New Zealand's KiwiSaver

Lessons for Ireland[1]

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1. Introduction

New Zealand's **KiwiSaver** was introduced on 1 July 2007 as the world's first national opt-out retirement savings scheme. The 'soft compulsion' automatic enrolment feature continues to be an influence in the design of opt-out schemes in other countries such as the UK and Ireland. KiwiSaver has grown to be an important part of New Zealand's very simple retirement income framework.

The framework consists of a universal state pension called New Zealand Superannuation (NZS) supplemented by KiwiSaver and other voluntary savings including remaining employment-based superannuation. Widespread home ownership also underpins living standards in retirement.

Unlike most other countries, New Zealand treats private retirement saving for tax purposes much the same as saving in a bank deposit. Where traditional tax regimes treat both employer and personal contributions and income earned in the fund favourably, all tax concessions for retirement saving were abolished in New Zealand in the late 1980s (St John and Ashton 1993). Since then, contributions to retirement savings schemes are made out of after-tax income and earnings in the fund are taxed at the saver's tax rate. Then, just like taking money out of a bank deposit, withdrawals are considered to be return of capital and hence tax-free.

When the tax concessions were removed over twenty five years ago, many employment-based retirement schemes were closed, and many defined benefit (pension) schemes were replaced by defined contribution schemes. Public-sector pension schemes were closed to new members in 1992. By the mid-2000s, coverage of the workforce in employment-based retirement schemes had fallen to only around 14 percent, with few in pension schemes (St John 2007a, St John 2007b)

In 2007, KiwiSaver, the world's first national auto-enrolment national saving scheme offered wide access to work-based saving. Membership however was not confined to those in paid work. There were 2.65 million members by the end of June 2016 which excluding children represents approximately 78 percent of the working-age population.[3]

KiwiSaver is in its tenth year. It has achieved remarkable acceptance, low administration costs, and wide transparency. It complements the few remaining employment-based schemes. Nevertheless there are concerns: the low levels of contribution, its use for housing, too many in default schemes, low default contribution rates, level of fees and competition, gender issues, and the lack of longevity protection and annuitisation options. This report describes aspects of KiwiSaver that may be of interest to Ireland as it investigates its own opt-out savings scheme.

[3] Those aged 18-65. Inland Revenue, "Annual KiwiSaver Statistics," 2016, http://www.kiwisaver.govt.nz/statistics/monthly/. Info share Stats NZ. http://www.stats.govt.nz/infoshare/Default.aspx

2. The New Zealand context

Table 1. Key economic indicators

Year ended March 2016	
Population	4.66m
Gross domestic product	$249b
GDP per capita	$53,777
Economic growth	2.4%
Economic growth per capita	05%
Unemployment rate	5.2%
Inflation rate	0.4%
Current account deficit	$7.5b 3% GDP
Interest rates (OCR)	2.25%

Source: Monthly Economic Review August 2016.
(Exchange rate 1 NZD = **0.6440** EUR August 2016)

New Zealand is a small remote island nation with a population of 4.7 million. It is a trade dependent economy with a persistent current account deficit (3% of GDP), and a large negative net international investment positon (-63% of GDP).

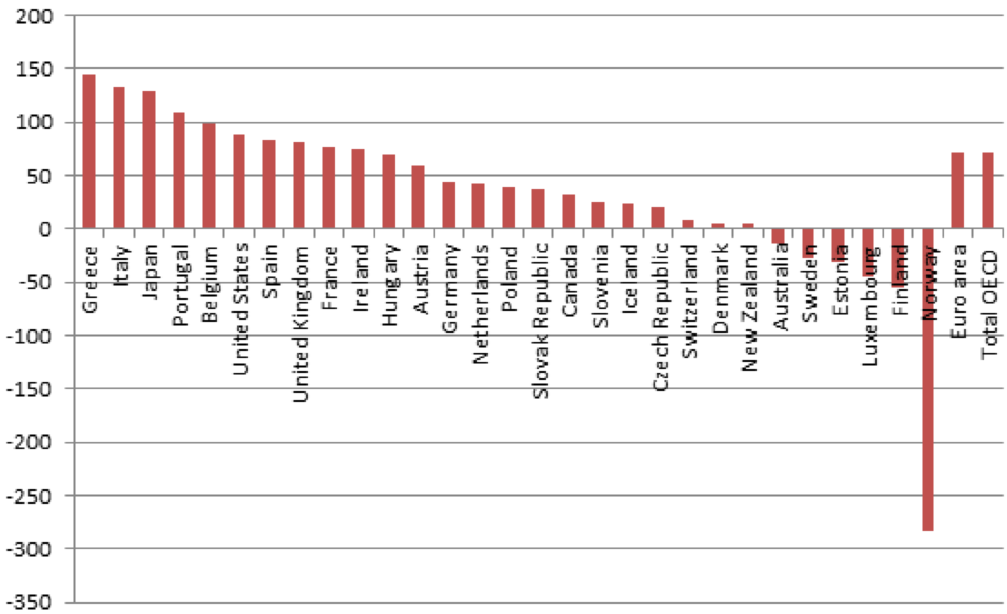
Private sector borrowing rather than government borrowing is used to fund ongoing current account deficits and net public debt is low at around 26% of GDP (The Treasury 2016).[4] This figure is even lower at around 13% falling to 8% by 2020, if the assets of the New Zealand Superannuation Fund (sovereign wealth fund) are netted off as some economists argue is appropriate (Council of Trade Unions 2016). New Zealand's comparatively strong fiscal position taking sovereign wealth funds into account is shown in Figure 1.

Continuing low dairy prices, a high exchange rate, and economic growth driven by largely by immigration are current economic concerns. The high exchange rate negatively affects export earnings but makes imports cheaper thus holding down inflation as measured by the consumer price index (CPI) while slow wage growth and welfare payments tied only to the CPI are adding to acute distributional problems.

Compounding the conundrums, interest rates are at historically very low levels and are set to fall even lower. Low interest rates are helping to inflate the biggest property bubble in the developed world (see Figure 2) with the result Auckland, the main city, is being described as the world's least affordable.[5]

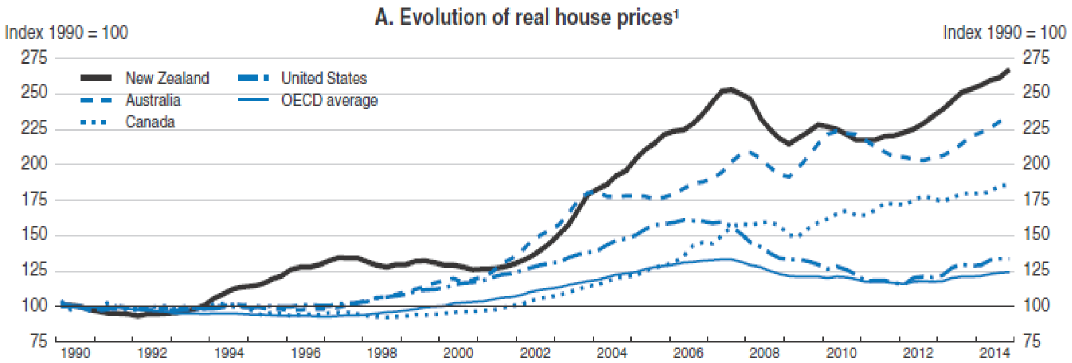
[5] http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10487926

Figure 1. Net general Government Debt in OECD as %GDP, 2015. Source OECD Economic Outlook June 2016.



New Zealand has a very unequal wealth distribution, and has no capital gains tax except for short term gains by investors.

Figure 2. House prices. Source OECD (2015)



The astonishing housing bubble is reminiscent of that in Ireland in the mid-2000s, however it has to date been driven, not by over-supply, but by serious under supply and high immigration. In mid-2016 there is no sign of the slowing of the rises in prices in the largest city Auckland where expected intensification of housing and zoning changes are adding fuel to the speculative flames. Many commentators are predicting a painful collapse of the bubble.[6]

[6] See Gould(2016) http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11655554 http://www.radionz.co.nz/news/national/306266/auckland-housing-facing-'violent-end'-expert

http://www.newshub.co.nz/tvshows/story/three-expert-economists-make-predictions-on-if-auckland-housing-bubble-will-burst-and-when-2016072912#axzz4GnPPLLY2

3. The New Zealand retirement income framework

New Zealand Superannuation

The non-contributory universal taxable state pension, New Zealand Superannuation (NZS) at age 65 provides a very comprehensive first tier of retirement income. Currently, there is no income or asset test, and meeting a low residency test of 10 years after age 20, (with at least five years after age 50) is all that is required, although there may be offsets if a retiree has an overseas state pension. The rate is adjusted to never fall below a floor of 66 percent of the average wage for a couple, with higher rates for single people and those who live alone. As illustrated in Table 2 the tax system provides a limited clawback, with top income earners receiving a net 76-77% of the net amount received by those with no other income.

