pensionbriefing

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

A briefing paper from the retirement policy and research centre

Observations on Reserve Bank's household financial assets: 2003-2013

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The Reserve Bank of New Zealand collects household financial assets at least quarterly as part of its overall supervision of New Zealand's financial system. This *PensionBriefing* looks at some of this information over the ten years to 2013 to assess, among other things, the impact of KiwiSaver's 2007 introduction.

In summary

Many commentators suggest that KiwiSaver has been a success[1]. With 2.2 million members and more than $19 billion in assets, it seems that KiwiSaver might have made a real difference to New Zealanders' saving habits. However, apart from those headline numbers, we do not really know whether New Zealanders are saving more; or even whether KiwiSaver has helped to lift the aggregate numbers.

The Reserve Bank of New Zealand (RBNZ) collects a lot of information from financial service providers that offer different services to New Zealanders. In aggregate, these data do not tell us what different groups of New Zealanders are doing in their financial lives but they can give a rough sense of what is happening to all households as a group. In summary, KiwiSaver, despite its growth from a standing start in July 2007, still plays a very small part in New Zealand households' financial affairs and there may be offsetting behaviour in other parts that reduce even that small impact.

As well, the RBNZ data show that about half of all KiwiSaver assets are invested overseas (50.1% at September 2013); also that more than half those overall assets are invested in fixed interest investments (53.6% at September 2013). Neither of those numbers support a story about building the New Zealand economy to support an ageing population.

The (nearly) ten years to September 2013

This *PensionBriefing* draws on two data series from the RBNZ:

- The *Managed Funds Survey* (MFS) that has collected information from financial institutions since 1987. However, the format and scope of the MFS changed significantly from December 2003 so this review uses data only from that date. The MFS is part of the RBNZ's "…overview of financial intermediation in New Zealand" (Reserve Bank, 1996). The data are published as Table C15 which is accessible here.
- The *Key household financial statistics*, published as Table C21 are accessible here. The RBNZ has published Table C21 in the present format since December 1998. As detailed in a 2008 *PensionBriefing* (RPRC 2008), these statistics do not show all

[1] For example: "The latest figures show that KiwiSaver is a massive success, probably the most popular scheme ever introduced by a New Zealand government." Brian Gaynor, a financial writer, in *The New Zealand Herald*, 1 June 2013.

household assets but do show nearly all the liabilities. As Briggs (2012) noted, the total net worth of all New Zealand's households is probably at least 27% higher than previously estimated by the RBNZ (total assets up by 19.8%; total liabilities down by 1%). However this *PensionBriefing* will use the numbers from Table C21, recognising that the comparisons will as a result be conservative.

The nearly ten years (December 2003 to September 2013) was a period of great change with the 2008 recession, the Global Financial Crisis (GFC) that started affecting New Zealand in 2009, a rise in unemployment rates (from 4.8% in 2003 to 6.0% in 2013) and a change of government in 2008 with consequential policy changes. There was also a surge in house prices (up by a nominal 91% in the covered period[2]) and well-signalled concerns from the RBNZ itself about rising household debt levels (up by a nominal 97% according to the RBNZ's Table C21).

There were signficant tax changes, such as the introduction of 'portfolio investment entities (PIEs) and the new 'Fair Dividend Return' (FDR) regime for overseas shares.

Also, KiwiSaver started on 1 July 2007.

The RBNZ data show that New Zealanders seem to have reacted to these influences in predictable ways.

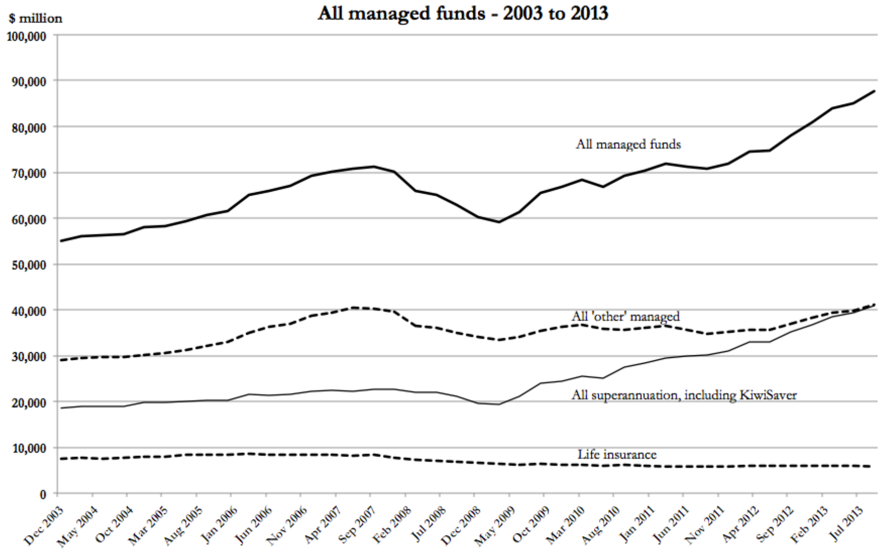
All 'managed funds'

