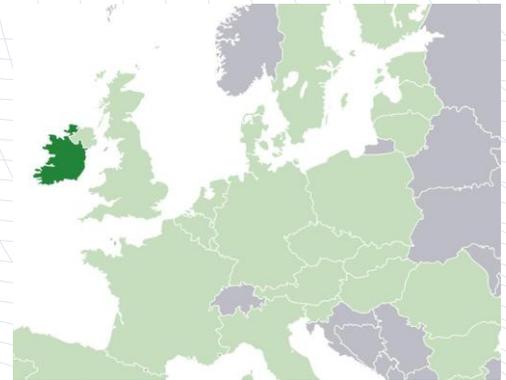
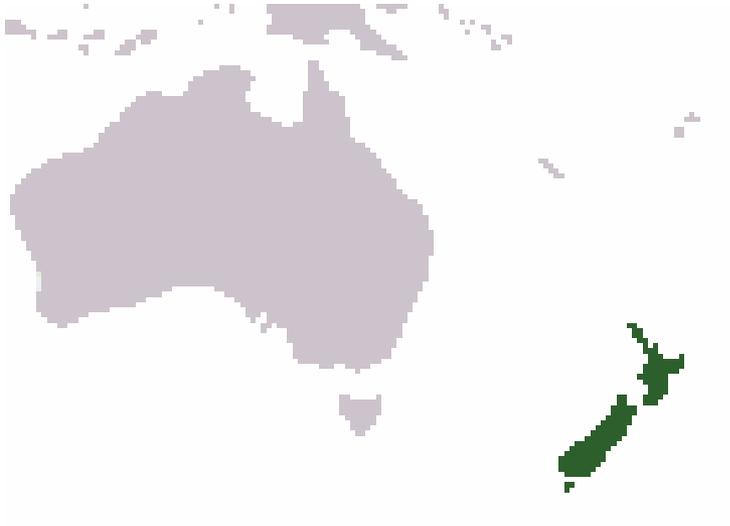




New Zealand Superannuation and KiwiSaver

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Green Paper on Pensions
Learning from International Experience Conference
Dublin, May 29th, 2008



The New Zealand policy framework is built around...

- **New Zealand Superannuation (NZS)**
 - Universal state pension funded from General Revenue
- **New Zealand Superannuation Fund**
 - Sovereign wealth fund
- **KiwiSaver**
 - Voluntary private savings with incentives
- **Retirement Commission**
 - Independent information
 - Financial literacy
- **Various social programmes and private provision**

New Zealand Superannuation is a universal state pension paid from General Revenue ...

- Paid to all residents 65 years and over
- Married couple receives 65% of the national average wage (32.5% each = NZD \$13,747 each before tax)
- Indexed annually
- Taxed along with all other income
- No income test
- No requirement to retire from paid work
- No asset test
- Unrelated to past earnings history
- Not contributory

NZS is simple, clear and easy to understand. It has proved durable. It...

... provides confidence and certainty

- Lower-income earners are assured of post-retirement incomes comparable to their pre-retirement earnings.
- For higher-income earners, it provides a baseline of certainty from which they can plan additional saving.
- Protection against longevity risk
- Indexing to national wage levels maintains relative living standards of older people.

... enables choice

- Neutral in terms of those who choose to continue working after 65 and those who don't

... is seen as fair and equitable

- Everyone who is eligible gets the same, regardless of employment and earnings history
- Treats men and women equally, irrespective of marital status and earning history