Table 2: New Zealand Superannuation rates at 1 April 2016.

Category	% net average wage	Annual Gross rate	Annual Net	Annual Net
		NZ$* (gross)	Primary Tax	33% Tax**
Single, living alone	43%	$23,058	$20,008	$15,449
Single, sharing	40%	$21,192	$18,468	$14,198
Partnered person (each)	33%	$17,458	$15,390	$11,697

Source: Work and Income website: http://www.workandincome.govt.nz/
** net amount retained when NZS is taxed at the top income tax rate of 33%.
*1 NZD = **0.6440** EUR August 2016

NZS is best seen as a sophisticated yet simple variant of social insurance; it is neither earnings-related nor contributory but fulfils the role of a basic individual income. Compared with basic age pensions internationally, and with other welfare benefits domestically, NZS is both simple and generous. Home ownership rates are high and housing costs are relatively low. As a consequence, New Zealand has very low rates of pensioner hardship, despite high rates of hardship among those on welfare benefits.

Nevertheless around 9% of those over 65 have incomes under the unofficial poverty line[7] and 3% experience material deprivation (Perry 2015, p 157). As at the end of March 2016, 7,768 of a population of 713,753 aged over 65 are supported by other main welfare benefits (Ministry of Social Development 2016 p 4, 15). A number roughly between 21,400 to 64,000 experience deprivation and/or income poverty[8]. Of these, the majority receive NZS but may still fail to make ends meet.

Current retirees show a significant dependence on NZS. Research has found that for those over the age of 65, 40 percent have virtually no income sources other than NZS and 20 percent have

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http://www.interest.co.nz/property/80676/yale-econometrics-professor-tipped-win-nobel-prize-writes-paper-saying-auckland

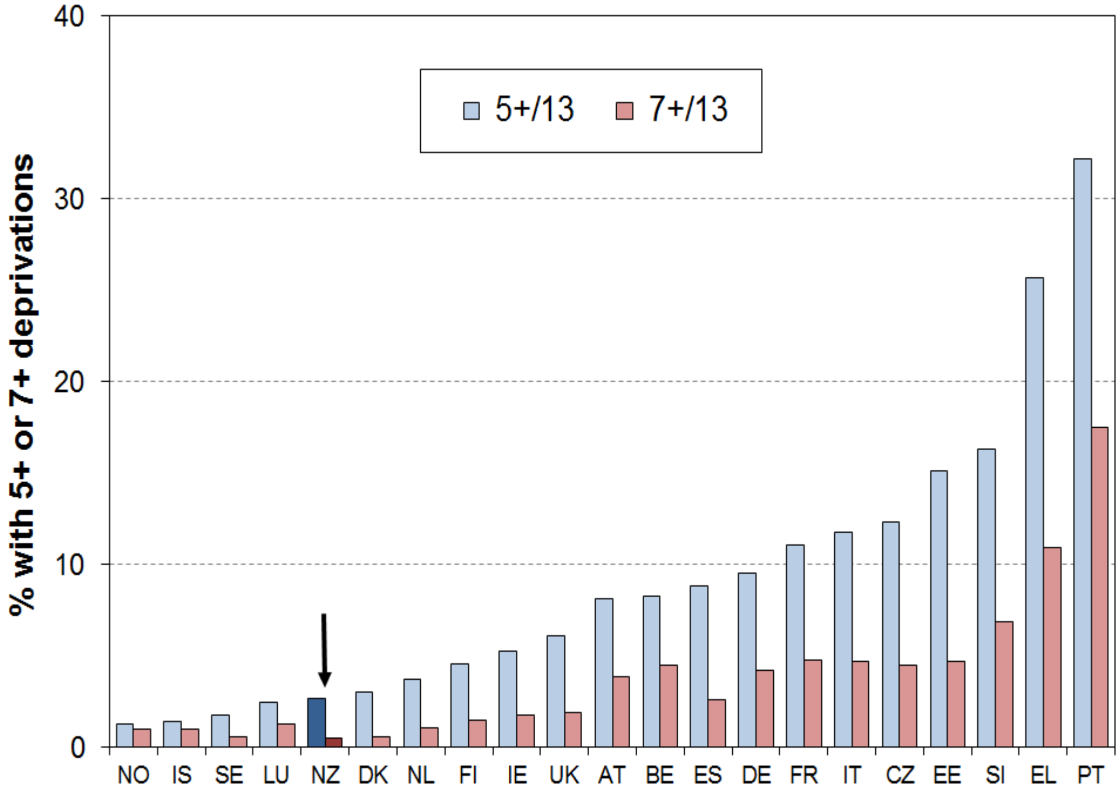
[7] 60% constant value, after housing costs, equivalised household income (Perry, 2015, Table I3).

[8] A range of means-tested supplements such as for disability and accommodation are also accessed by 21% of those over 65 (see MSD, 2016 for more detail).

on average around 80 percent of their income from NZS and other government transfers (Perry, 2015).

The success of NZS can be seen in Figure 3 where the low rate of pensioner hardship is shown by using comparative measures of enforced lacks. New Zealand has the lowest rate in the OECD.

Figure 3. Material deprivation rates (% with 5+ and 7+ enforced lacks), EU-13, those aged 65+. Source Perry, (2015)



While low-income earners do fairly well in an international comparison of public pensions, those on average earnings or above have relatively low replacement rates (OECD 2011).[9] Replacement rates decline more quickly as income increases in New Zealand than in other countries because of the flat rate nature of the basic pension. The counter consideration is that high replacement rates in other countries are usually only for those with a full contributions' record.

Prefunding NZS

In 2001, the government introduced a mechanism to set aside tax revenues to help pay for the future cost of NZS. This allowed some of the then significant fiscal surpluses to be diverted in preference to reducing income taxes. The mechanism does not change the expected cost of NZS (the benefits were unchanged) but was intended to change the incidence of that cost by providing some tax smoothing.

[9] Note that the OECD takes the 'living alone' rate for the New Zealand calculations. The international comparisons reflect only mandatory state-provided pension arrangements and ignore private provision.

The NZSF is a 'sovereign wealth fund', and between 2003 and 2008 contributions from government were initially about 1% of GDP. As a consequence of the fiscal impact of the GFC, the government suspended contributions in 2008 and has not resumed them, citing the need to first reduce net public debt to 20%.

The NZSF held $30.31 billion of assets at the end of May 2016, achieving an average before tax after costs annual return of around 10% since its inception. It is managed by 'Guardians' at arms-length with about 80% invested overseas. The government is expected to make the first withdrawals to help meet the costs of NZS in 2031/32 and the size of the fund is expected to peak in 2080 (New Zealand Superannuation Fund 2015).

The fund can take a long view and has a 20 year investment horizon and is invested 80% in equities and 20% in fixed income assets. It has outperformed the alternative of repaying public debt returning well above the government bond rate as shown in Table 3.

The fund was named the world's leading sovereign fund by JP Morgan in 2016. There has been discussion from time to time about using the NZSF as a default fund for KiwiSaver, especially as over time it has performed strongly and enjoys economies of scale. To do so, however, might be to muddy its purpose, which is to partially prefund the non-contributory NZS.

Table 3 The NZ Superannuation Fund returns. Source: NZ Super Fund (2015).

As at June 2015	One year	Five years	Since inception
Actual Fund return (before tax, after costs)	14.64%	16.85%	10.11%
Value added (compared to passive reference portfolio benchmark)	4.45%	3.65%	1.31%
Net return over the Treasury bill return	11.16%	14.09%	5.53%

Origins of KiwiSaver

As noted in the introduction, tax changes in the late 1990s that eliminated tax concessions for registered superannuation schemes led to marked decreased coverage of the workforce by the 2000s. Drawing on the advice of the Savings Product Working Group (2004) the Government sought to extend coverage of work-based saving. In July 2007, under The KiwiSaver Act (2006) KiwiSaver became the world's first auto-enrolment, opt-out, national retirement saving scheme.

