TE ARA AHUNGA ORA
Retirement Commission

KiwiSaver Opportunities for Improvement

Michelle Reyers

32nd Colloquium on Pensions and Retirement Research
November 2024

What is KiwiSaver?

- A **voluntary, opt-out, portable** New Zealand retirement savings scheme established in 2007
- Design elements include **incentives** & **default** settings
- Generally locked in until age 65 (withdrawals allowed for first home purchase, financial hardship, and certain medical reasons)

Purpose of KiwiSaver

- ❖ 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**
- ❖ increase individuals' **well-being and financial independence**, particularly in **retirement**, and to **provide retirement benefits**
- ❖ facilitate **individuals' savings**, principally through the **workplace**

Choice Architecture in the KiwiSaver scheme

- KiwiSaver was designed to create **choice** and **flexibility**, using **defaults** to help **guide decisions**
- KiwiSaver was the world's first national **auto-enrolment, opt-out**, and portable retirement saving scheme
  - many other retirement savings schemes are either compulsory or purely voluntary
  - automatic enrolment with opt-out offers a third option that falls between these two extremes, and is often called **"soft compulsion"**

Choice Architecture in the KiwiSaver scheme

- **Incentives**: government & employer contributions
- Specific **default** settings
  - **3%** employee **contribution rate** (this is also the minimum rate) must be matched at 3% by employer
  - **savings suspension** period (one year, previously five years)
  - **fund type** (balanced, previously conservative)
- Defaults play an important role from a choice architecture perspective
  - **human behaviour:** inertia or procrastination
  - biases reinforced by assumption/perception that default setter implicitly endorsed default, **seen as advice**

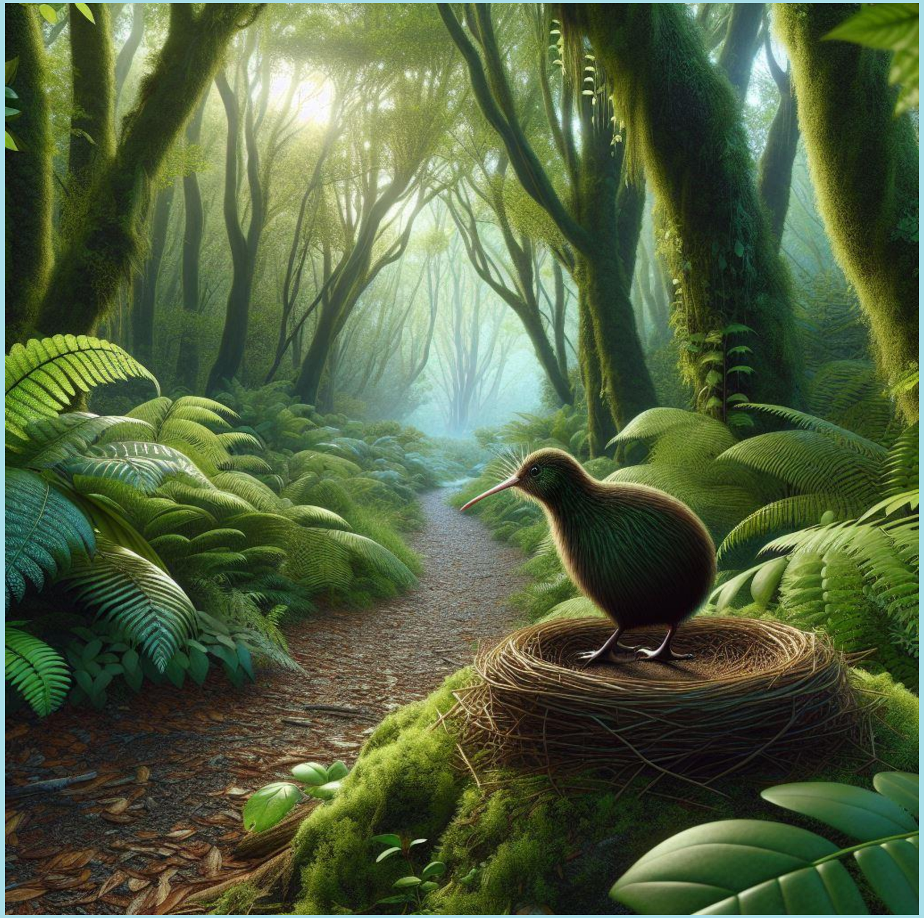
Assessment of settings as KiwiSaver enters its 18th year