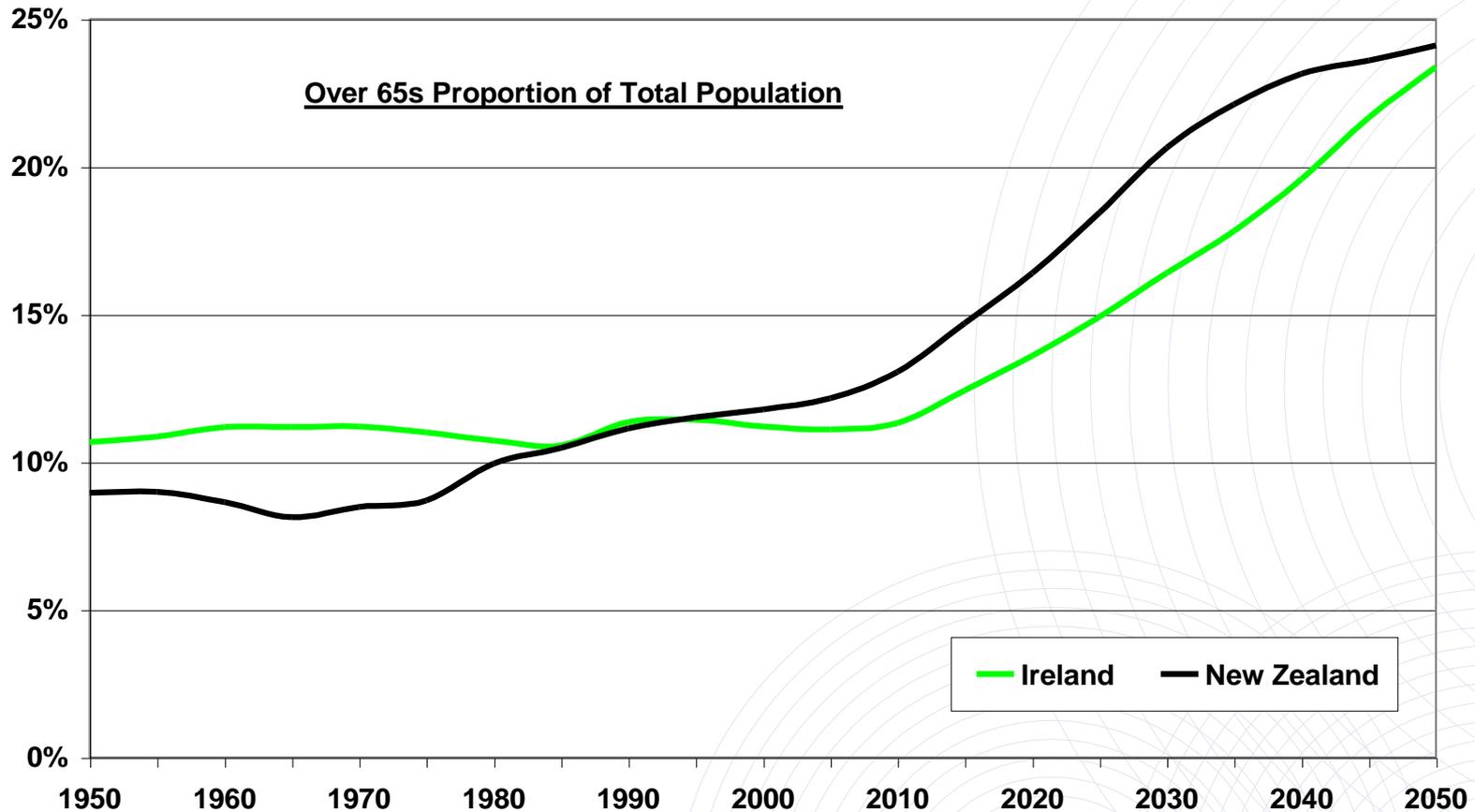
... is efficient

- Low administration cost
- Simple to explain and operate

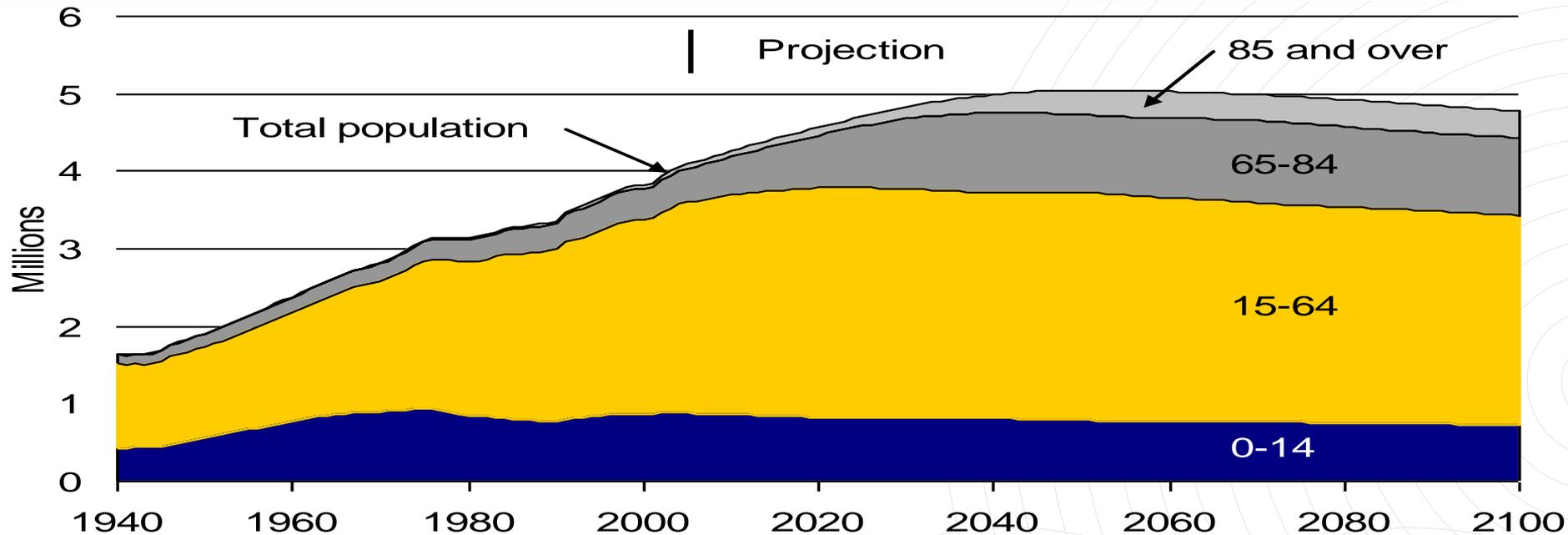
... but NZS alone raises two concerns ...

- Sustainability
 - With an ageing population, is NZS fiscally sustainable?
- Adequacy
 - While NZS may be adequate as a complete income replacement for some lower-income earners, are higher earners making adequate additional private provision to meet their future aspirations?

Like many economies, New Zealand has an ageing population.