The RBNZ's Table C15 groups managed funds into three main categories:

- life insurance: the assets of the main 'life funds' of the life insurance companies;
- 'superannuation' that includes KiwiSaver and other superannuation schemes (occupational and retail schemes);
- 'all other managed funds' that include unit trusts, 'group investment funds' (GIFs) and 'other funds managed'.

Chart 1 shows changes over the ten years in the nominal amounts New Zealanders own in the different categories.

Chart 1



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[2] Source: RBNZ, *Aggregate private sector residential dwelling values* accessible here.

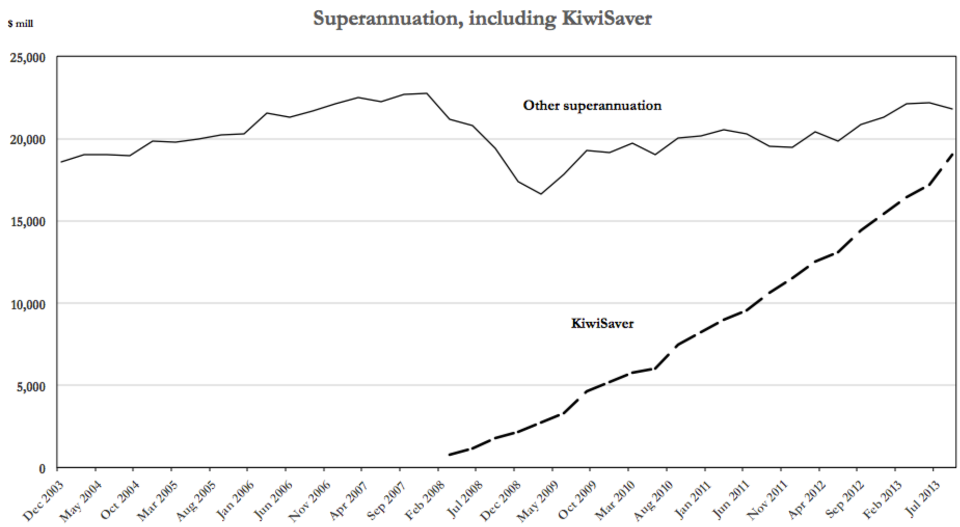
Table 1 highlights the numbers for the beginning and end of Chart 1's covered period:

Table 1: summary changes 2003-2013

	2003	2013	% change
All managed funds	$55.0 bn	$87.7 bn	+59%
All superannuation (inc. KiwiSaver)	$18.6 bn	$40.9 bn	+120%
All 'other'	$29.0 bn	$41.0 bn	+41%
Life insurance	$7.5 bn	$5.8 bn	-23%

Chart 2 analyses the changes over the ten years in the amounts held in just superannuation schemes, including KiwiSaver[3]. The total of these is shown in Chart 1: 'All superannuation, including KiwiSaver'.

Chart 2



KiwiSaver funds have grown from nothing to $19 bn in just over six years (2007-2013). Though 'other superannuation' assets have increased slightly in nominal terms $18.6 bn to $21.8 bn, they have declined in real terms[4].

The category of just 'superannuation' will increasingly be about KiwiSaver as traditional, occupational and retail superannuation schemes decline with the introduction of the Financial Markets Conduct Act 2013. Savers will prefer other vehicles to fill their 'superannuation' need as, because of the lock-up rules, savers will use KiwiSaver only to the extent necessary to capture the subsidies (tax and employer contributions).

