no income and who had made contributions in 2011 is set out in Figure 9. The graph shows two peaks at $1,040 and $1,200, which are similar to those from members with only non-salary or wage income.[14]

Figure 9: Annual contribution for no income group



Base: Contributing members as at 30 June 2012 with a MTC claim submitted for the 2011/2012 year with no income earned for the 2012 year.
Source: Inland Revenue administrative data.

[14] A member contributing $20 a week would contribute $1,040 over a year, whereas a member contributing $100 a month would contribute $1,200 a year.

Member tax credits

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

In the 2012 year, $455 million in MTC payments were made to 1,232,453 members. For those members who received an MTC payment, 556,652 (or 45%) received the maximum MTC payment (see Table 6). This proportion has remained stable over the past four years. Note that the relatively low number of members who received a maximum payment in the 2008 year is a function of the length of their membership, not the value of their contributions.

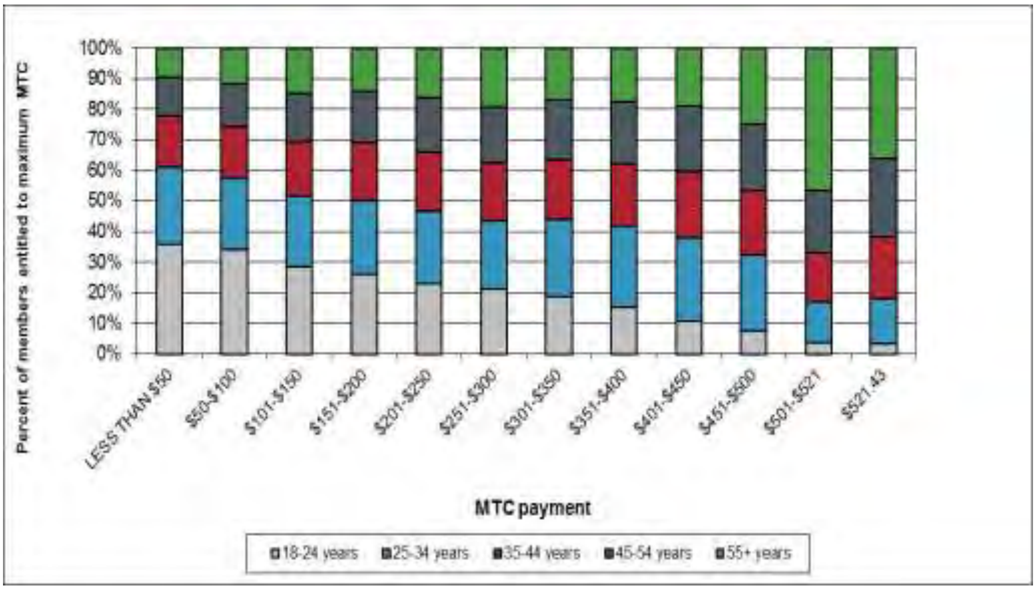
Table 6: Member tax credit paid

MTC payment	**2008**		**2009**		**2010**		**2011**		**2012**	
	Members	%	Members	%	Members	%	Members	%	Members	%
Maximum payment*	82,763	14%	363,069	46%	421,095	44%	477,515	43%	556,652	45%
Less than maximum payment*	519,177	86%	425,601	54%	525,707	56%	645,754	57%	675,801	55%
Total	601,940	100%	788,670	100%	946,802	100%	1,123,269	100%	1,232,453	100%

Base: All individuals with non-zero MTC payments for contributions made in the 2011/2012 year, including MTC payments to Complying Funds
Figures for 2008, 2009 and 2010 have been revised as more information has become available.
Source: Inland Revenue administrative data.

Figure 10 illustrates the MTC payments distribution by age of members for those eligible for the maximum MTC payment in the 2012 year. The proportion of those aged 18-24 years, relative to the other age groups, drops as the MTC payment amount increases. In contrast, the proportion of those aged 55-plus increases as the payment amount increases, with those aged 55-plus accounting for over 36% of those receiving the maximum payment. The results for those less than 25 years of age reflect their lower incomes and hence lower contributions and lower MTC values.

Figure 10: Member tax credit by age



Base: All members at 30 June 2012 who have submitted a MTC claim and are eligible for the maximum MTC.
The maximum annual Member Tax Credit (MTC) members were entitled to for the 2012 year was $521.43.
Source: Inland Revenue administrative data.