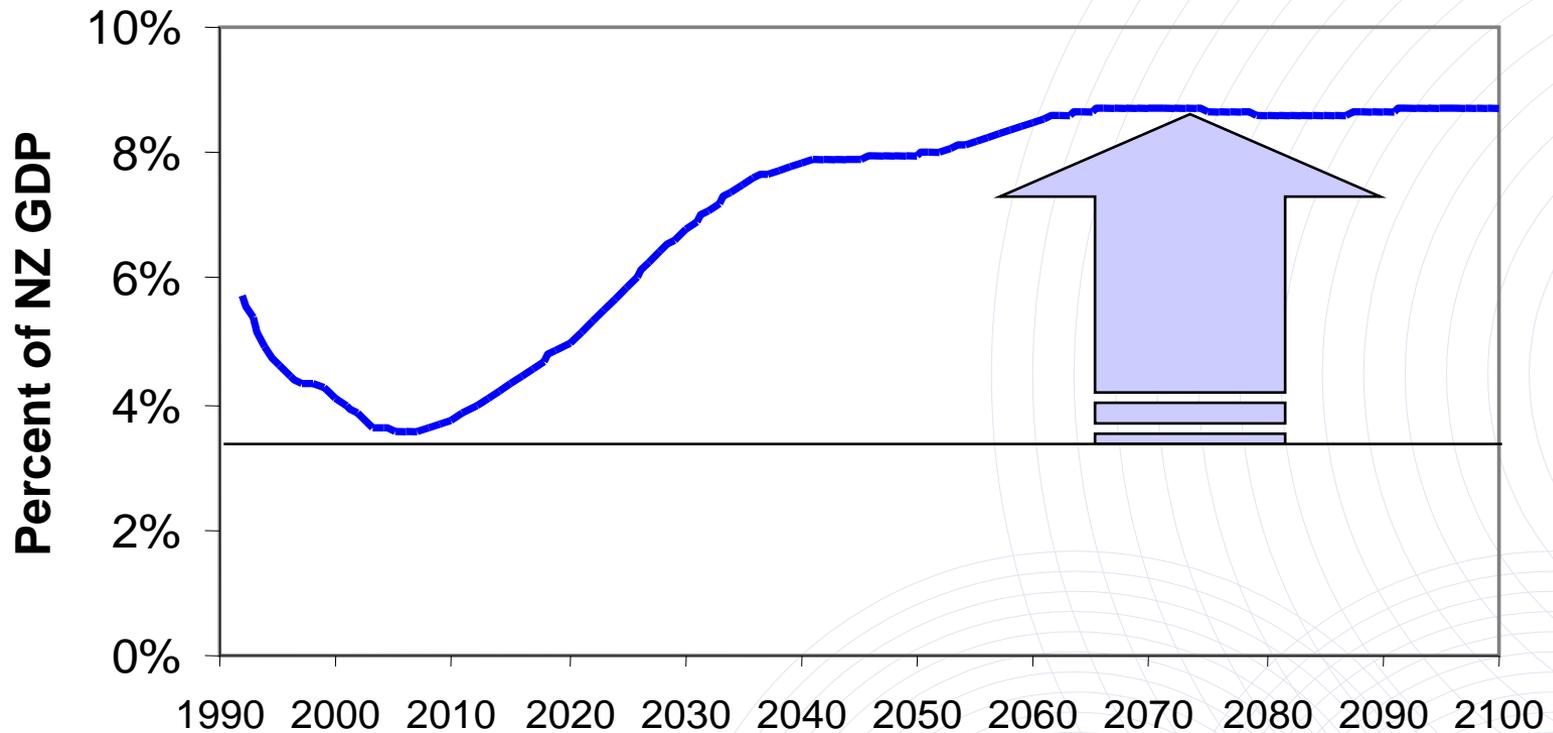


Both the population level and structure will change markedly ...



- A larger proportion of “elderly”, especially “older elderly”.
- Some “unexpected longevity” – people underestimating how long they live.
- People available for work for longer and/or longer in retirement or semi-retirement.
- There will be changing demands on Crown finances.

All else equal, the fiscal cost of NZS will rise...



...from around 4% of GDP now to 8% by mid-century.

Future governments will have options ...

- Who should get it?
 - Income targeting or means testing
 - Fundamentally changes the universal nature of NZS
 - Longer residence requirement
 - Not likely to be significant
- How much?
 - Reduced level relative to average wage
 - Issues of fairness and adequacy
- When?
 - Phase up the age of entitlement beyond 65
 - Politically difficult and raises ethnic issues
- Other areas of government expenditure and revenue?

New Zealand Superannuation Fund – Policy Rationale

- Stronger Crown Balance Sheet cushions the impact on Crown finances ...
- ... Public Debt is already at relatively low levels, so ...
- ... build up a fund of Crown-owned financial assets to...
- ...partially pre-fund the extra fiscal costs (tax smoothing) with...
- ...a diversification benefit of broadening the Crown financial portfolio across capital markets but...
- ...good governance arrangements are vital to avoid repeating the international record of poor financial performance of public funds.

New Zealand Superannuation Fund – Design of Governance Arrangements

“A clearly defined portfolio of Crown financial resources ...