Common concerns that are raised:

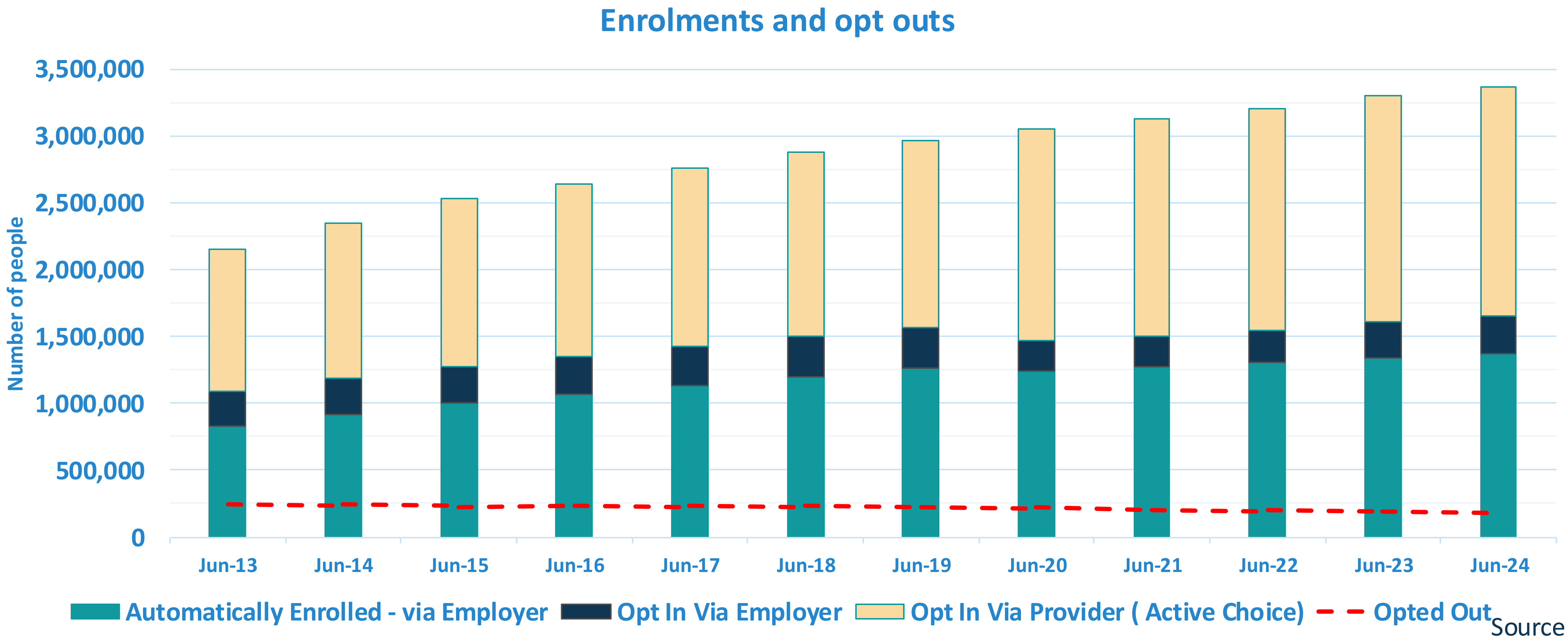
- **Joining:**
  - the scheme is not compulsory so people don’t have to join and they opt out
- **Contributing:**
  - some people who do join don’t contribute
  - those contributing aren’t contributing “enough”
- **Withdrawals:**
  - people can withdraw money before age 65 for specific reasons – some say we need more access, others say there should be less access…
  - are people getting the guidance they need after age 65 to withdraw their funds?