Contributions holiday

Members who have been making KiwiSaver contributions for 12 months or more can take a contributions holiday of between three months and five years. Early contributions holidays within the first 12 months of becoming a member are considered for members experiencing, or likely to experience, financial hardship. As at 30 June 2013, there were 101,415 members on a contributions holiday, including less than 1% on a financial hardship holiday (see Table 7).

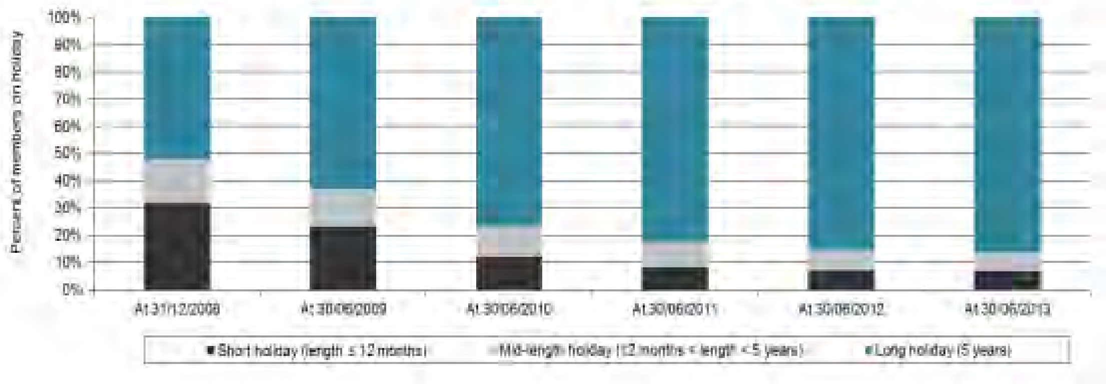
Table 7: Members on contributions holiday (years ended 30 June)

Holiday type	2008	2009	2010	2011	2012	2013
Ordinary holiday	-	25,122	45,069	63,324	83,151	101,141
Financial hardship holiday	3,280	813	494	383	219	274
Total active holiday	**3,280**	**25,935**	**45,563**	**63,707**	**83,370**	**101,415**

Base: All members at 30 June 2008 to 2013 who were on contributions holidays as at 30 June.
Source: inland Revenue administrative data.

For those members who were on a contributions holiday at 30 June 2013, the proportion of members who were on long contributions holiday (5 years) continues to increase. Conversely, the proportion that have taken short holidays (up to 12 months) has continued to decline (see Figure 11).

Figure 11: Contribution holiday duration



Base: All members at 30 June 2008, 2009, 2010, 2011, 2012 and 2013 on ordinary contribution holidays.
Source: Inland Revenue administrative data.

As at 30 June 2013, 127,974 members had taken a contributions holiday since the initiative began, with most having taken just one holiday (see Table 8).

Table 8: Frequency of contributions holiday taken by members as at 30 June 2013

Frequency of contributions holiday	Members	Percentage
1	111,712	87%
2	10,374	8%
3	3,756	3%
4+	2,132	2%
Total	**127,974**	**100%**

Base: All members as at 30 June 2013 who had taken a contribution holiday at least once since KiwiSaver began.
Source: Inland Revenue administrative data.

Purchasing a home

The home ownership features of KiwiSaver (first home withdrawal and the first home deposit subsidy), became operational in July 2010. The objective of these features is to assist members to enter home ownership by helping them overcome the barrier of not having sufficient funds to purchase a house.
If they meet certain criteria, KiwiSaver members can access their savings to help them buy their first home or land on which to build a home. There are two components of the package:

- the KiwiSaver first-home withdrawal (FHW)
- the KiwiSaver first-home deposit subsidy (FDS).

A study on the uptake of the first-home-ownership package was done by the Ministry of Business, Innovation and Employment to inform future policy decisions. The use of KiwiSaver FHW and FDS to purchase a first home has increased since the first home ownership package began. This increase partly reflects the growing numbers of people who have joined KiwiSaver over the early years of the KiwiSaver scheme, and therefore become eligible for the first home ownership package. The proportion of residential sales drawing on FDS support has increased from 0.1% in July 2010 to 5.3% in December 2012.

The study showed that as at December 2012, more than 11,000 FHW had been made and there were more than 5,800 recipients of the FDS. Younger people (under 35 years) were the highest users of the FHW and FDS, as would be expected for a first-home purchase package.