... managed by an independent governing body ...

... with explicit commercial objectives ...

... and clear accountability.”

Great minds ...



National Pensions Reserve Fund



NEW ZEALAND
SUPERANNUATION
FUND

- Same underlying purpose
- Similar governance objectives
- Similar investment strategy
- Responsible investment

NZSF does not “solve” the sustainability issues, but it does provide additional fiscal headroom as budget adjustments need to be made over time.

KiwiSaver – a brief description

- **A voluntary work-based savings scheme**
 - But also available to people not in the workforce
 - Complements other initiatives
- **Announced in Budget 2005**
 - With modest incentives to join
- **Expanded in Budget 2007**
 - Additional incentives
 - Employer contributions
- **Started on 1 July 2007**
 - So now been operational for 11 months



Why?

How?

Progress?

KiwiSaver policy objectives encompass savings, investment, financial markets and retirement income

- “Better income in retirement for those who want it”
 - NZS provides many with comparable post-retirement income
- Increase national saving...
 - by encouraging a long-term savings habit and asset accumulation...
- Focus on household saving, in financial assets
 - bias towards low-to-middle income households
 - may not be saving enough for retirement
 - overly reliant on housing wealth, potentially vulnerable
- Maintain government saving levels
 - so no reduction in NZSF contributions
- Support long-run fiscal aims
 - prudent debt
 - long-run sustainability

KiwiSaver – summary of original design

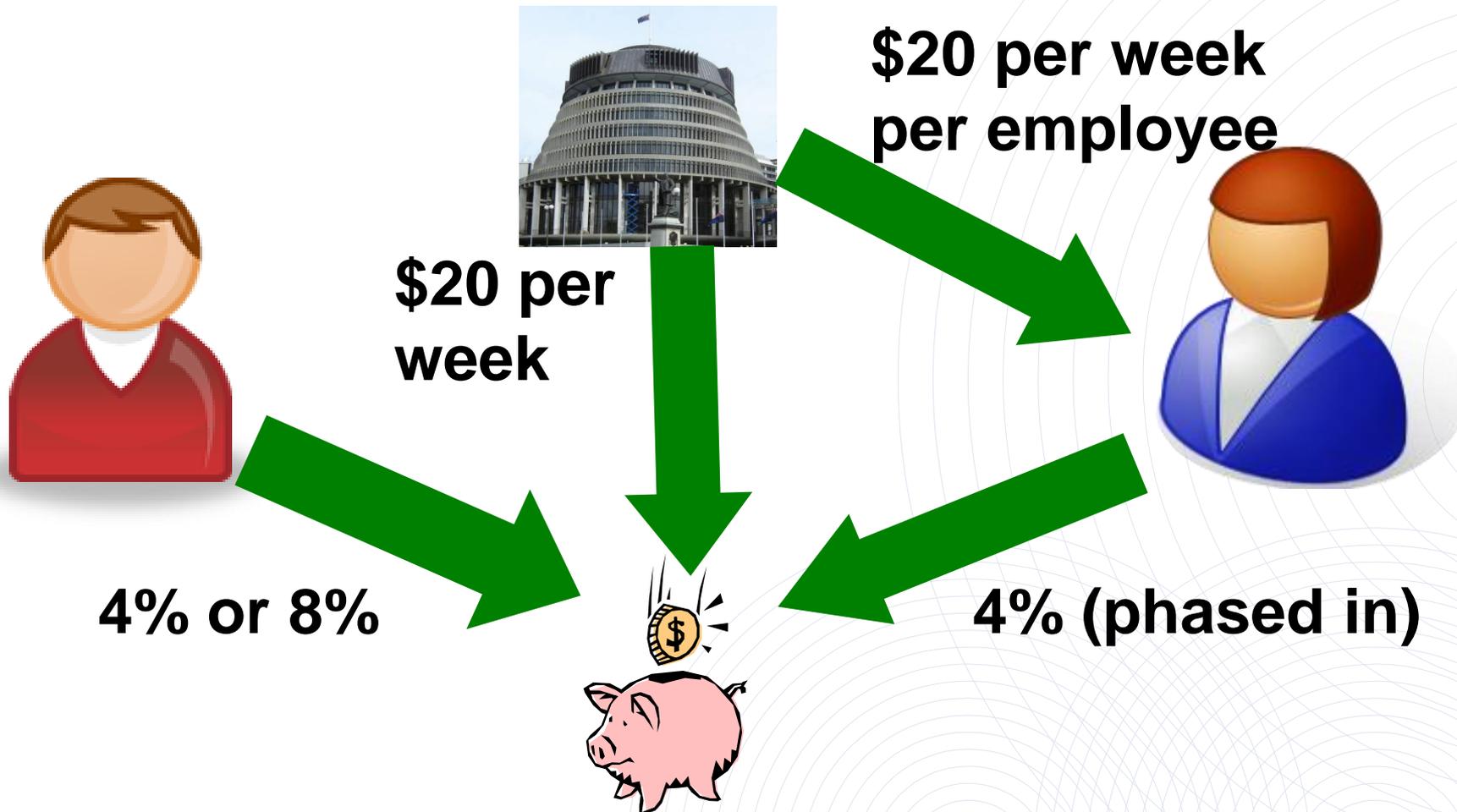
- Voluntary, open to all
- Workers auto-enrolled on joining workforce or changing job
- One-off kick-start payment (\$1,000) and annual fee subsidy for all members
- For employees, contribution rate 4% (or 8%) of gross salary or wages, deducted by employer
- Non-employees – no specified rate – at provider discretion
- One account per person
- Funds under private management
- Funds locked-in till superannuation age
- Portability across employers
- Members elect which provider and fund, or default allocation
- Default provider tender process
- Contribution holidays, “hardship” withdrawal
- Mortgage diversion and first home deposit subsidy