KiwiSaver's purpose was expressed in the Act as follows:

> *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. The Act aims to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits.*

Despite the cautions of the original Saving Product Working Group in 2004 who wanted to design a product that did not displace existing schemes, statistics showed:

> *that the advent of KiwiSaver, along with a number of other factors, such as a tighter economic climate, employer rationalisation of employee benefits and the amalgamation of stand-alone employer sponsored schemes into retail master trust schemes, has had an impact on registered superannuation schemes.(Financial Markets Authority 2013b p.10)*

Table 4 shows the changes to registered schemes since the tax changes of 1990 were introduced and KiwiSaver introduced in 2007. While the assets under management has increased markedly for retail, defined benefit and defined contribution employer- sponsored schemes, both number of schemes and number of members have fallen steeply. Pensions in payment are approximately 65,000, representing nearly 10% of the currently retired population. Two thirds of these have pensions from the closed Government Superannuation Fund (GSF) scheme for state employees. There are only 51,730 of working age remaining in a defined benefit scheme including 10,000 in the GSF, with many of these schemes now closed. It is clear that there will be far fewer retirees with a supplementary private pension in the future.

Table 4: Registered superannuation schemes, 2015 all employer-sponsored schemes (excluding GSF)[10] and retail schemes.

	Defined Benefit			***Defined Contribution***		
	2015	***1990***	***% Change***	***2015***	***1990***	***% Change***
Number of Schemes	89	452	-80%	58	1,790	-97%
Total Assets ($ Millions)	4,679	6,691	-30%	12,493	2,817	343%
Total Members	**41,730**	**101,217**	**-58%**	**159,128**	**209,524**	**-24%**
	Retail Schemes (Membership Available to General Public)					
Number of Schemes	n/a	n/a	n/a	53	113	-53%
Assets ($ Millions)	n/a	n/a	n/a	5,961	1466	307%
Total Members	**n/a**	**n/a**	**n/a**	**143,663**	**236,062**	**-39%**

Source: Derived from Financial Markets Authority (2016)

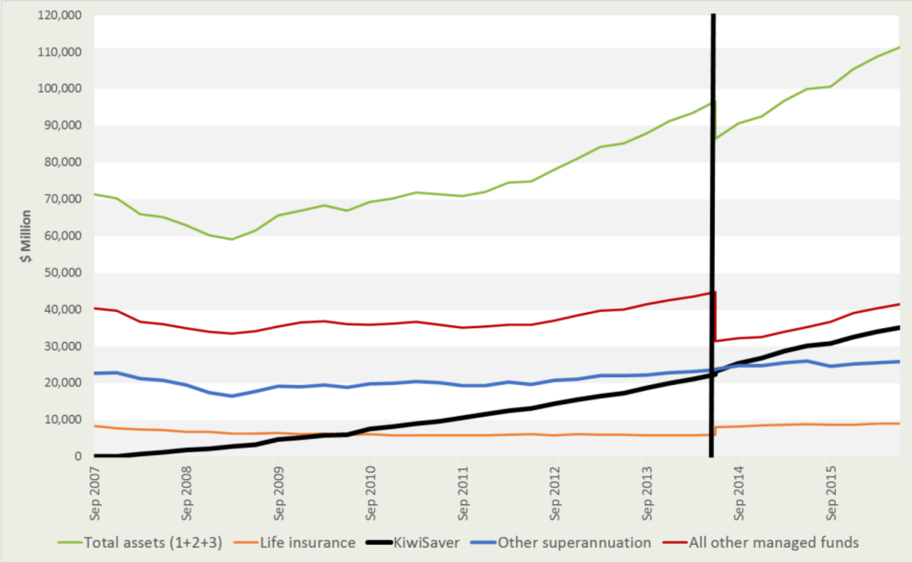
Place of KiwSaver in household wealth

Net household wealth in NZ including housing and land assets as at December 2015 was $1127 billion. Of this figure, $657 billion, or 58% was in real estate and $488 billion or 42% was in net financial assets. KiwiSaver at 32.5 billion is about 7% of total net financial assets and roughly one third of total managed funds sector as is shown in Figure 5. Although small, the funds in

[10] The state scheme for its own employees closed in 1992

KiwiSaver are growing rapidly, and since the end of 2014 have overtaken other superannuation schemes in asset value.

Figure 5. KiwiSaver's place in the managed fund space. Source Reserve Bank website



Source: Reserve Bank, http://www.rbnz.govt.nz/statistics/t41
Note the discontinuity from 2014 arises from a revised method of measurement.

4. The shape of KiwiSaver 2007 – 2016

The scheme, when first announced, was essentially an employee savings scheme, with contribution rates 4% or 8% and new employees automatically enrolled rather than deciding whether to 'opt-in'. The government subsidies were a flat NZ$1,000 'sweetener' (the Kickstart) paid on joining, and an annual fees' subsidy of NZ$40. These subsidies avoided the regressivity problem of traditional tax concessions and left NZ's no-concessional tax regime for saving unaffected. At this point, New Zealand looked like it was offering the world a natural experiment to ascertain the pure effect of an auto-enrolment, opt-out policy, uncomplicated by other incentives.

As set out in detail in St John, Littlewood and Dale (2014) many changes were made both before the start date, and subsequently. The effect of these was first to greatly enhance the subsidisation of saving in KiwiSaver. In 2006 an employer contribution tax-break was announced and just before KiwiSaver was due to start in July 2007 there were further big changes that caused major compliance problems for employers:

> *First, compulsory matching employer contributions for employees, starting at 1% from 1 April 2008, and then rising by a further 1% each year, reaching 4% from 1 April 2011;*
> *Second, a member tax credit (MTC) to savers that matched their contributions into KiwiSaver (or a complying superannuation fund) up to a maximum of $20 per week from 1 July 2007;*
> *Third, an employer tax credit (ETC) that reimbursed contributions at a rate of 100% up to $20 per week per employee from 1 April 2008. (Cullen 2007)*

The new MTC and ETC, applied to the first $20 contributed by employees, were less regressive than pure tax exemptions, however the fiscal cost was still high. In addition, the MTC was not limited to those in employment and could be accessed by beneficiaries, unpaid caregivers, and the self-employed, for contributions up to $20 a week.

In the first two years when the compulsory employer rate was 1% and 2% the ETC meant that the cost to the employer, even for higher waged employees, would be minimal. Also, the contributions of 1% (rising to 4% of employees' gross pay by 2011) applied only to those employees in the scheme, leaving much confusion as to what would happen with remuneration packages and wage negotiations. Nevertheless, the quasi-compulsory employer contribution was clearly expected to play a part:

> *There is no doubt that employer contributions will create a greater sense of employee loyalty. The accumulation of savings funds in this way will also create greater incentives for workers to stay in New Zealand. The Government expects that the phase-in of the compulsory matching employer contributions will be taken into account in wage and salary bargaining. (Cullen 2007)*

The introduction of KiwiSaver in 2007 was timed to coincide with the reform of the taxation of collective investment vehicles (CIVs) including superannuation schemes. The intent was to retain the tax-paid nature of superannuation schemes but to align the proxy tax rate on the scheme's investment income more closely with the tax rate of the individual investor. Superannuation schemes (and other CIVs) can become 'Portfolio Investment Entities' (PIEs), and the effect for most was that investment income in the fund was taxed preferentially.

PIEs have continued to offer considerable rewards by restructuring the way in which earned income is received (Chamberlain and Littlewood 2010). In 2016 under the PIE regime, investors whose top tax rate is 33% is advantaged 6 percentage points with a PIE rate of 28% for the taxation of their fund earnings.

In reporting on New Zealand's capital markets, the 2009 Taskforce re-affirmed the advantages of New Zealand's consistent and comprehensive broad-based low-rate income approach. They stressed the need for tax neutrality between tax treatment of income from investment including owner-occupied, rental property and other income. The tax advantage of those on the top tax rate in the PIE regime was seen as unjustified (Capital Markets Development Taskforce 2009).

Under the National-led government, the KiwiSaver tax-payer largess was progressively unwound from 2008 to make KiwiSaver 'more affordable' to both the individual and the state. The $40 fee subsidy was abolished; the ETC was abolished and the MTC was reduced to 50c for every $1 contributed by members up to a maximum of $521 a year. The minimum employee contribution was first lowered to 2% and then became 3% matched by the employer's compulsory contribution of 3%. Employer contributions became subject to employer superannuation contribution tax (ESCT), and finally the kick-start was abolished in 2015.

At no point in the development of KiwiSaver or subsequent changes, has there been attention to the nature of the final payment on retirement. KiwiSaver is basically a lump sum, direct contribution savings scheme. While intended to supplement NZS, there are no annuity requirement or voluntary life annuity options.