4. Withdrawing savings for retirement

Members who have been in KiwiSaver for five years and are 65 years of age are eligible to withdraw all or part of their savings for retirement.[15] On 1 July 2012, the first KiwiSaver members who were 65 years or over and had been in the scheme for five years became eligible to withdraw their savings. This is the first annual reporting period to report on these types of withdrawals.

Retirement withdrawal research

Two recent studies into retirement withdrawals were undertaken by Inland Revenue as part of the KiwiSaver evaluation programme; surveying a group of eligible KiwiSaver members and undertaking a short online survey with scheme providers followed by a number of in-depth interviews.

The first piece of research sought to better understand the characteristics, experience and intentions of members eligible to withdraw their savings. The study found that nearly three-quarters of these KiwiSaver members plan to withdraw their savings within the next five years, with lump sums dominating past and planned withdrawals. Most found the withdrawal process easy, although the statutory declaration requirement was identified as a source of delay for some.

Most members have not sought or received information or advice in helping them decide what to do with their KiwiSaver savings. Drivers to withdraw KiwiSaver savings centre fairly evenly on spending and re-investment, with some needing the savings to pay off debt. A quarter of members believe their retirement income will be inadequate to some extent.

A majority of members stayed at the 2007 minimum employee contribution rate throughout their time in KiwiSaver, while much smaller proportions made more active choices in changing contribution rates and making additional contributions. Government incentives were a critical driver in getting older New Zealanders to join KiwiSaver.

The second study focused on KiwiSaver scheme providers‟ communication and engagement with their members, specifically regarding the members‟ eligibility to make retirement withdrawals and the options available to them.

Scheme providers are using a range of ways to communicate with members, predominantly letters, email and telephone. The research identified that scheme providers are aware of the need to better target their communications and products to eligible members as KiwiSaver balances grow. The size of the scheme provider was not a factor in the amount or type of communication with eligible members.

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[15] Members can make a retirement withdrawal if they have reached age 65 or they have been a member of KiwiSaver for a minimum of 5 years, whichever comes later. Membership start date is calculated by the 15th day of month in which a member‟s contribution was first deducted from salary or wages. If members joined directly with a scheme provider, then their membership start date is the date which is notified by scheme providers to IR. In these early years of the scheme some members may be withdrawing their savings for reasons other than retirement purposes; however this term will be used throughout the report.

The majority of eligible members who withdraw funds are making full withdrawals of their funds, with only small proportions making partial or regular withdrawals. In the future, scheme providers expect the numbers of members wanting to make regular withdrawals to increase. Scheme provider research also showed that statutory declarations have caused the most difficulties for members during the withdrawal process (due to having to be signed by a JP or equivalent).

Inland Revenue administrative data

Between 1 July 2012 and 30 June 2013, 73,992 members became eligible to withdraw their savings for retirement purposes. Table 9 shows the number of retirement withdrawals that occurred each month, with the most occurring in August 2012 (16%), showing a high proportion of members withdrawing their money as soon as they were able to. Overall, 28,549 members withdrew their savings for retirement purposes in 2013 (39% of members eligible to withdraw savings).

Table 9: Savings withdrawals for retirement by month to 30 June 2013

Month	Number of members who were eligible to withdraw	Retirement withdrawals during month	Percentage of total retirement withdrawals
July 2012	15,732	561	2%
August 2012	11,886	4,637	16%
September 2012	6,720	3,318	12%
October 2012	6,865	3,446	12%
November 2012	4,988	2,682	9%
December 2012	3,873	1,743	6%
January 2013	2,824	2,123	7%
February 2013	3,042	1,734	6%
March 2013	4,815	2,087	7%
April 2013	5,749	2,183	8%
May 2013	3,942	2,548	9%
June 2013	3,556	1,487	5%
Total	**73,992**	**28,549**	**100%**

Base: All members who were eligible for retirement withdrawal until 30 June 2013.
Source: Inland Revenue administrative data.

A case study was undertaken considering the account balances of those who were eligible to withdraw KiwiSaver savings in July and August of 2012, compared to the same months of 2013. In 2013, over two-thirds (67%) have accounts of $5,000 to $20,000, compared to 77% in 2012 (see Table 10).