Full details at www.kiwisaver.govt.nz

KiwiSaver – 2007 enhancements

- Member tax credit (MTC) – up to \$20 per week (from 1 July 2007)
- Compulsory employer contributions – starting at 1% (from 1 April 2008), rising annually to 4% of gross salary
- Employer tax credit – up to \$20 per week
- MTC available to non-employees and self-employed
- These features available from 18 years of age to age of eligibility for NZS (65 years)

Enhancements - tax credits, employer contribution



KiwiSaver – progress since launch on 1 July 2007

- >600,000 members as of end-April 2008
- Well ahead of forecast.
- Fiscal cost of incentives also ahead of forecast
- Demographics of membership:
 - ❑ 51:49 (F:M)
 - ❑ Age profile:
 - 0-17 8%
 - 18-24 16%
 - 25-44 33%
 - 45-65 40%
 - ❑ Members on average slightly older, slightly better off than non-members
- ❑ 33 providers, offering 48 different schemes
- ❑ Additional funds under management - \$600 million and rising

...and for those who don't/won't choose – default schemes and providers

- Established for members who don't choose a scheme for themselves, or by employer
- Default to conservative fund
 - ❑ Lower risk, lower earnings
- Member may switch fund, with no charge
 - ❑ If dissatisfied with service, returns
- A guaranteed client base
- Selected by open and competitive tender
- Six appointed
- Re-tender in 2014
- Relevant Ministers may review before then

KiwiSaver – taxation and regulation

- Influenced by parallel processes already under way...
 - ❑ Reviewing supervision and regulation of non-bank financial institutions
 - ❑ Portfolio Investment Entities tax regime - equalised tax treatment of portfolio and direct investment
- Want even-handedness between KiwiSaver and similar products so...
 - ❑ Schemes operate under trust deeds (like existing registered superannuation schemes)
 - ❑ No government guarantee of scheme balances
- But had to recognise that Government incentives will attract new (more naïve) savers. Therefore, in addition, KiwiSaver providers must...
 - ❑ Ensure schemes have independent trustee
 - ❑ Set fees at level that are “not unreasonable”
 - ❑ Disclose approach to responsible investment