Going back to Chart 1, of the $32.7 bn increase in all *managed* funds, 58% was attributable just to KiwiSaver.

[3] By contrast, the RBNZ's Table C18 (Reserve Bank, 2013a), showed that in 1993, total household financial assets were $91 bn and of that, 'all managed funds' were $37 bn (superannuation $17 bn, life insurance $11 bn and managed funds $9 bn). On an inflation-adjusted basis, according to the RBNZ's inflation calculator (accessible here), total financial assets were worth $142 bn in 2013 and all managed funds $58 bn or 41% of financial assets.

[4] Again, on an inflation-adjusted basis, the 2003 opening figure of $18.6 bn for 'other superannuation' was the equivalent of $23.9 bn in September 2013.

Putting Kiwisaver into perspective

The total of all managed funds ($87.7 bn at September 2013) is a relatively small proportion (34%) of New Zealanders' total *financial* assets[5] that stood at $255.7 bn. At September 2013, KiwiSaver assets were just 7.5% of all households' financial assets and a much smaller fraction of total household wealth[6].

Since KiwiSaver started, gross household *financial* assets (including KiwiSaver) have grown by $66.2 bn from $189.5 bn to $255.7 bn (+35% in six years). Of that increase, just $19 bn (29%) can be attributed to KiwiSaver. What we do not know and can never know, is whether financial assets might have grown by that $19 bn without KiwiSaver's intervention.

Has KiwiSaver changed behaviour?

To label KiwiSaver a "massive success" suggests that KiwiSaver has changed New Zealanders' behaviour. However, we cannot tell that from looking at just the numbers of members or the amount of money now managed by KiwiSaver schemes.

We can only measure real 'success' against the counterfactual – what would New Zealanders have done in the absence of KiwiSaver? Are they really concerned about their lack of financial preparation for retirement as some suggest? Or is it just a case of rational responses to the relatively generous tax incentives when it started (since significantly reduced); or even is it now a case of employees' wanting to 'capture' the extra remuneration that the compulsory employer subsidy represents? And have New Zealanders effectively 'financed' their own KiwiSaver savings through higher household debt?

There is no doubt that the country has greater *government* debt because of KiwiSaver. Of the $14.2 bn contributed to KiwiSaver schemes up to 31 March 2013, direct government subsidies totalled $4.9 bn[7] (34.6% of all contributions). Over the six years and in the absence of KiwiSaver, the government need not have borrowed that $4.9 bn.

No-one knows how many New Zealanders would have joined KiwiSaver in the absence of those subsidies, nor how much they would have contributed, but we can make some observations from the RBNZ's data.

There has been a significant increase in the nominal value of financial assets the ten years to 2013: they rose from $139.4 bn at December 2003 to $255.7 bn at September 2013 (+83%). The increase is much less dramatic if measured against household incomes.

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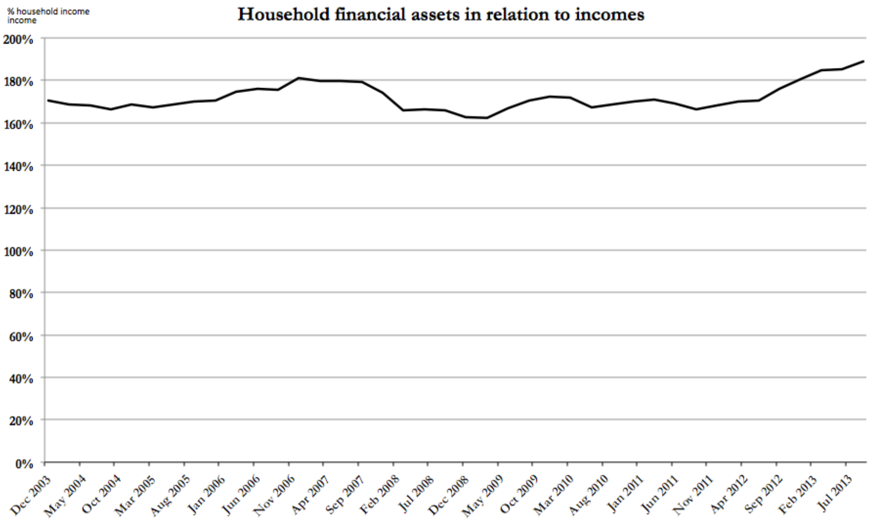
[5] 'Financial assets' include bank deposits, fixed interest assets and directly held domestic and overseas equities. They do not include all property, unlisted businesses, farms, horticultural investments and other directly held assets.