Joining

- Automatic enrolment and opt-out:
  - new employees aged 18-65 automatically enrolled (excl. temp visa holders and members of other workplace schemes)
  - individuals can opt-out between week 2 and week 8 of starting new job
- Opt-in:
  - Individuals can elect to join directly through employer or scheme provider

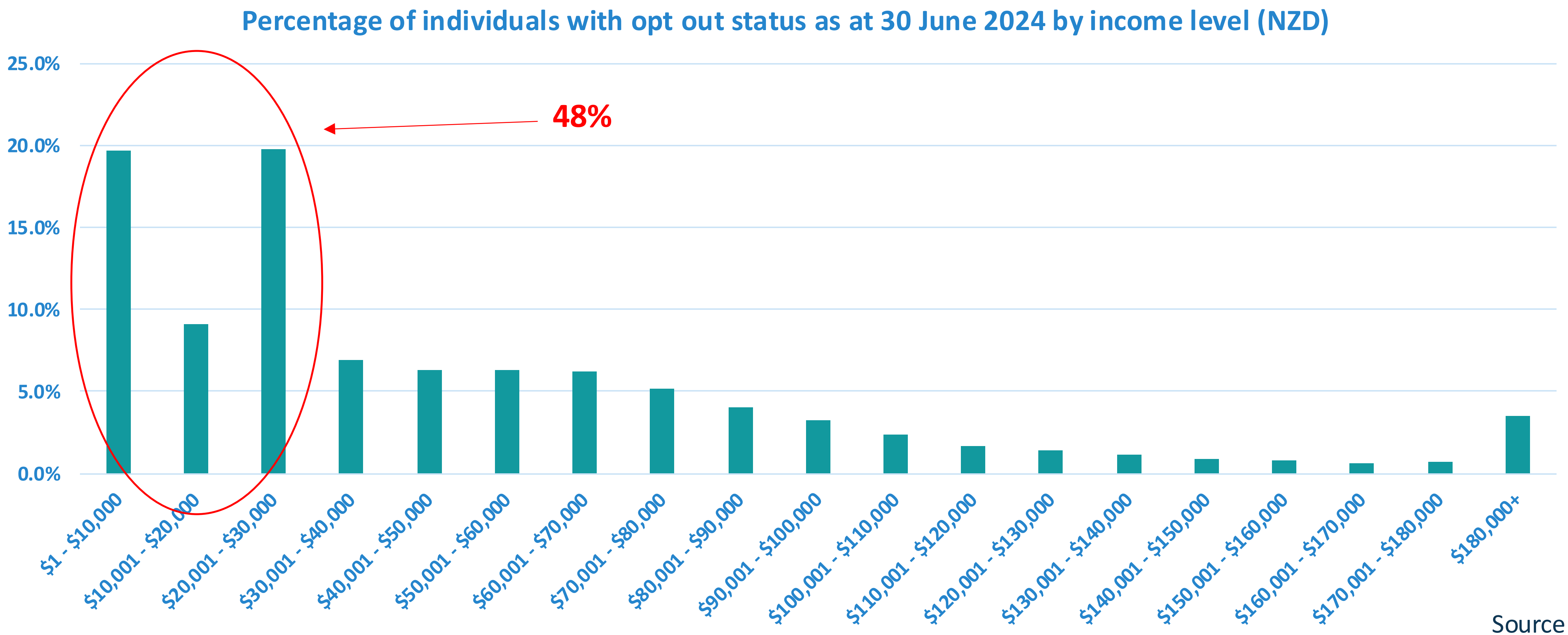


Member numbers have increased steadily over time….only a small number of people have opted out and this has trended down over time