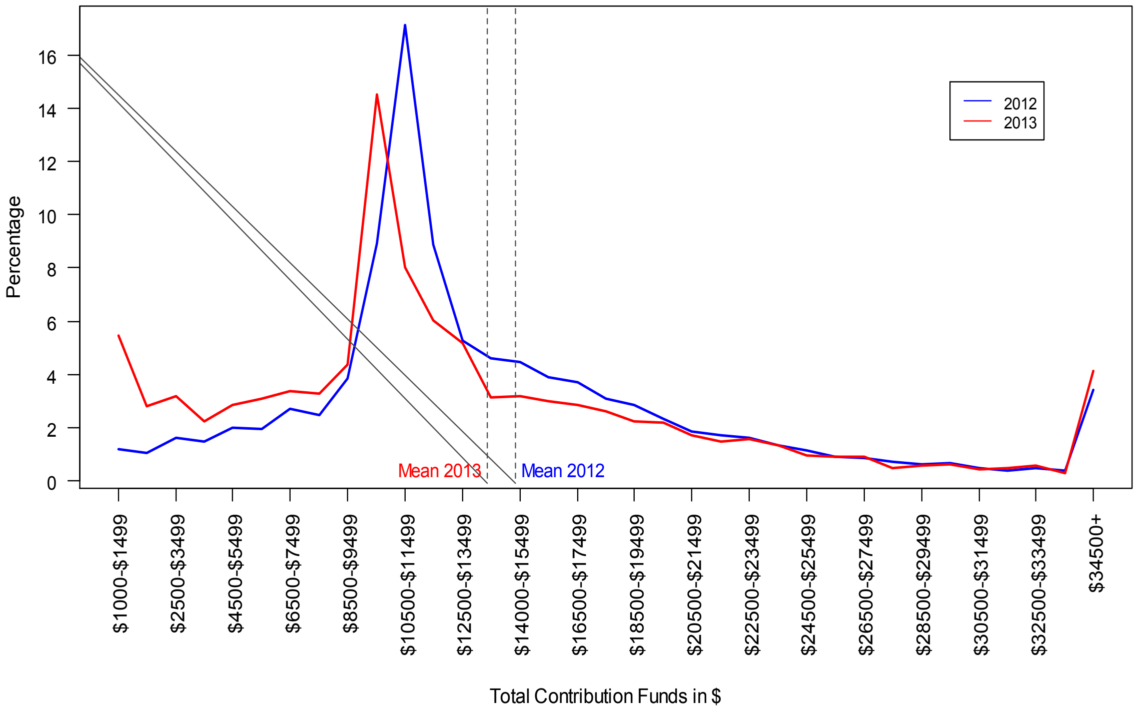
Table 10: Estimated total contribution funds as at 30 June 2012 of members eligible to withdraw in July and August 2012 compared with those eligible to withdraw in July and August 2013[16]

Estimated savings	2012 (number)	2012 (%)	2013 (number)	2013 %
$1,000	117	<1%	180	3%
$1,001 to $5,000	1,507	6%	771	12%
$5,001 to $10,000	3,694	21%	1,185	19%
$10,001 to $15,000	11,359	39%	2,209	35%
$15,001 to $20,000	4,278	17%	834	13%
$20,001 to $25,000	2,102	8%	492	8%
$25,001 to $30,000	1,021	4%	233	4%
$30,001 to $35,000	551	2%	139	2%
$35,000+	843	3%	249	4%
Total	25,472[17]	100%	6,292	100%

Base: All members eligible to withdraw in July and August 2012 and 2013.
Source: Inland Revenue administrative data.

Figure 12 shows that the difference between the values of the KiwiSaver accounts of those eligible to withdraw their funds in 2013 versus 2012 is small. It is expected that the average account balances will become higher. It is important to note that these estimates exclude any investment returns and interest or any other type of withdrawal.

Figure 12: Comparison of fund balances between 2012 and 2013



Base: Those eligible to withdraw in July and August in 2012 and 2013
Source: Inland Revenue data

[16] Total estimated savings consists of member contributions and Crown contributions for the period July 2007 to June 2013. Member contributions include employee deductions and employer contributions through the Employer Monthly Schedule (EMS), voluntary contributions directly to providers and ad-hoc contributions to Inland Revenue not through the EMS process. Crown contributions consist of Member Tax Credits and the kick-start, but do not include interest earned during the three months holding period if automatically enrolled.
Source: Inland Revenue administrative data.

[17] In the first year of KiwiSaver a larger proportion of 60+ joined compared to later years. Consequently there were over 25,000 eligible to withdraw in July/August 2012 compared to the 6,000 in July/August 2013.