[6] The RBNZ's Table C21 put net household wealth for June 2013 at $726 bn. Allowing for most of the 'missing' assets (Briggs, 2012), total net household wealth would have exceeded $920 bn. Of that, KiwiSaver funds were just 2%; an average of just $11,300 for each of the 1,679,800 households at 30 September 2013.

[7] Source: author's calculations from the annual reports filed, until 2011 by the Government Actuary and since then by the Financial Markets Authority. The 2012 and 2013 reports are accessible here. The earlier reports (2008-2011) are accessible here. The $4.9 billion does not allow for the indirect tax subsidies that the more favourable treatment of KiwiSaver schemes' investment income attracts because of 'portfolio investment entity' tax status.

Over the nearly ten years, household disposable incomes, as reported in the RBNZ data, grew from $81.9 bn to $135.4 bn, an increase in nominal terms of 65.3%[8]. Despite this, all *financial* assets grew from 1.70 times household income at the beginning of the period to 1.88 times by September 2013, as Chart 3 shows.

Chart 3



The value of New Zealanders' financial assets dipped as a percentage of incomes as the effects of the GFC affected the value of investments. However, apart from the low point (in relation to incomes) in March 2009, the chart shows a relatively steady increase in financial assets over the ten years – up from 170.3% of household incomes to 188.8% by the end of the period.

Looking at just the *managed* funds (part of financial assets), we can see that they have fallen in relation to both household incomes and as a proportion of financial assets over the period.

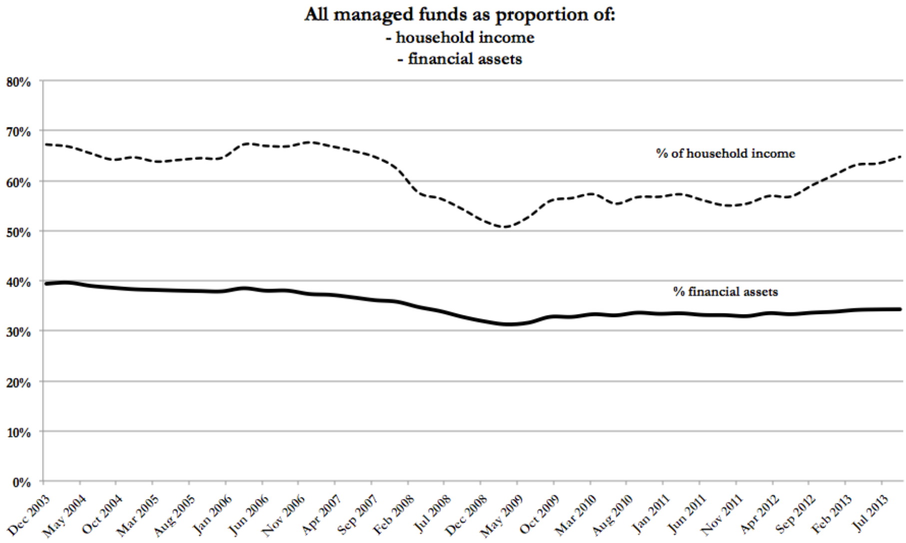
Table 2
All managed funds (including KiwiSaver) – key indicators

	2003[9]	2008	2013
As proportion of financial assets	39.5%	32.8%	34.3%
As a proportion of disposable income	67.2%	54.3%	64.8%

Chart 4 tracks the quarterly data for these measures over the (nearly) ten years.

[8] In real terms, the increase was much smaller – 29% over the ten years, again, using the RBNZ's inflation calculator.
[9] In Table 2, the 2003 number is from December; for 2008 and 2013, they are from September.