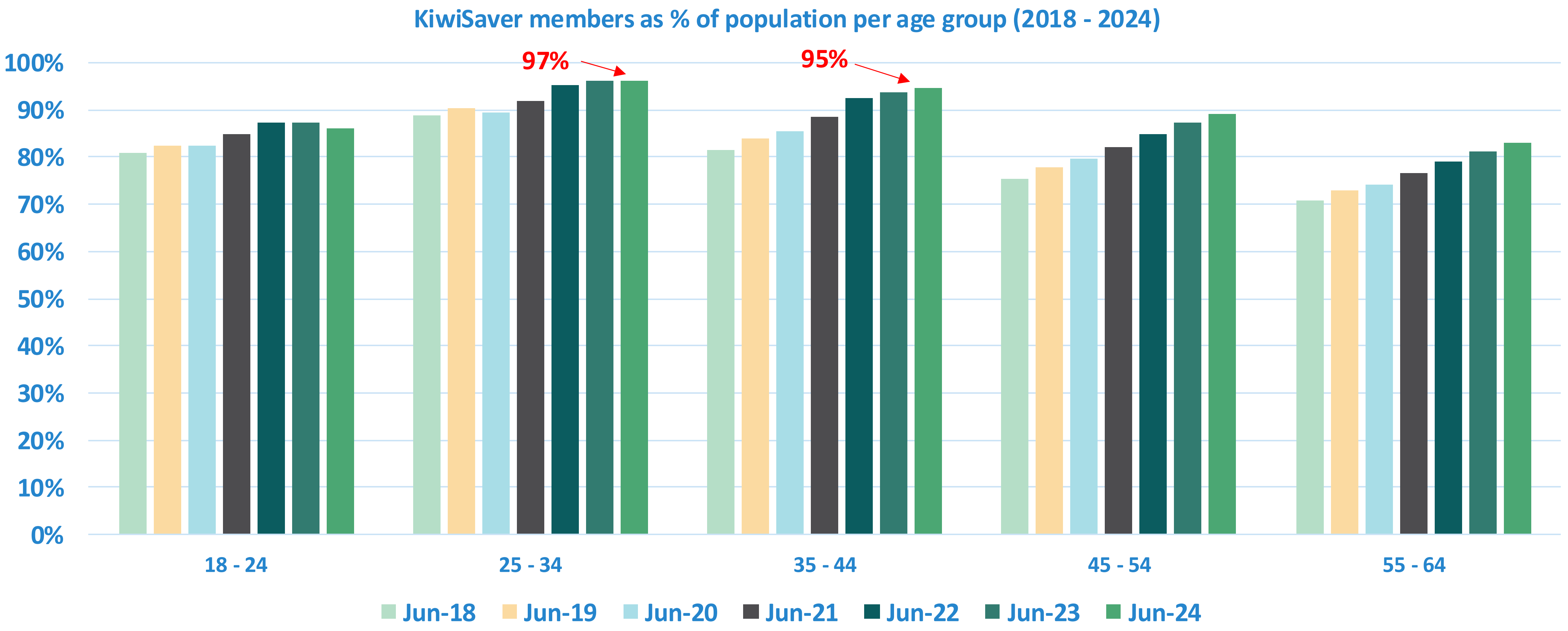
Source: IR, 2024

Those who opt out are generally on lower incomes



Source: IR, 2024

A very high percentage of the population aged 18 to 65 is enrolled in KiwiSaver especially high enrolment among younger working age cohorts



Source: Calculated from IRD KiwiSaver membership data and Stats NZ population estimates

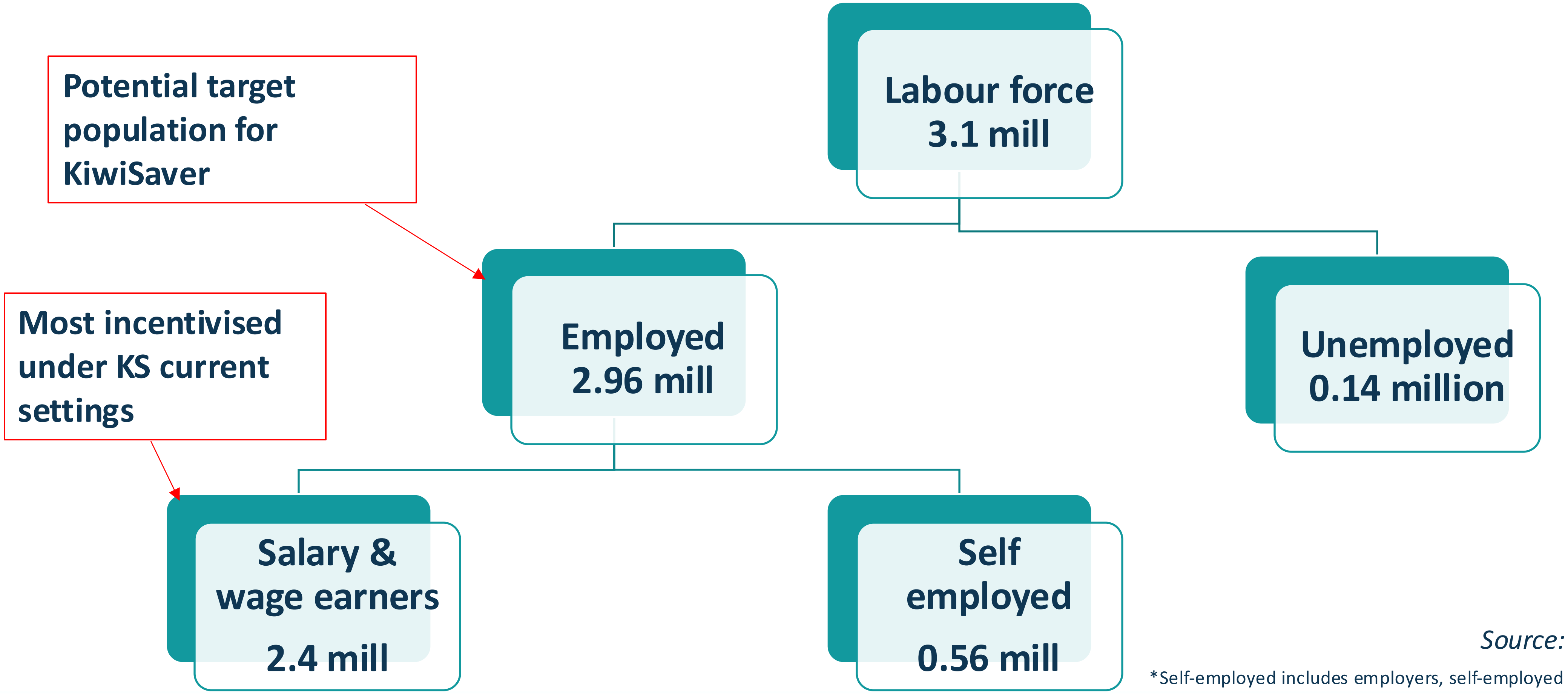
Settings for joining KiwiSaver appear to be working as intended