5. The cost of KiwiSaver

Employer contributions

As KiwiSaver is primarily a work-based savings scheme, employers play a significant role in its delivery. They are responsible for automatically enrolling new staff, facilitating opt-outs and making deductions from members" salary or wages. As at April 2013, employers are required to make contributions equivalent to 3% of each member"s salary or wages.

Over the year to 30 June 2013, Inland Revenue passed $833 million in employer contributions to scheme providers for investment in their employees" accounts. Over the five years to date, employers have contributed $3.5 billion to KiwiSaver accounts. Most employers (81%) contribute the minimum 3% of the salary or wages of their employees (see Table 12). Seven percent of employers are contributing 4% and less than one percent contribute 8%. Five percent either do not contribute (as they may contribute to another workplace superannuation scheme), or contribute at another rate.

Table 11: Employer contribution rates[18]

Contribution rate	Percentage
2%	7%
3%	81%
4%	7%
8%	<1%
Other %	5%
Total	**100%**

Base: All members at 30 June 2013 with employer contributions through an Employer Monthly Schedule (EMS)
Source: Inland Revenue administrative data.

Crown contributions

KiwiSaver costs to the Crown come from the $1,000 kick start to new members joining and the annual member tax credit. In 2013, KiwiSaver cost the Crown $677 million in contribution payments to members of KiwiSaver schemes, a decrease from $1.05 billion in 2012. This was due to a change in 2012 in which the member tax credit rate was halved from $1,042 to $521 a year. Because these payments are made annually, the first payments at the new levels occurred in the second half of 2012, causing the decrease in the Crown costs. Overall, in the five years to date, payments to members and employers have cost the Crown $5.3 billion (see Table 12).

[18] Contribution rate is calculated based on gross contribution amount (i.e. before ESCT been applied) for the period April to June. Those on contributions holiday are excluded. In order to calculate an employer"s contribution rate that an employee received at year end, employers must have made two or more consistent contributions over the April to June period into their employees" account. Totals may not add to 100% due to rounding.

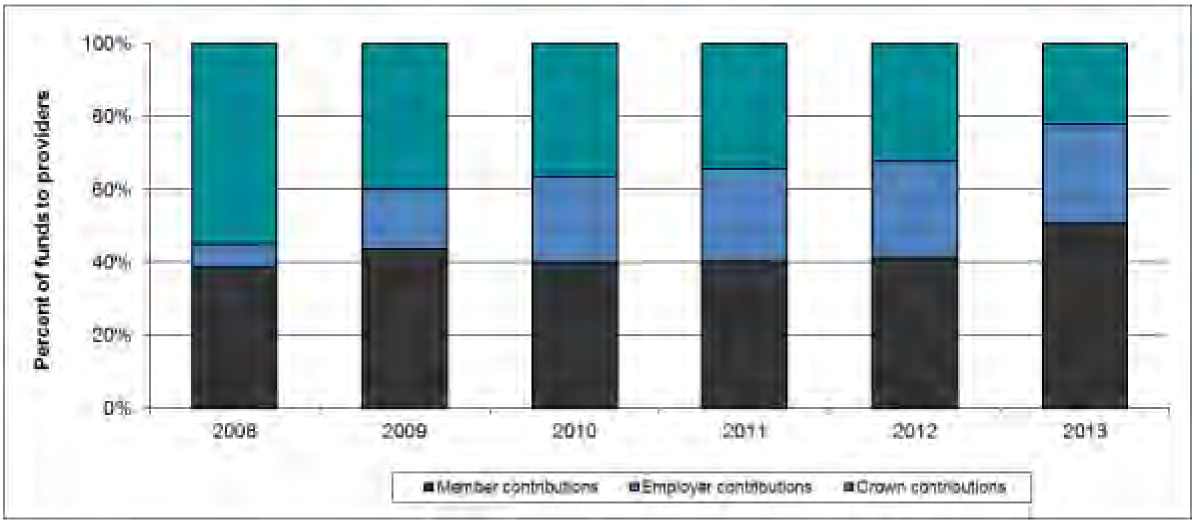
Table 12: Crown costs (years ended 30 June) ($m)

Cost	2008	2009	2010	2011	2012	2013	Total ($m)
Payments to members	572	839	962	1,000	1,045	677	5,095
Employer tax credit	38	206	n/a	n/a	n/a	n/a	244
Total	**610**	**1,045**	**962**	**1,000**	**1,045**	**677**	**5,339**

Base: All Crown contributions to members passed from Inland Revenue to providers for the period October 2007 to June 2013 (cash basis). All ETC payments for the years ended 30 June 2008 and 2009 (cash basis).
Source: Inland Revenue administrative data.