Chart 4



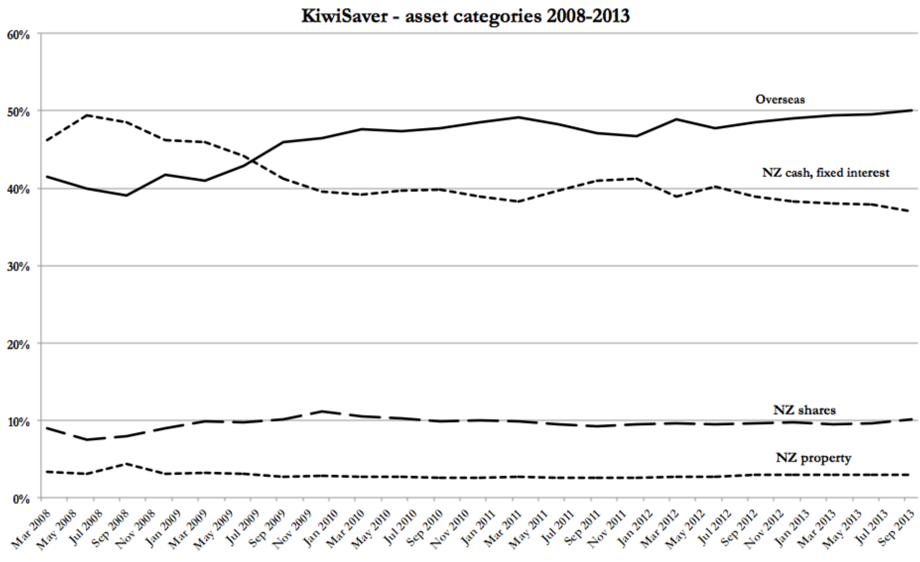
KiwiSaver assets are part of 'managed funds'. Table 1 shows that the nominal value of all managed funds grew from $55.0 bn in 2003 to $87.7 bn by 2013. However, measured against both incomes and all financial assets, Chart 4 shows that managed funds (including KiwiSaver) have declined in importance over the period, though, in relation to just incomes, there has been an increase since late 2011.

Where is KiwiSaver invested?

Some suggest that the increasing KiwiSaver assets should help finance New Zealand's growth to support an ageing population. It is only seven years since KiwiSaver started so perhaps it is too early to judge but the KiwiSaver asset make-up to date does not really support the local growth case.

Chart 5 shows by major investment sector, how KiwiSaver funds have been invested since 2008[10].

Chart 5



[10] KiwiSaver started on 1 July 2007. The first assets were handed to fund managers from 1 October 2007. The March 2008 starting point for Chart 5 reflects the position after six months' operations.

Chart 5 shows:

- an increasing proportion of KiwiSaver investments held in overseas assets (50.1% at September 2013);
- a reducing, but still large share (36.9% at September 2013) held in local deposits and other fixed interest investments;
- low, static levels held in New Zealand shares;
- even lower and static levels in New Zealand property investments.

Of the proportion invested overseas, a significant share was also in fixed interest investments such as deposits and bonds. The RBNZ has collected information on that since December 2009 and Table 3 shows how that affects the overall picture illustrated in Chart 5.

Table 3
KiwiSaver – analysing fixed interest holdings

Proportion of total KiwiSaver assets:	**2009**[11]	**2011**	**2013**
- held in overseas fixed interest	13.1%	17.0%	16.6%
- held in fixed interest (NZ & overseas)	52.6%	57.9%	53.6%

Investment managers will usually suggest that, for higher long-term returns, a so-called 'balanced' portfolio should hold at least 60% in 'growth' assets (shares and property). In that context, a 53.6% share in deposits and other fixed interest investments is very 'conservative'. If continued, savers will probably end up at retirement with significantly lower balances but they also face an increased risk from unexpected inflation. Growth assets are normally the best protection for that.

The high concentration in fixed interest investments is influenced by the government-imposed, very conservative (or low risk) 'default' investment strategy for the six default funds. At 31 March 2013 about 20% of all KiwiSaver assets were in those default funds' default strategies (Financial Markets Authority, 2013).

How much of all 'managed funds' are invested overseas?

Looking at the wider 'managed funds' category measured by the RBNZ, Chart 6 shows the proportion that has been invested overseas between 2003-2013 (KiwiSaver started part way through that period).

[11] In Table 3, the 2009 number is from December; for 2011 and 2013, they are from September.

