MEDIA RELEASE

FinancialServicesCouncil.
growing and protecting the wealth of New Zealanders

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Choose a Change for the Better says FSC to Kiwi Savers

Most people are now choosing their own KiwiSaver scheme, the just released sixth annual review of KiwiSaver by the IRD reports, which hopefully sees a shift from conservative funds to a better earning balanced or growth scheme where savings nest eggs could be at least $250,000 bigger, says Financial Services Council CEO, Peter Neilson.

“We are pleased to learn that more of the 2.15 million people enrolled in KiwiSaver are making their own decisions about their retirement savings, but our latest independent research shows that many people are remaining in conservative funds, and they don’t know it,” Mr Neilson says.

FSC modelling shows that if someone on the average wage contributing 6% p.a. stays in a conservative fund for the next 40 years they’ll end up with a nest egg at least $150,000 smaller than if they invested in a balanced portfolio and $250,000 less than being in a growth fund. Investors also need to know that conservative funds suffer the highest effective tax rate which increases the savings required to get to a comfortable retirement.

KiwiSaver Fund	Interest Rate Return After Tax and Fees	Nest Egg at 65	Difference
Conservative	4.0%	$328,772	-
Balanced	6.0%	$514,521	$185,749
Growth	6.6%	$596,543	$267,771

The IRD report shows that 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 report also shows that 58% of members are contributing the minimum amount of 3% of their salary or wages and their employer 3%, a total still far below the amount required to make up the shortfall to enable ordinary New Zealanders to fund a comfortable retirement.

"Saving for retirement is further not helped by the government's decision to retain the conservative default funds approach to KiwiSaver rather than encouraging a shift to balanced or higher growth funds to match life stages, "Mr Neilson says. "It will cost New Zealanders dearly and mean they will have to save a lot more for a lot longer and pay a lot more tax on those savings as they try and build their retirement nest egg."

He sees a pressing need to lift people's understanding of the impact of compound interest on their long term savings and the hefty amount of tax they will pay over the decades in New Zealand where the bias is towards property investments and "hostile to building a culture of savers".

"We intend to make KiwiSaver issues of fairness, accessibility and affordability an election issue that all parties must address and reach an accord on retirement income policy to replace the 20 year old agreement which is no longer fit for the time," Mr Neilson said.

The FSC, whose 21 members and 18 associates from the financial services and insurance sector have over $80 billion of savings under their management, is an industry good and public policy advocate for ordinary kiwis who want a fair go to grow and protect their wealth.

The Council has presented to politicians and policy advisors a package of options that shows a pathway that would be safe to follow to help New Zealanders save sufficiently to have a comfortable retirement which New Zealanders say is an annual income double NZ Super.

The key points of the FSC plan presented to policy makers and decision makers are to:

- keep as is NZ Super and the link to wages
- gradually increase contributions by 1% p.a. to 7%
- move default Kiwi Savings into higher earning, life stage appropriate funds
- offset additional risk with insurance or a capital guarantee
- level the tax playing field for KiwiSaver
- re-target the KiwiSaver incentives to fund lower tax rates

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For research, tax modelling, financial analysis and a media backgrounder on the FSC options to supersize retirement incomes please go to: http://fsc.org.nz/SuperSizeRetirementIncome.html