The Crown‟s proportion of costs in 2013 is noticeably lower due to the drop in the MTC percentage. As a proportion of the total value of funds passed to providers for investment in members accounts, the contribution from the Crown is declining over time (see Figure 13).

Figure 13: Crown contribution as proportion of total funds passed to scheme providers



Base: Crown contributions passed from Inland Revenue to providers for October 2007 to June 2013 (cash basis).
Source: Inland Revenue administrative data.

6. Impact on retirement saving

Superannuation and managed funds market

KiwiSaver continues to see significant inflows of members and significant investment has flowed into individuals" accounts. As at 31 March 2013, scheme providers hold $16.6 billion in KiwiSaver schemes consisting of member contributions, employer contributions, Crown payments and investment returns. As at 30 June 2013, there were four schemes with assets of over $1 billion, representing 45% of all KiwiSaver assets (an increase from 37% for this group in 2012 - see Table 13).

Table 13: KiwiSaver scheme numbers and size ($m) yearly as at 31 March

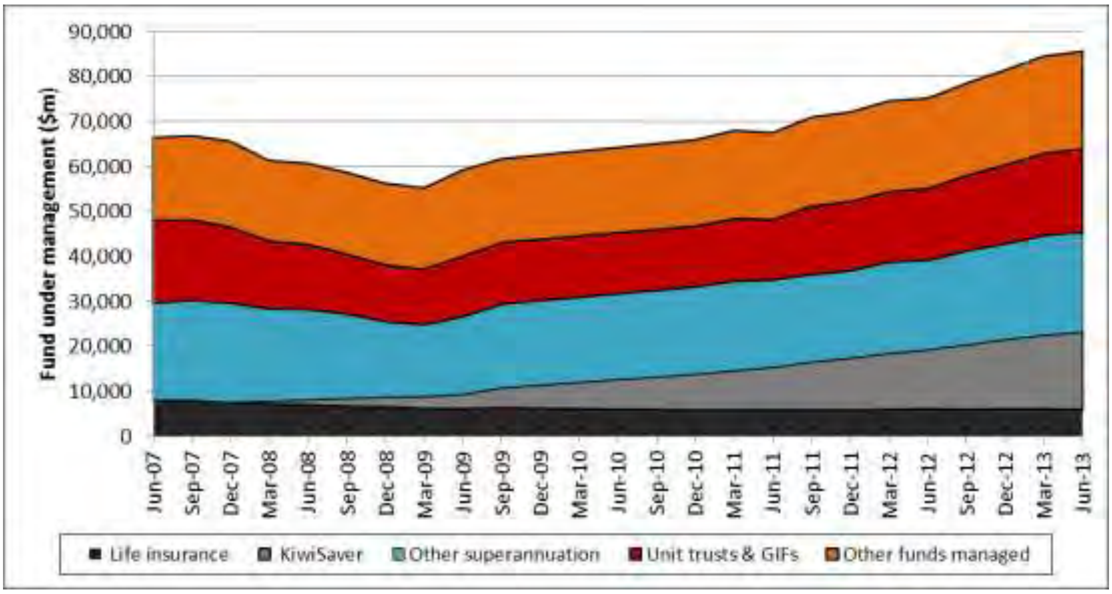
Scheme Size	Number of schemes						Total assets $m					
	'08	'09	'10	'11	'12	'13	'08	'09	'10	'11	'12	'13
<$1m	17	14	10	10	9	4	5	9	2	2	3	2
$1m to <$2.5m	5	6	8	5	4	2	9	8	14	8	8	3
$2.5m to <$10m	9	10	5	5	5	8	45	51	27	20	26	40
$10m to <$25m	6	6	6	7	5	2	89	87	101	122	84	33
$25m to <$50m	3	6	4	4	4	4	130	210	132	140	152	126
$50m to <$100m	5	3	5	2	5	5	322	221	399	110	346	390
$100m to <$200m	1	4	3	7	4	3	101	659	364	1,049	679	474
$200m to <$1,000m	0	5	11	12	11	13	0	1,415	4,812	7,736	6,633	8,009
$1,000m+	0	0	0	0	3	4	0	0	0	0	4,804	7,488
Total	**46**	**54**	**52**	**52**	**50**	**45**	**701**	**2,660**	**5,851**	**9,187**	**12,735**	**16,565**