- ‘Soft’ compulsion works
  - There are very high levels of KiwiSaver membership, especially among younger cohorts
  - Very few people opt out
- Many design features that encourage participation by self-employed already exist in current design of KiwiSaver
  - no restrictions for self-employed to join
  - easy portability - account attached to the individual
  - flexibility in terms of contributions into scheme

Contributing

- Who is contributing (and perhaps more importantly who is not contributing)?
- How much is being contributed?
- How much "should" be contributed?

Who do we expect to be contributing?

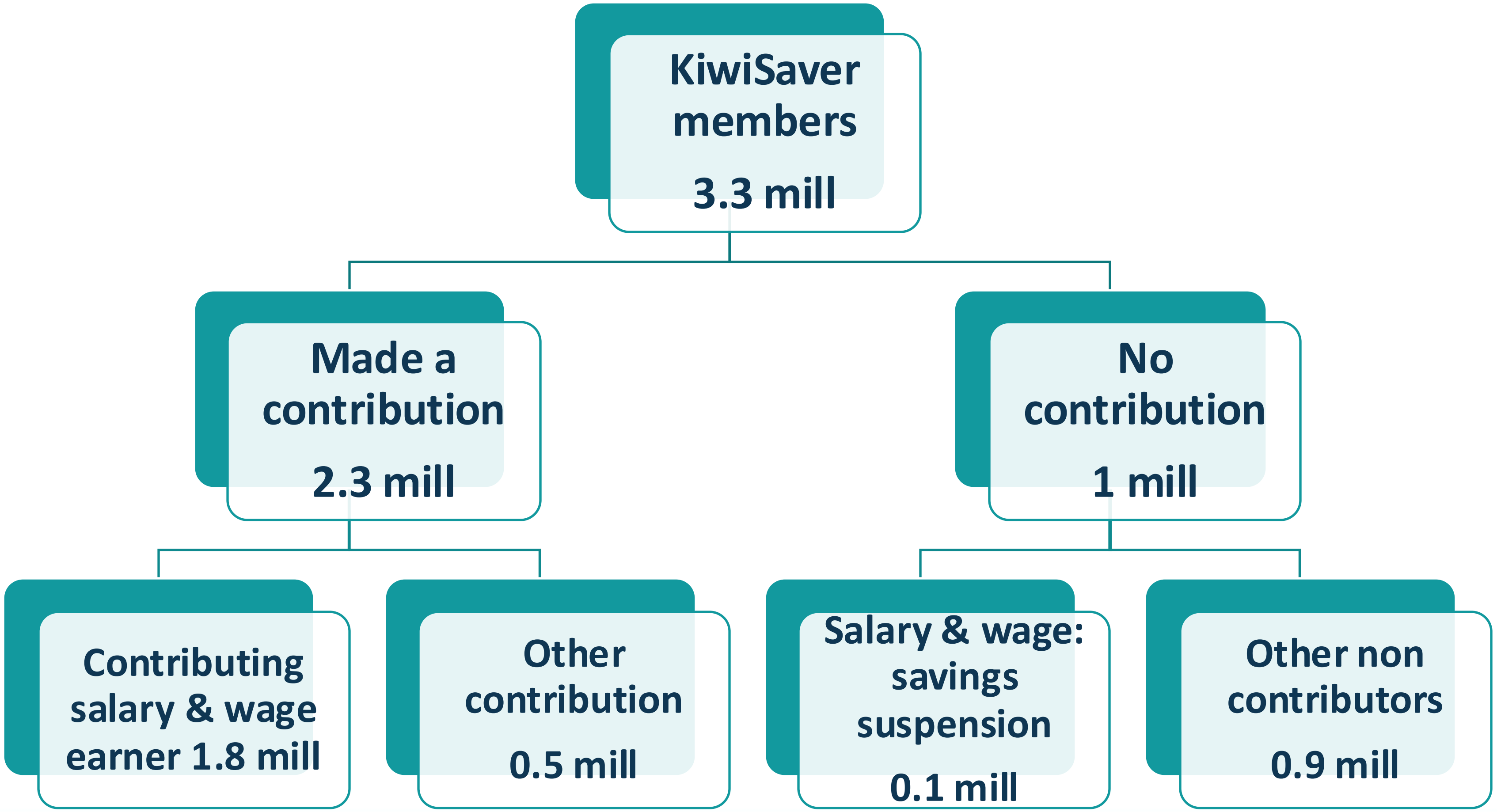


Source: Stats NZ 2024

*Self-employed includes employers, self-employed and unpaid relative assisting

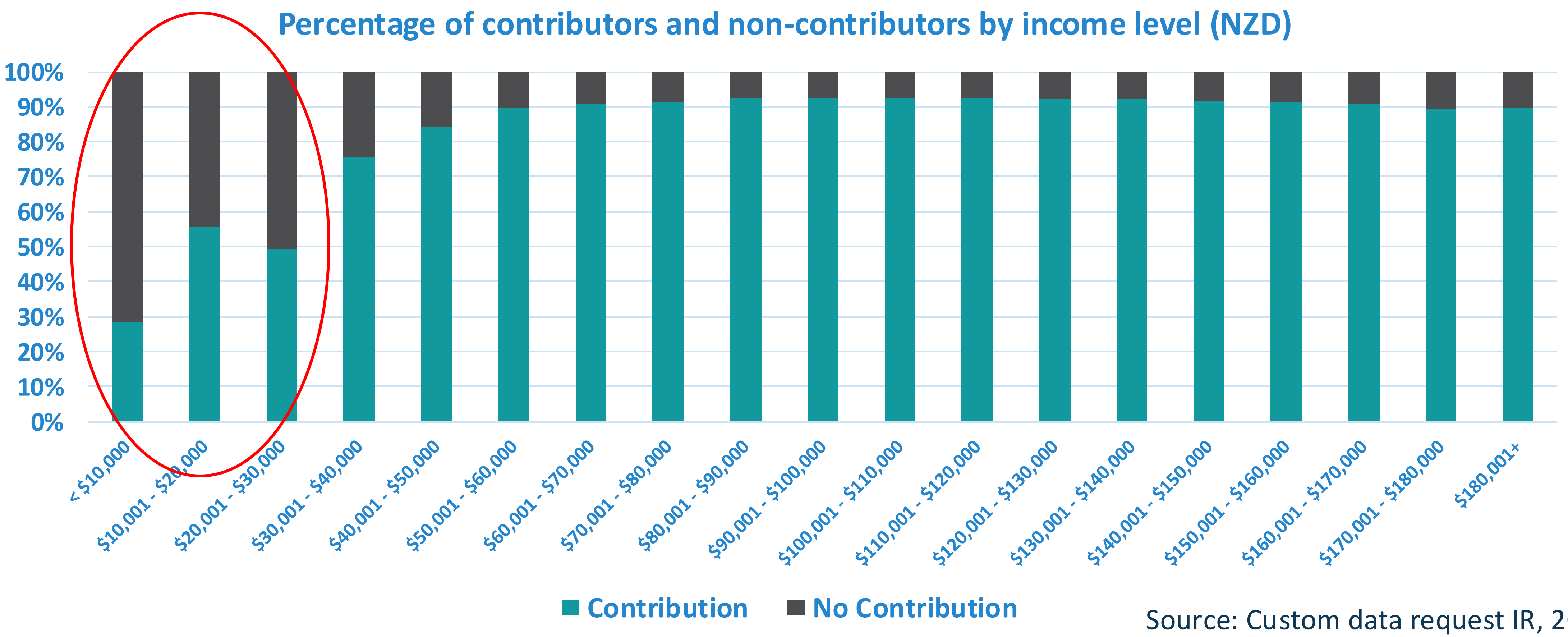
Who is contributing?