Design philosophy - preserve choice and competition, reduce “churn” between existing savings and new scheme, minimise compliance costs

KiwiSaver choices – What we did and why (part 1)

- A targeted replacement rate? No
 - NZS already guarantees a minimum income level tied to average earnings
 - Something else that would have to change with demographic shifts
 - But used for modelling illustrative examples
- Full compulsion? No
 - Inflexible, mandated saving not right for all
 - NZS maintains income levels for many low earners
 - Political reaction – referendum in 1997 roundly rejected (92:8)
- Decumulation rules/annuitisation? No (not yet)
 - NZS already guarantees a minimum income level, effectively an annuity
 - Reluctance to dictate withdrawal strategy

KiwiSaver choices – What we did and why (part 2)

- Defined fee levels? No (not yet?)
 - “Fees must not be unreasonable”. Fee levels monitored.
 - Risk that it becomes floor, set at wrong level
 - Want to encourage competition and innovation in prices and services
 - Fee subsidy more transparent
 - Remains an option in light of experience
- Government guarantee? No
 - Entry is voluntary
 - Sends wrong signals to market and members
- Dictate asset allocations? In part
 - For default conservative funds only

KiwiSaver choices – What we did and why (part 3)

- Mandated disclosure? Yes
 - Fees and charges. Consistency a challenge. May need to define
 - Responsible investment policy, but not required to have one
 - Specific requirements on content of statements to fund member
 - Specific requirements on content of published annual report
- Incentives to reduce switching and crowding out? Yes
 - Value of incentives capped. Gives proportionally more to less well off
 - Established “complying fund” rules. Existing workforce schemes may attract KiwiSaver incentives on adopting lock-in, portability
 - Regulation/Supervision/Taxation even-handedness

KiwiSaver summarised

- Voluntary, open to all
- Complements NZS, not a replacement
- Incentives to enter, stay a member
- Low compliance for members, providers
- Taxed and regulated like similar products
- Delivered exclusively by private providers
- Encouraging competition and innovation
- All decisions sit with individual except:
 - Mandated contribution rate (if an employee)
 - Matching member contribution (if an employer)

Retirement Commission ...

- Develops and promotes methods of improving the effectiveness of retirement income policies
- Promotes education about retirement income issues and publishes information
- Monitors the effects of retirement income policies and reports to Ministers
- Works with financial services providers, regulatory authorities to improve clarity and transparency of information to support personal decision-making
- Provides a range of tools and support services such as:
 - ❑ “Sorted” – web-based calculators and information on managing personal finances
 - ❑ KiwiSaver calculator and decision guide
- Consulting now on draft financial literacy strategy. Aims to:
 - ❑ “achieve a financially literate population where New Zealanders are financially well-educated and can make informed financial decisions throughout their lives.”

New Zealand's design – quick recap

- **New Zealand Superannuation (NZS)**
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Tomorrow's challenges

- Durability and sustainability of the framework:
 - ❑ General Election 2008 – attitude of a new Government
 - ❑ Financial market turbulence – impact on savers, providers
 - ❑ Tighter fiscal conditions/pressures over time – adjusting the model
- KiwiSaver evaluation:
 - ❑ Stage 1 – operational performance, “debugging”
 - ❑ Stage 2 – effectiveness relative to policy objectives
- Productivity and growth:
 - ❑ Turning funds under management into a more developed financial sector and potentially to help finance more productive investments by New Zealand enterprises

More Information

- New Zealand Superannuation
 - www.winz.govt.nz
- New Zealand Superannuation Fund
 - www.nzsuper.co.nz
- KiwiSaver
 - www.kiwisaver.govt.nz
- Retirement Commission
 - www.retirement.org.nz
 - www.sorted.org.nz
- New Zealand Treasury
 - www.treasury.govt.nz
 - brian.mcculloch@treasury.govt.nz