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

KiwiSaver has had a strong positive impact on the managed funds market since it was introduced in 2007. Over the five years of the KiwiSaver initiative, assets have increased significantly each year, reflecting both the increasing number of members and the accumulation of their contributions. KiwiSaver continues to be a growing part of the overall managed funds market, with its value of $16.6 billion at 31 March 2013 an estimated 19% of the market (see Figure 14). KiwiSaver schemes continue to have a higher proportion invested locally compared to other forms of superannuation.[19]

[19] Reserve Bank of New Zealand, *Managed Funds Survey*.

Figure 14: Managed funds assets by product category



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

Research into the impact on retirement saving

In March 2013, the Commission for Financial Literacy and Retirement Income (CFLRI) published „*The Place of KiwiSaver in New Zealand's Retirement Income Framework*'.[20] This report provided background information for the *2013 Review of Retirement Income* policy on the role of private savings for retirement. Particular reference was made to trends in KiwiSaver and the role of the financial services sector in helping to ensure the adequacy of retirement income for New Zealanders. The report considers the ideal future balance between pay as you go (PAYGO) (i.e. tax-based), and save as you go (SAYGO) funding in New Zealand"s retirement income framework. Increases in the cost of New Zealand superannuation arising from demographic change, along with increased expectations of standards of living in retirement, point to the likelihood of a greater role for private savings.

The report highlights a number of points about the place of KiwiSaver in the retirement income framework, including:

- Policy is underdeveloped in relation to: the broader market of work-based superannuation schemes that comply with or complement KiwiSaver; KiwiSaver"s fit in the Retirement Income Framework, and its relationship with other programmes.
- Clarity about how KiwiSaver fits alongside other retirement polices, and how this may change in the future, is essential if stakeholders are to work together to support KiwiSaver going forward, and for any trade-offs to be identified and planned for.
- Currently, there is no direct relationship between KiwiSaver and other retirement income policies. Other issues needing more attention include: the impacts of KiwiSaver on: wages and remuneration patterns; growth and productivity; fairness, and fiscal implications over the longer term.
- There is considerable reliance on scheme providers supplying their own information about their schemes. Transparency would be better supported by an independent and timely distillation of the disclosed information by the Financial Markets Authority (FMA), including the analysis of membership data within schemes.

[20] Dwyer, M (2013)

Current work

Linked KiwiSaver-SoFIE data analysis

The Survey of Family Income and Employment (SoFIE) is a longitudinal survey that was run by Statistics New Zealand from 2002 to 2010. In 2012/13, the KiwiSaver evaluation team continued work on the analysis of the anonymised linked dataset of SoFIE and KiwiSaver administrative data. The purpose of this analysis is to assess the impact of KiwiSaver on individuals" saving habits and asset accumulation. It focuses on determining whether and how KiwiSaver has contributed towards any new or additional savings or asset accumulation among individuals who are currently not saving enough, or not saving at all, for their retirement. This analysis is a joint project between IR and Treasury and is on track to be finished by the first quarter of 2014.

Future work

Value for money study

The value for money study will be an assessment of a broad set of KiwiSaver costs and benefits. It is expected this will commence in early 2014. The assessment will be an important input for future policy debate and decision.

Conclusions

KiwiSaver membership continues to grow, but the rate of growth has continued to slow from previous years

This year KiwiSaver membership reached 2.15 million. There continues to be growth in KiwiSaver enrolments, but the rate of growth is slowing each year. On a monthly basis, membership grew on average by 15,000 individuals. This compares with, on average, 17,500 individuals a month last year.

Although membership continues to grow steadily, 47% of the eligible KiwiSaver population are not members. This is a drop from 51% in 2012. When compared to the eligible population, the age distribution of KiwiSaver members exhibit one significant peak from 18-years old to the mid-20s, which is associated with them getting full-time permanent work and being automatically enrolled.

Over half of members (61%) have proactively opted-in to KiwiSaver, and there has been continued growth of KiwiSaver membership within all age groups in the eligible population, except for those aged 65 and above (due to the first group of members becoming eligible to withdraw their savings for retirement purposes this year). Approximately 31% of eligible children, nearly 72% of eligible people aged 18 to 24 and over half of eligible individuals in the middle age groups (mid-20s to mid-50s), have enrolled in the scheme.