Those contributing represent almost 80% of total population in paid employment (salary & wage earners and self-employed)….
more than 90% of eligible salary & wage earners are currently contributing



Source: IR, 2024

Who is not contributing?
Those on lower incomes…

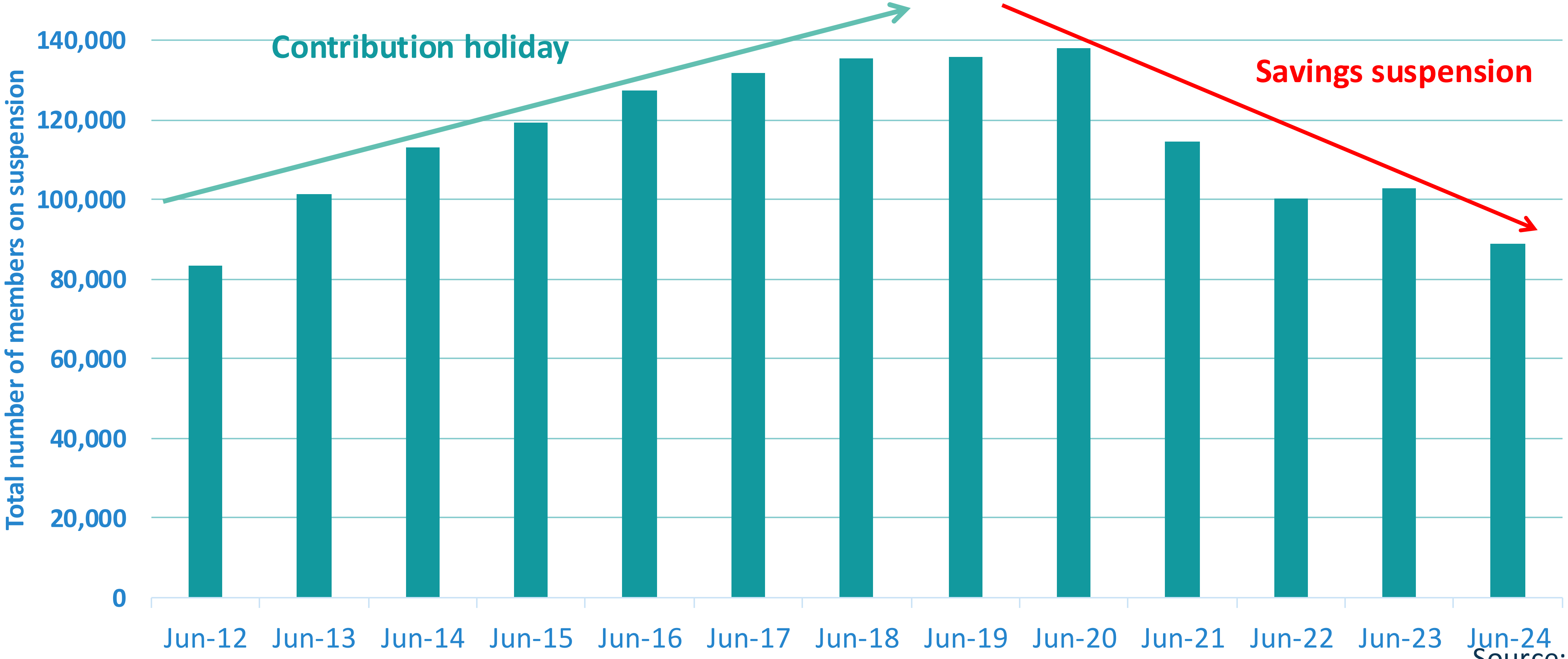


Source: Custom data request IR, 2024

Salary and wage earners pausing contributions… changes to default settings provide insight into the power of defaults