Some discussion on this issue is proceeding in the three-yearly Retirement income policy review in 2016.[11]

Home ownership and KiwiSaver

In line with the view that owning a home is a "critical part of long term financial security" (Cullen 2006), after 3 years, KiwiSaver members may be eligible to withdraw their funds and for grants up to $5000 for an existing first home or $10,000 for a new home. Income and price caps apply but in light of the housing boom these have been liberalised in recent times. KiwiSaver members may qualify to withdraw all their saved funds to buy their first home, including own contributions, employer contributions, any returns on investments and the member tax credits, leaving a minimum balance of $1,000 in the KiwiSaver account.

KiwiSaver originally included a mortgage diversion facility, enabling members to direct up to half of their contributions towards mortgage repayment. This was based on the idea that repaying the mortgage is an effective way of saving. The mortgage diversion scheme added compliance costs for both providers and banks. It was abolished by the National Government from 1 July 2009, although the 600 members who had previously signed up were able to continue.

Remuneration policy

Subsidised occupational saving schemes of all kinds (including for retirement) suffer a fundamental problem when they are voluntary (like KiwiSaver). Those who join receive a higher total remuneration than those who do not. The employer may find it difficult to justify (for two otherwise equivalent employees) a higher total remuneration for the member over the non-member. New Zealand employment law allows this to be taken into account when setting pay. If the employer has a 'total remuneration' policy, those who join KiwiSaver can see an adjustment to direct, taxable pay that reflects the requirement that the employer must contribute to KiwiSaver.[12] There was an attempt to outlaw this but it was unwound by the incoming National-led government in 2009.

There is limited information on employers' overall remuneration approaches. The Employers and Manufacturers Association (EMA) advised that its *National Employers Wage & Salary Survey* for April 2013 showed between 26% to 28% of employees are paid under a formal 'total remuneration' policy.

There is an inevitable tension when employer subsidies are part of the picture. A total remuneration approach or compulsion may appear to resolve equity issues, but will also reduce the attractiveness of membership for workers if membership remains voluntary.

[11] See http://www.cffc.org.nz/reviewretirementincomepolicy/may

[12] As long as the minimum wage requirements are still met with direct, taxable pay.

Providers and governance

The numbers of providers of schemes (54 in 2009) have reduced over time with mergers and closures. In 2015 there was a further consolidation of schemes from 45 to 39, and in 2016 there are 24 providers offering about 165 options. Ten schemes hold $1 Billion in assets and 88% of members. In total, 16 of the largest schemes have 87.5% of members. Nine default schemes were appointed for a seven year term in 2014. While default provider status is of commercial value enrolment into these schemes fell by 7559 people in 2015 as more understanding of the need to choose increases. Under new regulations default funds have to provide communications to members to encourage them to choose a fund (Financial Markets Authority 2015).

Previous oversight of financial markets was fragmentary and unsatisfactory. Overall regulatory control of markets including KiwiSaver is now administered under the Financial Markets Authority under the Financial Markets Conduct Act 2013, see Box 1.

Box 1. Oversight of KiwiSaver Source Financial Markets Authority (2015)

[The FMA] is primarily responsible for the administration, monitoring and enforcement of the *KiwiSaver Act 2006,* parts of which have been replaced by the *Financial Markets Conduct Act 2013.* The role includes:

- monitoring compliance with the disclosure regulations, which now require KiwiSaver providers to produce quarterly and annual disclosure statements
- managing a Default Monitoring Panel, which oversees the nine default schemes in which members are automatically enrolled if they don't choose their own scheme
- monitoring the licensed KiwiSaver trustees, who play an important role as frontline supervisors of the retail schemes (those chosen by members)
- together with Inland Revenue, registering new schemes, winding up schemes, and overseeing mergers
- ensuring resources are available to investors that allow them to make informed decisions about KiwiSaver.

Centralised administration and portability

A particularly successful aspect of the design of KiwiSaver is the use of the Inland Revenue (IR) as the clearing house for collection of employer and member contributions, and allocation of those contributions to the appropriate fund. Each member has a unique IR number for tax purposes that is linked to their account allowing their KiwiSaver to be fully portable. Individuals may make additional contributions directly to their provider. Centralisation has avoided the problems found in both Chile and Australia, where many individuals have multiple small sums in mislaid accounts. It appears, for example, that $AUD15 billion in Australia's Superannuation Guarantee scheme are sitting in lost or unclaimed accounts. [13]

Summary

Each country's retirement income framework will always reflect its own unique historical and institutional factors. The shape of New Zealand's retirement policies in 2016 reflects the important decision made in the 1980s to remove all forms of tax advantage for saving in superannuation schemes and a strong egalitarianism in the design of the state pension. New Zealand today provides a comprehensive, simple and transparent retirement income framework of interest as a working model in international comparative pension analysis. After nearly a decade KiwiSaver is well accepted as a vital part of New Zealand's retirement system. Box 2 summarises the shape of KiwiSaver in 2016.

5. KiwiSaver statistics

Nature of Membership

KiwiSaver membership was expected to plateau in 2012 at only 1.4 million (Inland Revenue Department 2009) but by the end of June 2016, membership at almost 2.65 million, represents nearly 80% of the eligible population under age 65 excluding children.

As Table 5 shows, as many as 51% members have proactively opted-in. Initially, around a third of those enrolled automatically chose to opt-out. This rate has since fallen and the net cumulative figure decreased to 236,456 in June 2016 (8% of all auto-enrolments), indicating that some those who opted out initially have since joined.

The figures for closing accounts is rising as people who have reached age 65, and have been in the scheme for five years, begin to access funds for retirement. Around 60% of the 150,000 closed accounts are for reasons of retirement, 26% for death and other, 11% for emigration and 4% for serious illness.

Table 5: Membership as at 30th June 2016. Source: Inland Revenue (2016)

Method of joining KiwiSaver	Members	%age
Automatically enrolled	1,066,513	49%
Opt-in via employer	283,145	10.6%
Opt-in via provider	1,292,410	40.40%
Total membership (net of opt-outs and closures)	2,642,068	100%
Opt-out	236,456	
Other, eg death, serious illness, emigration, retirement	150,000	

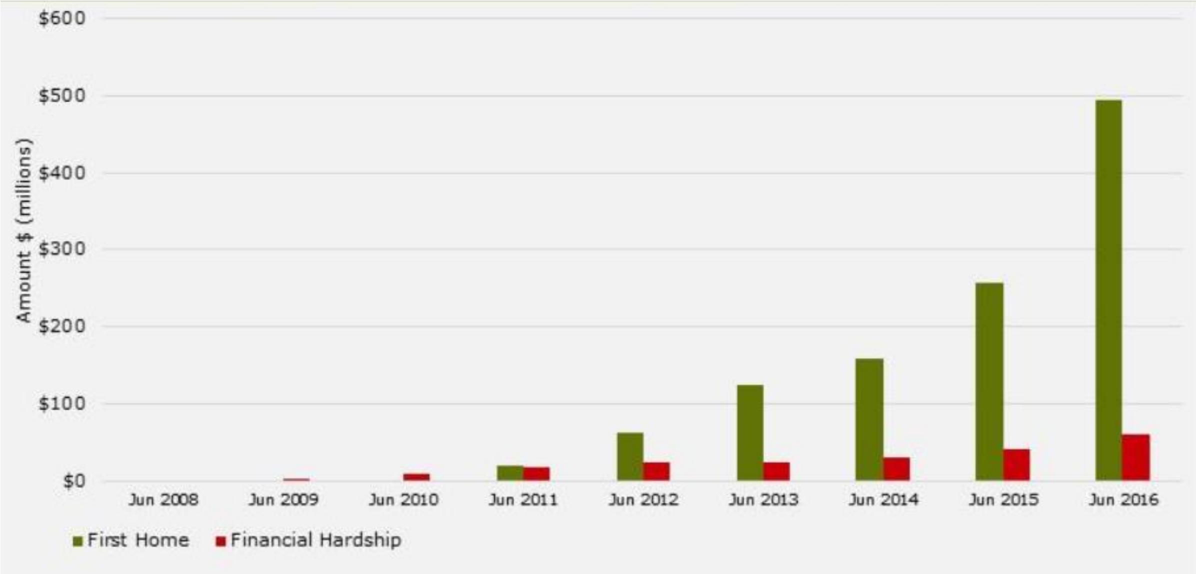
[13] See http://www.thorner.co.nz/tag/australian-superannuation-guarantee/.

