Part 4. the other half of the framework

- Origins
- Objectives
- Design for consumers, and
- Delivery by providers

Chair: Jonathan Ericksen, Ericksen & Associates
Five speakers:

Susan St John, RPRC
Peter Harris, Independent Consultant
David Lowe, EMA
David Boyle, ANZ Wealth Management
Michael Chamberlain, MCA NZ Ltd
What is KiwiSaver for?

Susan St John
How big is it?

Not just a work-based scheme
– 3% employer 3% employee contributions
– includes children and non-employees
– membership rapidly increased now 2.15 million (55%)
  • Most members (67%) have opted in
  • Opt out between 2- 8 weeks. Net opt out rate low
  • Auto-enrolment most affects the 18-24 group
  • After 12 months can take contributions holiday up to 5 years, and then roll it over

KiwiSaver in the Managed Funds space
Role of KiwiSaver in the industry

• Not supposed to supplant other schemes
  – Appears to be doing so
  – Accelerating demise of occupational superannuation schemes but DB had already almost disappeared
  – Also maybe growing at expense of retail managed funds

• Very hard to see if KiwiSaver
  – increases personal saving or
  – increases national saving
So what is it for?

Confused objectives from beginning

• Problems for
  – evaluation and policy design
  – Political thinking
What are the objectives

1. To increase national saving
2. To improve incomes of those who otherwise will not have an adequate replacement rate
   – Utilise workplace saving vehicle

These are fundamentally different and have been the source of confusion for a long time
Increasing national saving?

• Leaving aside whether it is sensible to use KiwiSaver for this goal

• Leads to desire to compulsion
  – More saving is better therefore force people to save in this way

• People have more to spend not less

• Leads to
  – The Australian solution- means tests
  – Offsets against the state pension

• We have tried this before!
1997 White paper
Winstone wanted to buy back the family farm and make people better off in retirement.
Superannuation expenditure as a percentage of GDP

YEAR ENDED 30 JUNE

% OF GDP

1999  2019  2039  2059

 Without RSS  With RSS

Source: The Treasury
(See appendix 10 for details)
General consensus was that the scheme Treasury designed did neither.

- RSS was essentially a replacement for NZS
- Contributions 3% rising to 8%- broadly matched by tax cuts
- Savings had to be used to buy an annuity at age 65 equal to value of NZS
- 85% of women and 60% of men expected to need a top-up
Labour - David Parker

“We need to deepen capital markets, and reduce our dependence on imported capital, through making KiwiSaver universal. Too many opt out or are on contribution holidays. Once universal KiwiSaver is put in place there is merit in stepping up contributions split between the employee and their employer over several years to reach a level sufficient to fund an adequate income in retirement. 9 % was our target at the last election”.

“[Compulsory KiwiSaver] would apply to all employees exempting only the self-employed and those with hardship, although high earners with sufficient saving will also be exempt.”
Other parties

National Party  Status quo

Greens  Voluntary

Labour, NZ First, Maori Party, Mana Party, United Future  Compulsion
“KiwiSaver may make many more independent of NZS but has no impact on the cost of NZS. With the number of KiwiSavers already far higher than forecast, it is not a long step to make the scheme compulsory, tighten some of the criteria, and, over time, gear it up.. At that point the relationship between KiwiSaver and NZS becomes one for serious discussion.”

Figure 1: Enhanced KiwiSaver scheme

Figure 2: Tax on KiwiSaver withdrawals

- Baseline
- 10% tax, 6% employer contribution
- 10% tax, 8% employer contribution
- 15% tax, 6% employer contribution
- 15% tax, 8% employer contribution
Retirement Commissioner sees KiwiSaver as a supplement to NZS

If goal is to enhance the incomes of those who otherwise would not have a mechanism to top-up NZS

– Numbers or dollars cannot be the measure of success

– Age of access needs alignment with NZS age
  • Used to fund early retirement defeats purpose

– Need to change lump-sums into income
Lack of attention to decumulation
(diary now: 21 November RPRC forum on this topic)

Serious problem

IF the purpose of the scheme to produce secure income supplementation for low and middle income people

• Decumulation needed attention at the start
• It is a *distraction* to worry about national saving
• With no intervention of any kind under the ‘pure’ New Zealand approach *private annuity markets* disappear
• Opportunity now to design a subsidised but *limited* annuity, maybe with long-term care insurance
  – New Zealand has unique chance to get this product right