Chart 6

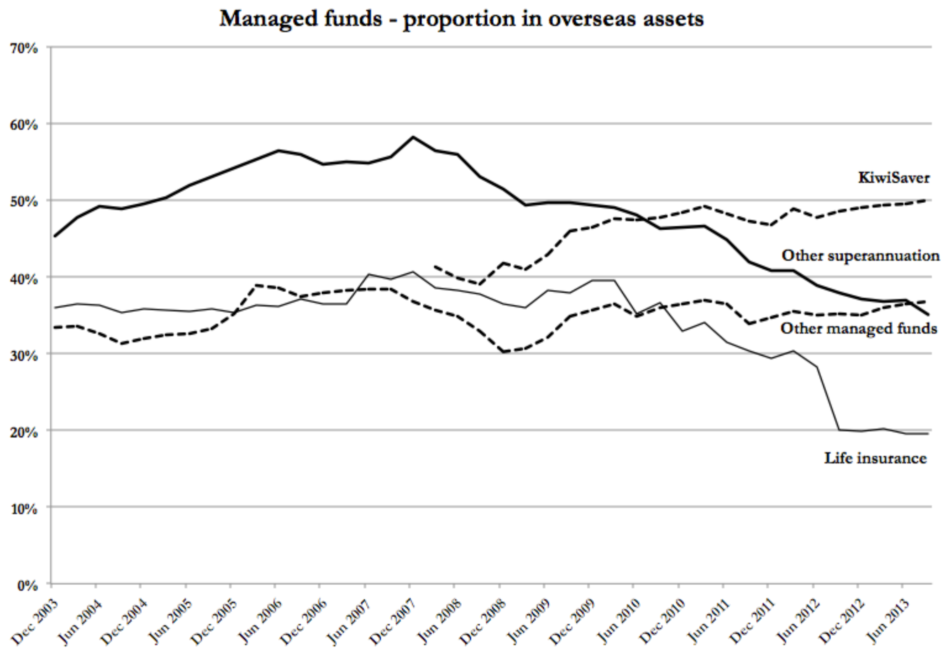


Chart 6 shows that:

- KiwiSaver investments overseas have grown as a proportion to 50.1% at September 2013;
- The same is not true for life insurance funds, with overseas investments now 19.5% from a peak of 40.6% in September 2007; also 'other superannuation' that has fallen from a peak of 58.1% in September 2007 to 35.1% six years later;
- 'All other managed funds' (such as unit trusts and group investment funds) have remained relatively static with between 30-40% in overseas assets over the ten years.

Conclusions

We know that about half of the New Zealand population has joined KiwiSaver but the RBNZ data show that:

- KiwiSaver may have added to the value of all financial assets held by households (measured against incomes) but *managed* funds including KiwiSaver were a smaller proportion of households' total financial assets at September 2013 than when KiwiSaver started in 2007. Financial assets themselves grew in relation to incomes in those six years.
- After six years, the amounts in KiwiSaver at the end of 2013 were a small part of total financial assets (7.5%) and an insignificant part of household wealth (probably less than 2%).
- KiwiSaver has come at a large cost to taxpayers through extra borrowing of $4.9 billion and the on-going servicing costs of that debt. Households' increased debt levels[12] have probably helped finance the members' personal KiwiSaver contributions.

[12] The RBNZ data show that household debt has grown over the ten years from $101.7 bn in 2003 to $199.9 bn in 2013. That near doubling in nominal terms (+97%) is less dramatic, though still significant in inflation-adjusted terms (+53%). Measured against household incomes, household debt has grown from 124% to 148% (+19%).

- The investment profile of all KiwiSaver assets is very 'conservative' with more than half of all assets invested in cash and fixed interest. Separately, about 50% is invested overseas at September 2013 (up from about 40% from 2008). Neither of these numbers enhances the case that KiwiSaver's assets are supporting the growth of the New Zealand economy.

We cannot tell from the RBNZ's data whether individual households have responded directly to these influences so that we can work out what proportion of the $9.3 bn contributed by members and employers to KiwiSaver (to 31 March 2013)[13] is 'new' savings. Only a detailed longitudinal survey can discover that. We know that the government's $4.9 bn in direct subsidies is not 'new' savings as government debt has risen by that amount.

As a general comment though, the RBNZ data suggest that KiwiSaver is currently a relatively insignificant influence in New Zealanders' financial lives. That could change.

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[13] Total contributions were $14.2 bn to 31 March 2013. Of that, direct government subsidies were $4.9 bn. Members and employers contributed the rest.