KiwiSaver members are continuing to use its key features and incentives

As at 30 June 2013, 249,872 individuals opted-out of KiwiSaver and remained out of the scheme. However, 2013 was the first time in four years that there were fewer individuals opting out.

Most people are choosing their own scheme. This year 67% of members have chosen their scheme, while 33% were default allocated by Inland Revenue or allocated to an employer-nominated scheme. In 2013 there were 136,167 transfers, an increase of 24% on last year.

The default contribution rate for new members changed from 2% to 3% on 1 April 2013. As in previous years, this default rate influences the level of members" contributions, with over half of KiwiSaver members (58%) currently contributing 3% of their salary or wages to their accounts.

As at 30 June 2013, there were 101,415 members on a contributions holiday, of whom less than 1% were on a financial hardship holiday.

KiwiSaver home ownership features are continuing to be taken up by some members

A study on the uptake of the first-home-ownership package was done by the Ministry of Business, Innovation and Employment to inform future policy decisions. The study showed that as at December 2012, more than 11,000 FHW had been made, and there were more than 5,800 recipients of the FDS. Younger members (those aged under 35) are the highest users of FHW and FDS.

Preliminary findings indicate more than a third of members eligible to withdraw their savings made a full withdrawal; this figure is expected to rise to nearly three-quarters in the next five years

On 1 July 2012, the first KiwiSaver members who were 65 years of age and had been in the scheme for five years became eligible to withdraw their savings for retirement. Overall, 28,549 members fully withdrew their savings for retirement purposes (39%), with a number of others partially withdrawing or setting up regular payments.

Inland Revenue undertook two studies into retirement withdrawals. The results showed that around three-quarters of those who were eligible to withdraw their savings planned to fully withdraw their savings within the next five years. Those who had already withdrawn their savings split their money between spending and reinvestment, with some needing the savings to pay off debt.

The research with providers showed that they were aware of the need to better target their communications and products with eligible members, especially as KiwiSaver balances grow.

Current and future work will examine the initial impact of KiwiSaver on savings and net worth

Current work is focused on evaluating the initial impact of the scheme on individuals‟ savings and net worth. This work will provide a comprehensive basis for assessing changes in individual or household saving behaviour over time using the linked KiwiSaver and SoFIE research. The work is expected to finish by the end of 2013.

Additionally, a value for money assessment of KiwiSaver will be done. This study will look at a broad set of KiwiSaver costs and benefits and will be an important input for future policy debate and decision.

Appendix 1

Minimum Employer Contribution Rate

	March quarter 2012		June Quarter 2012		June Quarter 2013		2013 total	
Salary or Wage Income (year ended 31 March 2012)	Effective Employer Contribution Rate (default = 2%)	%	Effective Employer Contribution Rate (default = 2%)	%	Effective Employer Contribution Rate (default = 3%)	%	**Total pop**	**%**
$0 to $16,800 ESCT = 10.5%	2%	100%	1.8%	66%	2.5%-2.7%	63%	**7,439**	**6%**
	Other	n/a	Other	34%	Other	37%		
Total		**100%**		**100%**		**100%**		
$16,801 to $57,600 ESCT = 17.5%	2%	100%	1.7%	77%	2.5%	81%	**73,431**	**59%**
	Other	n/a	Other	23%	Other	19%		
Total		**100%**		**100%**		**100%**		
$57,601 to $84,000 ESCT = 30%	2%	100%	1.4%	84%	~2%	98%	**23,877**	**19%**
	Other	n/a	Other	16%		2%		
Total		**100%**		**100%**		**100%**		
$84,001 upwards ESCT = 33%	2%	100%	1.3%	90%	~2%	99%	**20,339**	**16%**
	Other	n/a	Other	10%		1%		
Total		**100%**		**100%**		**100%**	**125,086**	**100%**

Base: All members as at 30 June 2011 whose employers contributed the minimum employer contributions towards their KiwiSaver account in March quarter 2012, June quarter 2012 and June quarter 2013. The minimum employer contributions was 2% of gross salary or wages for the period between 1 April 2009 to 31 March 2013, this increased to 3% from 1 April 2013 onwards. From 1 April 2012, all employer contributions are liable for Employer Superannuation Contribution Tax (ESCT). This means that there may be a reduced amount of employer contributions being paid into members KiwiSaver/Complying fund account. ESCT is calculated at a rate based on the employee salary or wages.
Source: Inland Revenue data

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