MEDIA RELEASE

FinancialServicesCouncil.
growing and protecting the wealth of New Zealanders

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Media release

KiwiSaver highly effective for middle New Zealand

KiwiSaver is likely to give middle and lower income New Zealanders a higher standard of living in retirement according to an independent report commissioned by the Financial Services Council (FSC).

The New Zealand Institute of Economic Research (NZIER) report contrasts with a Government joint agency evaluation of KiwiSaver published in February 2015 which concluded it was only marginally increasing net asset accumulation for members.

The Government joint agency evaluation was drawn on by Treasury to develop a Regulatory Impact Statement which concluded KiwiSaver has not substantially increased savings. Given this conclusion, the Government cancelled the $1,000 kick-start payment in the 2015 Budget.

FSC CEO Peter Neilson said the NZIER report focused on the people KiwiSaver was designed for – those who were likely to have a lower standard of income in retirement than when they were working.

The NZIER report concluded:

- KiwiSaver is likely to lead to an increase in net worth and a standard of living in retirement for middle and lower income participants.
- For very low income people such as beneficiaries and people with high incomes and high net worth, KiwiSaver is less likely to increase savings.
- KiwiSaver should also lead to more diversified portfolios in New Zealand, reducing concentration risks by shifting the balance of household asset holdings from housing to more broadly diversified equity and fixed income exposures.

Mr Neilson said the NZIER report recorded how extraordinarily successful the KiwiSaver scheme had been at attracting members and encouraging long term saving.

Since its inception in 2007, KiwiSaver has become by far the most widely-held voluntary private savings vehicle in New Zealand. There are now over 2.5 million people in the scheme and 75% of the population aged 18 to 64 are members. Before KiwiSaver only around 15% of the workforce were in occupational savings schemes and the number was declining.

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Mr Neilson said the NZIER report was concerned the evidence base for cancelling the $1,000 kick-start payment was too narrow. It found:

1. **Data drawn only from 2007 – 2010 (including GFC years):** The conclusion that KiwiSaver has not lifted net assets was based on data from start of the scheme in 2007 until 2010 and therefore may have been significantly tainted by the impact of the Global Financial Crisis which started in 2008. A longer sample is required to more disentangle the impact of financial market volatility from savings behaviour.
2. **No assessment of diversification:** The evidence base could have included an assessment of the extent to which KiwiSaver will help its members diversify wealth and reduce their investment risk.
3. **KiwiSaver attracts young and low income savers:** Local and offshore evidence suggests these groups typically do not participate in formal savings schemes.
4. **KiwiSaver diversifies wealth:** There is a large concentration risk in financing retirement given the composition of wealth in New Zealand which is highly concentrated in real estate and New Zealand assets. KiwiSaver will significantly ameliorate this risk over time as portfolios include shares and fixed interest.
5. **KiwiSaver has earned more than interest or labour income growth:** Despite the impact of the GFC, up to the end of 2014 KiwiSaver earned a higher return than the interest rate cost of Crown contributions and the growth in New Zealand labour incomes. This is likely to continue.
6. **Lessons from behavioural economics ignored:** Behavioural economics suggests many individuals will not adequately save for their retirement. KiwiSaver overcomes some of these effects. For example, automatic enrolments overcomes procrastination in getting started with a savings scheme.

Mr Neilson said the joint agency report drew on 2011 and 2014 Treasury working papers. One of the key pieces of evidence used in these papers to support the conclusion that KiwiSaver has not increased net worth was analysis of the self-reported household Survey of Family Income and Employment (SoFIE).

"The SoFIE survey has been discredited as unreliable because some participants reported large changes in their financial position between surveys that was not consistent with other data sources. The survey was not extended beyond 2010."

Another potentially serious problem highlighted by Griffith University economist Professor Ross Guest and his colleagues is that the Treasury papers use non-KiwiSavers as a benchmark to compare KiwiSaver Performance.

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"The analysis simply compared the results for the people in KiwiSaver with those who were not, as opposed to those in the target audience who joined KiwiSaver compared with those in the target audience who did not," says Mr Neilson.

"We need to compare apples with apples. People on a benefit can't afford to save and are likely to receive a higher income from New Zealand superannuation than they received during their adult lives on a benefit anyway. At the other end of the scale, people who were saving for retirement by investing in rental property or a farm would be unlikely to use KiwiSaver other than to just pick up the KiwiSaver incentives. For this group KiwiSaver would probably not increase their savings, it would only change the composition of their savings. Neither of these categories were in the target group for KiwiSaver and should not have been used for comparison."

Professor Guest et al's independent review of Treasury's 2014 paper *KiwiSaver and the Accumulation of Net Wealth*, which concluded that non-members accumulated more wealth than members, voiced strong concerns over the approach taken – in particular the short evaluation time frame that coincided with the GFC. Professor Guest et al's review said a longer investment horizon may show improved outcomes for KiwiSaver members.

Mr Neilson said KiwiSaver was the most successful new savings innovation in the last 100 years and the findings of the NZIER report would be no surprise to most New Zealanders.

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Related Reports

IRD (2015) *KiwiSaver evaluation: Final Summary Report. A joint agency evaluation 2007-14* http://www.ird.govt.nz/aboutir/reports/research/report-ks/research-ks-evaluation-final-summary.html

Regulatory Impact Statement, Repeal of KiwiSaver kick-start payment, James Beard, Manager, Financial Markets, The Treasury, 6 May 2015
https://secure.zeald.com/fsc/Research%20%20Resources/Media%20Releases?_live_edit=1&mv_pc=598

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Law, D and G Scobie (2014) *KiwiSaver and the accumulation of net worth*, New Zealand Treasury Working Paper 14/22 http://www.treasury.govt.nz/publications/research-policy/wp/2014/14-22/twp14-22.pdf

Guest, R, K MacDonald, M Drew and R Bianchi (2014) *KiwiSaver Conclusions Report: An independent review of the NZ Treasury Draft Paper KiwiSaver and the Accumulation of Net Wealth* https://www.ird.govt.nz/resources/1/5/156ee2c0-680e-44e9-9ec0-22db836111c5/ks-conclusions-report.pdf

Law, D, L Meehan and G Scobie (2011) *KiwiSaver: An evaluation of the impact on retirement saving*. New Zealand Treasury Working Paper 11/04
http://www.treasury.govt.nz/publications/research-policy/wp/2011/11-04/twp11-04.pdf

About the Financial Services Council
The Financial Services Council (FSC) was established in 2011 to represent the interests of the New Zealand financial services industry and the financial well-being of all New Zealanders. Its objectives are to:

- Develop and promote evidence-based policies and practices designed to assist New Zealanders to build and protect their net wealth
- Promote the financial services industry for the economic benefit of New Zealand
- Promote best practice in the financial services industry, including the publication of guidance for industry participants
- Promote the financial services industry as a medium for investment or protection

The FSC has 22 member companies and 16 associate members. Members manage more than $80 billion in savings and provide financial services to more than 2.5 million New Zealand investors and policyholders. FSC members help New Zealanders achieve long term financial security by providing products and services which build wealth, prepare them for retirement and provide financial protection against unexpected health events.