Box 2 KiwiSaver 2016

- KiwiSaver is a voluntary, work-based savings scheme, administered by the IRD using the existing PAYE (pay as you earn) tax system.
- The self-employed, beneficiaries, children and non-workers can join, making payments if any, directly to the scheme provider.
- Employees, automatically enrolled into KiwiSaver when they start a new job, have the 2nd to 8th week of employment to 'opt-out' and must advise their employer or the IRD of their decision. Having opted-out, they cannot be auto-enrolled again until they change jobs but can re-join at any time.
- Scheme enrolment is not automatic for workers under 18, over 64, employed less than 4 weeks, or employed when KiwiSaver started in 2007. They may join if they wish.
- Existing superannuation schemes may convert to KiwiSaver, subject to certain criteria. Members of other schemes may open a KiwiSaver account, instead of, or as well as, their existing scheme. The employer does not have to contribute to the KiwiSaver if they are subsidising another schem.e
- The automatic enrolment provisions do not apply in workplaces where the employer is "exempt" i.e. running a scheme that is portable, open to all new permanent employees, with a total contribution rate (employer plus employee) of at least 6%.
- The only remaining tax-funded inducement is a matching subsidy is paid by the government for the member's contributions (50 cents for each dollar of contributions to a maximum of $1,043 contributions a year).
- Employees' contributions start from the first pay day with an employer. Deductions from net wages are at a rate of 3% of gross pay, unless the individual opts for the higher rate of 4% or 8%. Employers are compelled to contribute 3% of the pay of KiwiSaver members, but only the net amount after the ESCT is contributed to the member's scheme.
- All savings are managed by private providers that are free to offer different investment options.
- Contributions are held by the IRD for an initial three month period after auto-enrolment during which the employee can seek financial advice and select a fund provider. Savers can select their fund and can change provider without penalty, but can only have one provider at any time. Those who do not specify a fund are randomly allocated to one of the default providers chosen by the government.
- Savings are 'locked in' until age 65 (eligible for NZS), except in cases of: financial hardship, permanent emigration, serious illness, or after a minimum of five years (for those first joining after age 60), or to contribute toward a deposit on a first home. However, after a minimum 12 month contribution period, employees can apply for a 'contributions holiday'. Contributions resume at the end of the five years unless the individual applies for a further 'contributions holiday'. Individuals on contributions holidays can contribute what they wish, when they wish and can stop the 'holiday' at any time.
- After three years' membership, all KiwiSaver funds may be withdrawn for a first home purchase if income and house price caps are met. Further subsidies may apply to low income purchasers.

Access for financial hardship is possible in some restricted circumstances at the discretion of the provider, and for purchase of a first home (see Figure 6). In the year to June 2016 approximately $560m was withdrawn, nearly 90% for the purchase of a first home by some 11,000 KiwiSavers. It can be expected that the use of KiwiSaver for housing will rise as recent policies allow access to all but $1000. While a small amount $60m was withdrawn (year ended June) for reasons of financial hardship, budget advisers see the demand for access to funds increasing over time[14].

Figure 6: Amount of KiwiSaver funds withdrawn by withdrawal reason. Inland Revenue (2016)



As at June 2016, 127,193 or less than 5% of members are on a contributions holiday, in which both the member contributions and the compulsory employer contributions are halted for up to 5 years. The holiday may then be extended or rolled over. Earlier holidays (before the full 12 months membership is satisfied) may be granted in limited cases of financial hardship.

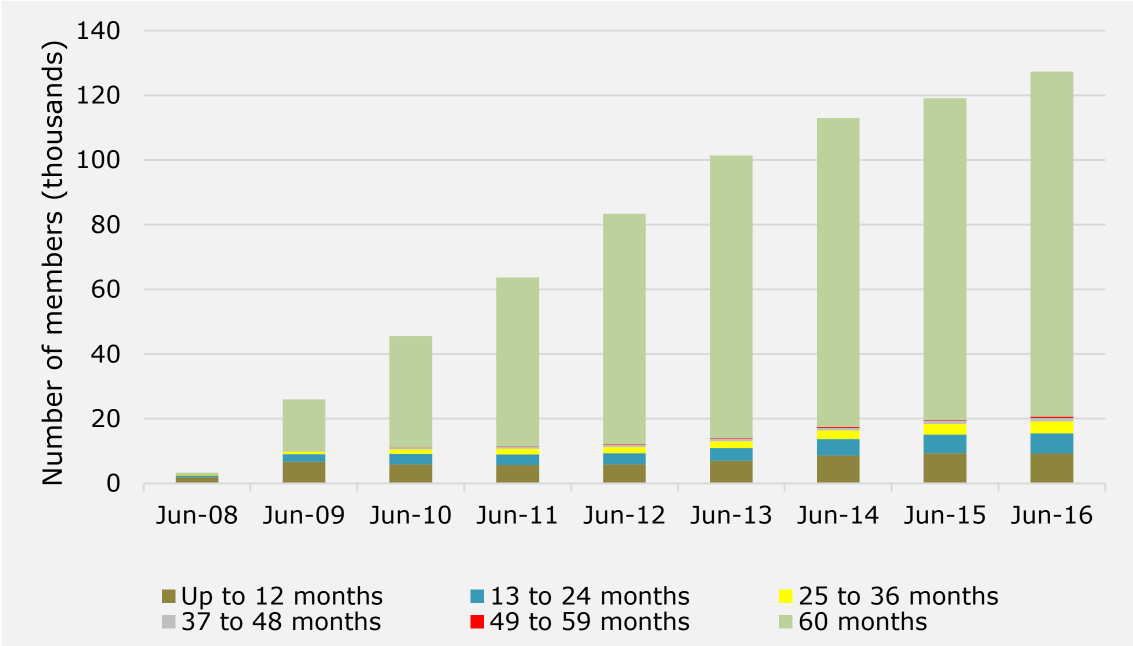
Figure 7 shows that longer duration holidays are an increasingly dominant share of the overall members on contributions holidays.

The age profile of KiwiSaver members has remained relatively constant. Just under 30% of eligible children are members however numbers of children are falling slowly as the 2015 policy to remove the Kickstart takes effect. Those under 18 are not entitled to the MTC either, but may benefit later from the housing subsidy and may be able to access their savings in the scheme

[14] See national radio programme August 2015 http://www.radionz.co.nz/news/national/281690/desperate-kiwis-crack-open-kiwisaver

as a deposit for their first home. The gender distribution of members has approximately equal proportions of male and female.

Figure 7 Contribution holidays by duration. Source: Inland Revenue (2016)



Member Contributions

The minimum or default employee contribution rate for KiwiSaver has changed several times as outlined in the history discussed above. While rates of 4% and 8% can be chosen, the default rate has been the most popular. However when the required 4% dropped to 2% in 2009, the percentage of members contributing 4% dropped only slowly to 36% in 2013. This shows that the default rate once chosen may be subject to some inertia.

The 2013 data show that 58% are paying the default rate of 3%, and a small number contribute 8%. Even with the matching employer contribution taking the total to 6%, this is a low rate and may give a misleading signal that it will be sufficient to produce an adequate retirement lump sum. Other countries with similar schemes require higher contributions[15] In the latest evaluation report, Inland Revenue note

> ….findings reported here highlight the importance of the default rate. To achieve the goals of the policy regarding providing for people in retirement the default rate needs to be matched to member's needs and aspirations for retirement, without being so high that they find it too difficult to maintain, or too low for them to achieve their goals.*(Inland Revenue 2015)*

The only remaining tax subsidy in 2016 is the matching Member Tax Credit (MTC). Fewer than one half of eligible members receive the maximum amount as shown in Table 6. Overtime it can

[15] 9-10% of earnings Australia and Chile, rising to 12% in Australia over time.

be expected that the non-indexed nature of the MTC will see more members qualify for more of it. The figures show, howvever, that in the year ended 2016, 27% of members had a zero claim. It is also clear that some those who do get the full MTC contribute only enough to just qualify. When women and others out of the paid workforce or on contributions holidays, make the minimum contributions and receive the MTC, some useful redistribution may be achieved. For others, the dilemma is that the MTC may signal the a minimal saving will be enough

Table 6 Claims for the Member Tax Credit 2015-16 (Source IRD, data set)

	2015-16	
	#	%
Total eligible members	2,174,773	
Eligible members with a zero claim	579,832	27%
Eligible members with a claim between $0.1 and $521	609,141	28%
Eligible members with a claim for $521.43	985,780	45%
		100%

Note that total eligible numbers are an understatement because they do not include accounts closed during the year

Overall there are over 1 million non-contributing members (42.6% in 2015). Some are self-employed and may contribute a lump sum, others include children, those on a contributions holiday, or out of the workforce.

