



**BUSINESS SCHOOL**

## **Retirement Policy and Research Centre**

Press release

17 July 2018

The Retirement Policy and Research Centre is pleased to see the Independent Advisors raising important issues regarding the KiwiSaver default provider arrangements.

The major concern is that new KiwiSaver members who do not make their own decisions are put into the default fund of one of nine selected default providers. The nature of these funds is prescribed to be 'conservative' and so, as the Independent Advisors have identified, unsuited for most members to remain permanently in that fund.

The RPRC agrees with the Independent Advisors that the default system needs reform. Auto-enrolment requires a default arrangement, but the current system doesn't work well. Importantly, the system could be fixed.

For example, Michael Littlewood RPRC honorary academic says "All qualifying providers should be allowed to be default providers, not just a chosen few. If the requirements are met by any provider and there is a robust system of policing default providers, picking only some to be advantaged as now is the worst of all worlds."

In addition, the current prescriptive default investment option that the default provider must offer is inappropriate for most savers. The RPRC suggests that if the default providers were open and transparent about the default option offered, and they are regularly monitored for achieving all the requirements of default status, then there should be no prescription. "Providers should then be encouraged to offer tailored default funds based on their own judgement of what is appropriate." says Susan St John director of the RPRC.

A further problem lies with the banks' investments: "The idea that providers owned by banks can invest in themselves is untenable and should be prohibited as self-investment," say St John and Littlewood. "However, being too prescriptive, such as by banning particular investments, runs the danger of the Financial Markets Authority, as regulator, seeming to know best in a changing environment. Ideal solutions are never easy."

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