Choice and default funds

Those who are first auto-enrolled and defaulted to a default scheme by IRD or to the employer chosen scheme, can transfer within the provisional holding period of three months or at a later date.

One of the key concepts, particularly for an unsubsidised opt-out scheme, is that of the default settings. Such defaults can have:

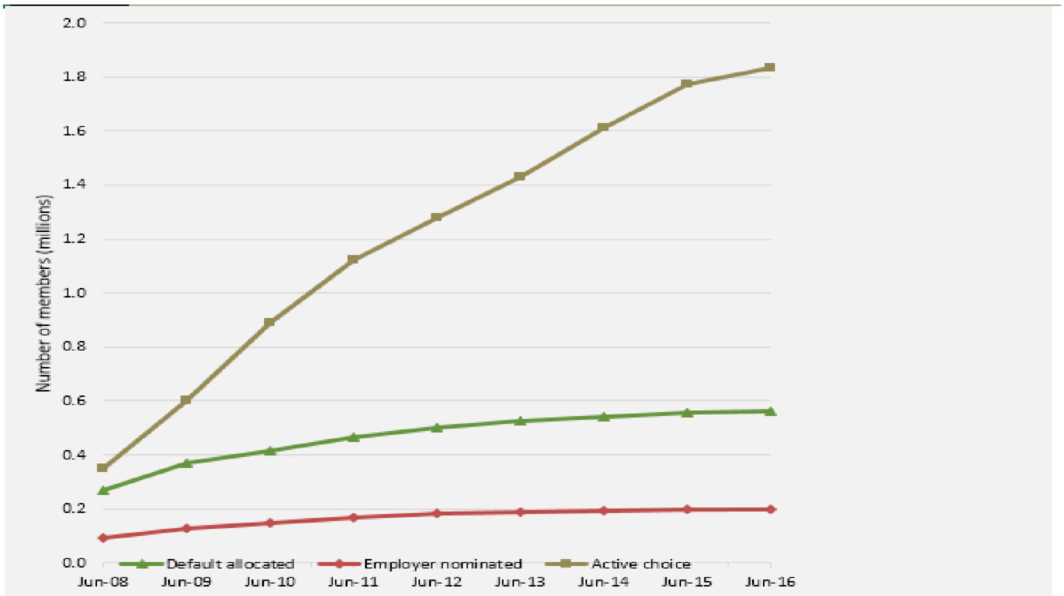
> *...a tremendous influence on realized savings outcomes at every stage of the savings lifecycle: savings plan participation, contributions, asset allocation, rollovers, and decumulation. That defaults can so easily sway such a significant economic outcome has important implications for understanding the psychology of economic decision-making. But it also has important implications for the role of public policy towards saving. Defaults are not neutral - they can either facilitate or hinder better savings outcomes. Current public policies towards saving include examples of both.(Beshears, Choi et al. 2006)*

If KiwiSaver members do not make an active choice, they are directed into one of the nine default providers and into a default investment option. The default providers are dominated by the major banks and are perceived as having an advantage in the market.

The default scheme has a default investment option that is required by regulations to have no more than 25% of funds invested in shares/property. The rest must be in cash/bond-style investments. Default funds are required to have lower fees but are widely regarded as unsuited to the needs of younger members. A comparison of international default type schemes found that New Zealand's KiwiSaver was the most conservative. For example Australian defaults have a 80%/20% split between growth and income assets (Heuser, Kwok et al. 2015).

Kiwisaver members are cajoled into making deliberate choices to leave such default funds. Total scheme transfers have generally increased each year. The proportion in default schemes was 38% in 2008 but by 2015 default funds had only 21% of the total KiwiSaver membership and 14% of the total assets invested (Financial Markets Authority 2015).

Figure 8 KiwiSaver members by scheme entry method. Inland Revenue (2016)



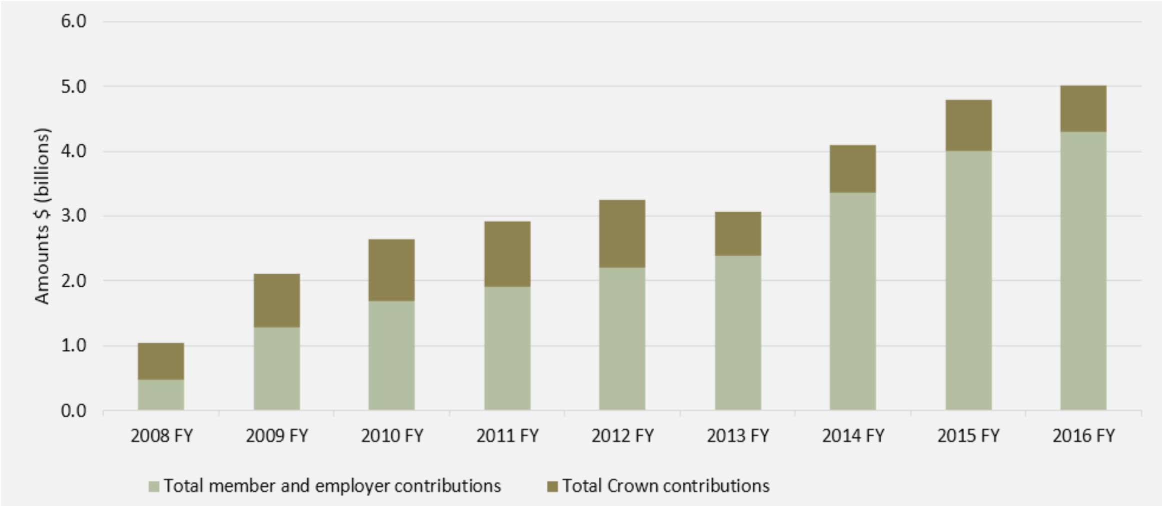
During the year ended June 2015, there were 158,000 transfers within KiwiSaver schemes not including transfers within the provisional holding period (Inland Revenue Department 2016).

Crown costs

The government has contributed various subsidies outlined in the history discussed above. Since the abolition of the Employer Tax Credit and the halving of the Member Tax Credit, the contribution from the Crown has fallen. Fewer Kickstart payments were made as new membership numbers fell and then the Kickstart itself was abolished in 2015.

From about 50% in 2008, Crown contributions in the year to June 2016 were just 14% of total contributions of $5016m (Figure 9). The MTC is not indexed and the Crown contribution can be expected to continue to fall as a proportion of payments to providers.

Figure 9. Crown and member contributions, including employer. Inland Revenue (2016)



6. KiwiSaver issues and lessons

The vexed problem of fees

KiwiSaver is a lucrative business with fees for KiwiSaver at the upper third of comparator countries (Heuser, Kwok et al. 2015). The requirement with respect to fees is set out in Schedule 1 to the KiwiSaver Act. Clause 2 of this Schedule states that the following persons must not charge a fee that is "unreasonable":

- the trustees of the scheme;
- the administration manager of the scheme;
- the investment manager of the scheme;
- the promoter of the scheme;
- any other person who charges a fee for services in relation to the provision of a KiwiSaver scheme.

Overseas research has found that competition among providers does not necessarily reduce costs for consumers (Calderon-Colin, Dominguez et al. 2010). A lack of transparency combined with consumer ignorance or financial illiteracy, may create markets with 'noise' that protect the providers who continue to charge high fees. To provide more transparency, Financial Markets Authority has introduced new requirements for disclosure.[16]

Meaningful comparison of fees is a controversial aspect of KiwiSaver, but the total expense ratio (TER) is used by the Financial Markets Authority in an online fundfinder tool to promote full

[16] Under the KiwiSaver (Periodic Disclosure) Regulations 2013.

disclosure and inform the public[17]. Most TERs are between 0.5% and 1.5% percent but there is a large variability in growth and aggressive asset classes (Heuser, Kwok et al. 2015).

In 2016 there is an increasing media attention to the size and impact of KiwSaver fees on final outcomes[18]. In a surprise move in 2016, a new KiwiSaver not-for-profit indexed fund called 'Simplicity' was launched, using Vanguard, with low fees expected to be $30 a year, plus a 0.30 per cent a year fund management fee. As Sam Stubs CEO described it, the intention is to shake up the market and 'save the average KiwiSaver member $65,000 by the time they retire':

> *Simplicity chief executive Sam Stubbs told the Herald at the time of launch that the asset management industry in New Zealand was "ripe for an Uber moment and this is it". He estimated the industry was making net profits of about $120 million today and that could grow to $1.3 billion by 2030.*
> *"The existing players will not change this, it's too profitable and they don't want you to know about it. So we're the disruptive model. Call it Uber, call it Airbnb whatever you want. "Figures from the Financial Markets Authority show KiwiSaver providers have collectively been paid more than a billion dollars in fees since the scheme was launched in July 2007.(Tamsyn Parker 2016)*

It remains to be seen if this product will provide the impetus for reduction in other KiwiSaver fees. An alternative strategy might have been to have had a state-run not for profit competitor from the outset, perhaps run by the guardians of the NZ Superannuation Fund who have a proven track record and low expense ratio (New Zealand Superannuation Fund 2015).

It would seem wise to make sure there is not an overexpansion of the financial sector and its profit share. As the Bank of International Settlements suggested after the GFC:

> *The crisis has made us understand that the size of the financial sector can exacerbate the trade-off between economic efficiency and financial stability. While finance per se is necessary for growth, an oversized financial industry can be detrimental to real economic activity (Benoît Cœuré: 2014)*

Role of incentives

In the first few years it was suggested that government's incentives for KiwiSaver were too good to ignore (Gaynor 2010). Indeed, contributions from the Crown totalled 40% of payments to providers for each of the first three years, implying that the stronger than forecast uptake was linked to the level of government-provided incentives. Ass discussed above, by 2016, such inducements have been greatly diminished.

In 2016, the remaining member tax credit incentivises personal contributions but only up to $20 a week and this member tax credit is unindexed. Given that KiwiSaver benefits are locked in until age 65, it may be preferable for an individual for any additional retirement savings past the minimum that attracts the full subsidy to be made to an accessible managed fund or superannuation scheme, especially one that enjoys the advantages of the PIE tax regime. In

[17] http://fundfinder.sorted.org.nz/.
[18] See for example http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=11695607

New Zealand, KiwiSaver is the only scheme with regulated age-based restrictions on access to retirement benefits.

A traditional problem with incentives for saving is their contribution to inequality: the bulk of the tax benefits are usually enjoyed by those with the highest incomes. The problem of regressivity was largely avoided in the original flat rate Member Fee Subsidy and the Kickstart as they were unrelated to contributions.

The tension is that subsidies are either expensive and inequitable, or cheap and largely ineffective. These tensions are not easily resolved. Nor should it be overlooked that incentives are costly to the Crown and they either reduce public saving or necessitate higher taxes elsewhere. Overlooked however is that state subsidies may be a useful tool of wealth redistribution.

In New Zealand, overall Crown subsidies have been of most benefit to those who joined in the early years and were closest to retirement. While clearly the incentive of the flat rate $1000 Kickstart was to join, not to contribute, its abolition did not include a detailed distributional analysis. Initially, it was a way of government to dispose of early budget surpluses in a way that fended off demands for tax cuts which would have been economically unsound in that part of the business cycle. Distributionally, the policy had merit, although access to the Kickstart by children was more problematic.

The removal of the Kickstart in the 2015 budget reflected the desire to reduce costs to the crown and was justified with scant regard to distributional outcomes on the basis that there was little evidence that government subsidies increased individual saving:

> *The recent Inland Revenue Evaluation finds that KiwiSaver is a very costly voluntary savings scheme which has not substantially increased savings despite encouraging enrolment of a large number of individuals. (The Treasury 2015)*

Younger members and those out of the workforce or with small contributions will now not be protected by the cushion of the Kickstart from fees eating into small balances. Moreover some contemplating KiwiSaver for the first time may have little reason to join. In the long term, the loss of the Kickstart may be judged as shortsighted and may have gender implications (see below).

Lack of a decumulation policy

No consideration was given in the design of KiwiSaver to decumulation. Retirees may take a tax-free lump sum from KiwiSaver but must manage their longevity and other risks such as inflation. Drawdown arrangements are becoming common whereby members can leave their funds with the same provider and same portfolio allocation. There is however, no longevity protection from such arrangements.

New Zealand has not had a strong tradition of annuitisation as the declining figures for those with private pensions in retirement attest. In the past, under the TTE regime, retirees from many DC superannuation schemes were required to purchase an annuity with the funds from a life insurance company. Today, there is no functioning life annuities market in NZ. This gap reflects not only perceptions of a punitive tax regime, but unaddressed market failure issues. These include the risks of increasing longevity, inflation, high administrative costs and adverse selection. New Zealand provides evidence that without any state interventions, such tax incentives, compulsion, or suitable long-dated, inflation or longevity bonds, the life annuities market disappears (St John 2003, St John 2006, St John 2009).

Without tax incentives, compulsory annuitisation in purely voluntary DC schemes is untenable. Likewise, it is not possible now, ex post, to compel annuitsation of KiwiSaver lump-sums given that was not part of the original voluntary scheme.

Property is a dominant component of wealth for most people and has implications for the draw-down phase in retirement with the possibility of creating synthetic annuities from property with equity release products. In a tax neutral regime for voluntary saving, investing in real estate has continued to appear advantaged. There are few constraints on reaping tax-free capital gains or adverse tax consequences for most people investing in property and in businesses.

However, there is scope in the uniquely New Zealand situation to devise limited value annuities that meet social objectives and for which a tax-funded subsidy may be judged both necessary and appropriate (St John, Dale et al. 2012). There could be, for example, a generic product with complementary branding to KiwiSaver, operating under the same regulatory regime, using the same providers for administration. It may require the state to itself underpin the annuity market and assume the longevity and investment risk (St John 2015).

Should there be 'holidays' and access to funds for hardship or housing?

The premise of KiwiSaver is that it is a long-term savings scheme, with the assets not accessible until the age of 65. However, the lock-in can be subverted by the provisions for housing; and there are generous provisions for contributions holidays. These do not give access to the money but stop the future automatic deductions by the employer (and the employer's matching contributions). As noted, less than 5% of members are on a contributions holiday, although most continue to make some contribution to their accounts By allowing up to 5 years for contributions holidays with freely available roll-over provisions employees are enabled to access the member tax credit by contributing only the minimum, thus undermining the saving objectives of auto-enrolment. Nevertheless, such employees may have other pressing needs including mortgages and student loan repayments.

Also, over 11,000 members have accessed their savings for first home deposit, and this purchase is seen as an alternative form of saving for retirement. Nevertheless, in the face of an escalating demand for housing as an investment, some are seeing the ability to access KiwiSaver and increased state subsidies for first homeowners as throwing fuel on the fire.

Financial literacy and children's participation

Another intention of KiwiSaver is to encourage the spread of financial literacy. In October 2011, the Retirement Commission's name changed to the Commission for Financial Literacy and Retirement Income, formally recognising the importance of financial literacy in preparation for retirement, and the Commission's work in helping Kiwis manage their money (Crossan 2011).

The name has since been changed to the Commission for Financial capability but the focus remains.

Improving the financial literacy of the young may justify allowing their participation in KiwiSaver. Their inclusion was more likely to have been accidental and, unfortunately, there are reasons to suspect the impact may be negative. Children have little incentive to contribute to a scheme that locks-up their saving until they reach age 65. Those who had the benefit of the Kickstart may have seen balances either grow very slowly or even diminish over time in nominal terms since fees are not subsidised, providing the perverse object lesson that managed funds are not to be trusted.

About one third of those aged 17 or under, are KiwiSaver members. This figure might be seen by some as admirable, but in the long term, their accounts need continued savings to be commercially viable. Over 90% of such members make no contributions (Financial Markets Authority 2011). Providers find that multiple small, inactive accounts are administratively costly. The abolition of the Kickstart will see new enrolments of children drop away rapidly with little damage to the scheme and its objectives.

A report prepared for the Capital Markets Taskforce (O'Connell 2009), notes that New Zealand has an active and well-supported National Strategy for Financial Literacy led by the CFLRI, and is one of the few countries to have completed a survey of financial literacy levels in the population. While this report found that New Zealand is a world leader in the delivery of financial education in terms of organisation, cost-effectiveness and mode of delivery, it also found education about investing, in particular, could be improved. Most New Zealanders appear to understand the basic concepts of risk, return and diversification, and appreciate that investing is a way to achieve financial goals. However, they are sceptical about share market returns over the long term (O'Connell 2009).

The 2013 *Financial Knowledge and Behaviour Survey* found that since the first survey in 2009, financial knowledge has remained statistically equivalent. However, there have been falls since 2009 in both the ability to make forward calculations (how long to save an additional amount) and backward calculations (how much has already been saved) from a bank statement, and only 32% of New Zealanders understand the impact of compound interest (ColmarBrunton 2013).[19]

Gender issues

While women are generally disadvantaged by pension arrangements that link retirement income to previous contributions to the paid workforce, KiwiSaver is remarkably egalitarian. First the sweeteners have been inclusive and are of most relative value for low and middle income people, not high income. Second, non-earners are entitled to the same member tax subsidy if they contribute the minimum. Third, the overall scheme includes a universal individualised basic state pension that recognizes unpaid contributions by women.

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Nevertheless access to the employer subsidy requires employment in the paid workforce and over time the median balances held in KiwiSaver schemes can be expected to be significantly below that of men. Guest (2013) compares the average KiwiSaver balances for different ages with the average superannuation balances in Australia to show that there is a much smaller gap for males and females in New Zealand. However the Australian scheme is far more mature than KiwiSaver and the gender gap in New Zealand can be expected to grow over time. Moreover the *median* gap between male and female in either country is much more pronounced.

It is instructive to see that even in a relatively mature scheme and one that is compulsory, the male female imbalance in Australia is pronounced (see Table 7).

- Contributory schemes mean lower average balances for women and lower median balances
- Australia **men** held around 64 per cent of total account balances in 2013/2014 compared to around 36 per cent for women.

Table 7 Balances in the Superannuation Guarantee Scheme for those close to retirement 2014. Source: Australian Superannuation Funds Association (2015)

Balances age 60-64	**male**	**female**
average	$197,000	$105,000
median	$100,000	$28,000

KiwiSaver purpose and economic impact

One key lesson from New Zealand is the importance of clarity about the problem to be addressed. When KiwiSaver was first announced, the pivotal problem was seen to be one of low national saving. New Zealand is heavily reliant on foreign saving with persistently large current account deficits (CADs) and accumulated overseas debt. However it was not clear that KiwiSaver was capable of lifting national saving. By the time the legislation was introduced, there was little mention of the problem.

In 2016 there is little rhetoric politically around the national savings objective, and little evidence of KiwiSaver's actual contribution to improving to national saving. Even if there is increased national saving, whether that necessarily influences the growth of the economy through higher and better investment is debateable. It has not prevented the strong housing boom.

Nevertheless, concern about national saving underpinned government's policy announcements for an auto-enrolment day for employees not already auto-enrolled. This policy has not been enacted, possibly because it would be very difficult to administer and increase IR and employer compliance costs, especially if, as is likely, opt-outs increased.

The goal of improving retirement incomes is inherently contradictory in light of both the first goal, and of the increased fiscal pressures in pensions and healthcare brought about by an ageing population (Bell, Blick et al. 2010). Unless there is attention to decumulation issues and some integration with the universal pension, KiwiSaver may simply facilitate extra consumption by the wealthier cohorts of a larger retired population.

Another crucial lesson from the New Zealand experience is that competition among many providers, including default providers, may not improve consumer outcomes and subsequent rationalisation with mergers and takeovers, may be costly.

Auto-enrolment or compulsion

KiwiSaver is a form of 'soft compulsion': the lesson may be that it can lead to demands for proper compulsion. The government rejected full compulsion as an alternative to auto-enrolment, citing advice from the Savings Working Group (2011). The arguments recognised that there are valid reasons for not joining, especially for those on low incomes, or with large mortgages, or if already in other superannuation schemes. There are also other ways to save, such as repaying mortgages and investing in education that may be more appropriate for certain individuals at certain stages of their lifecycle.

Most KiwiSaver schemes by volume of members are owned by Australian-based financial service providers that have profited by Australia's compulsory retirement savings scheme. Despite the fact that KiwiSaver has been in place only since 2007, there are many calls, especially from the industry, to make it compulsory. In the lead-up to the 2011 and 2014 elections, the Labour Party, the Maori Party and New Zealand First suggested that making KiwiSaver compulsory would create more household saving and solve New Zealand's economic problems. The framework for compulsion is in place; the major changes would be to remove the opt-out and inevitably, the contributions holidays provisions.

Two principal concerns about compulsion are: forcing those who cannot afford it to be in the scheme, and the inevitable need to integrate KiwiSaver with NZS.

Evidence from Australia suggests that compulsion has not stopped offsetting borrowing that sees retirees reach retirement with more debt and low balances by disadvantaged groups such as women. Compulsion including the employer matching contribution, may please people who work in payroll and in financial service provision but would also be seen as an additional cost to employers.

Given the contribution that taxpayers make to the accumulation of KiwiSaver benefits, it would seem logical that a future government might link NZS and KiwiSaver through a means-test much as in Australia. Such and integration may undermine the advantages of a universal pension, although there is a case that can be made for more clawback on NZS using the tax system (St John 2015).

7. Conclusion

Based on the events of the last nine and a bit years, New Zealand can expect KiwiSaver to continue to 'evolve', complementing the small remaining employer-subsidised superannuation and retail schemes. Along with strong branding, auto-enrolment may have played a useful role in establishing acceptance of the scheme, and fewer net opt-outs over time is encouraging. The role of contributions holidays in undermining the effects of auto-enrolment must be balanced against the flexibility it provides for individuals to save at appropriate times.

The KiwiSaver experience shows that despite the many changes over time, it is well accepted by the public, as evidenced by the remarkable take-up of the scheme. Employers and the IR have experienced extra compliance costs in the auto-enrolment processes but there has been only mild opposition from employers. One of the clear advantages of the New Zealand scheme is that it is fully portable with unique identifiers that allows the Inland Revenue to act as the clearing-house.

New Zealand's experience may suggest that large incentives to get the scheme off the ground and entice people to remain opted-in may be then reduced significantly ex post with little impact on membership. Moreover, non-indexation of core tax-funded subsidies allows the real cost of fixed incentives to reduce over time. When there are options to only pay in the minimum amount to attract the government subsidy, many middle income and higher income people who are already saving may simply shift from non-subsidised saving to KiwiSaver to qualify for the subsidies. Some cautions and caveats are needed however as some sweeteners may be needed to get the target group of those who otherwise would not save anything to actually join. The abolition of the Kickstart is likely to impact the most on women out of the workforce and young adults.

The employer contribution may provide an additional incentive for employees to opt in or stay auto-enrolled. However, it raises an issue of remuneration policy and unfairness for those who are not in KiwiSaver, given they effectively miss out on part of their pay and suffer wages that rise less quickly over time as employers shift the incidence to all workers through lower future pay increases.

One solution to this problem is compulsion, or simply requiring employee contributions at the 6% rate. But the real issue around the compulsion debate should be whether the costs to those who are compelled to save in a non-optimal way, can be justified by the higher good. The higher good may be the welfare of those compelled, or it may be increased national saving.

Opening the scheme to children has little justification, and most young adults need help today to pay debts and mortgages before they save for tomorrow. Compensating them by offering housing subsidies only muddies the waters and adds complexity.

New Zealand's experience shows that too many providers, and fees that are too high can be wasteful of resources and therefore costly to consumers. It is important to get the regulatory framework and the default arrangements right from the beginning. Poor returns and high fees seem to be best tackled with the sunlight policy and media attention, rather than relying on competition alone although new not for profit entrants to KiwiSaver may prove valuable.

The New Zealand experience also shows the danger of setting up savings scheme without attention to decumulation. Although KiwiSaver rules and conditions have been regularly changed since its inception, it would be difficult to gain acceptance of compulsion to annuitise accumulated savings when people joined on the understanding they would have free choice over their lump-sums.

To the extent that the scheme is evaluated against its objectives, the objectives must be clear: Is KiwiSaver's purpose to benefit the individual in retirement? Is it to reduce the pressures on the economy of an ageing population? Is KiwiSaver supposed to solve the national saving problem? Or, is it to expand the managed fund industry? As long as the purposes remain unclear, the scheme is vulnerable to the industry's determining the design of the scheme to meet its own objectives.

The major focus ought to be firmly on improving the outcomes of security in retirement for those who have not traditionally enjoyed the advantages of work-based plans. If the needs of formerly disenfranchised people, including many women and other disadvantaged groups, are placed at the centre, KiwiSaver must be redesigned to achieve meaningful amounts of extra income for them to supplement the state pension. Of course issues of affordability are important but objectives such as enhancing national saving are secondary to the design of a comprehensive retirement system that aims for a more equitable division of future output.

Finally, KiwiSaver is now a firmly established part of the New Zealand retirement income framework. KiwiSaver has the potential to contribute to financial literacy and it reminds people of their need to prepare for retirement. However it is crucial to see the importance of a secure first tier of a well-supported universal state pension that has comprehensive coverage. KiwiSaver needs to be adapted to provide secure and regular supplementary income in retirement. Once this is addressed the New Zealand framework may indeed be a model for reform in other countries such as Ireland.

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