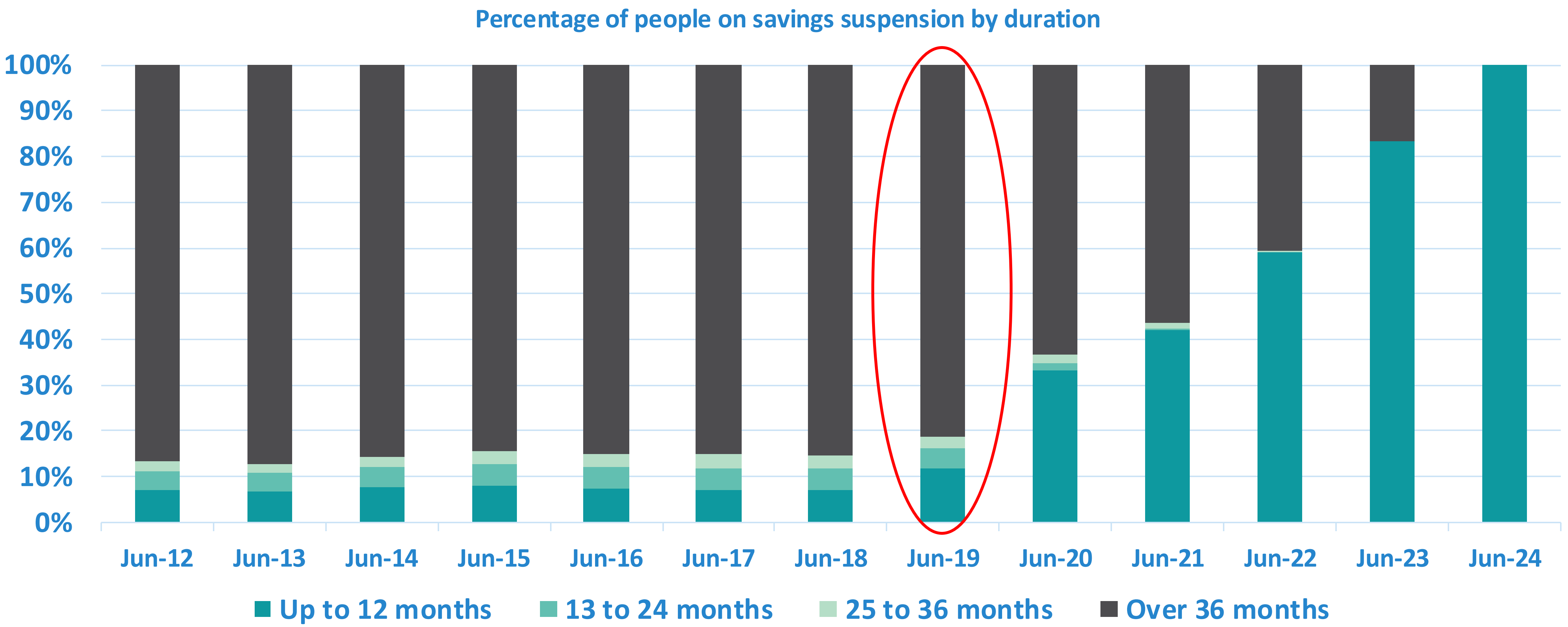
- If you are a salary & wage earner enrolled in KiwiSaver you have to contribute unless you actively pause your contributions
- From 2007 until 2019 if someone wanted to pause contributions they would take a **“contribution holiday”**, the **default time period** was set at **5 years,** ability to start contributing earlier, or roll over into another “contribution holiday” at the end of 5 years
- In 2019….following recommendations from the Retirement Commission
  - name was changed from “contribution holiday” to **“savings suspension”**
  - **default period changed from 5 years to 1 year** (still able to roll over for longer period)
- So what happened?

What's in a name? Perhaps a great deal!



Source: IR, 2024

The duration of suspensions has also changed dramatically after the default period changed from 5 years to 1 year in 2019



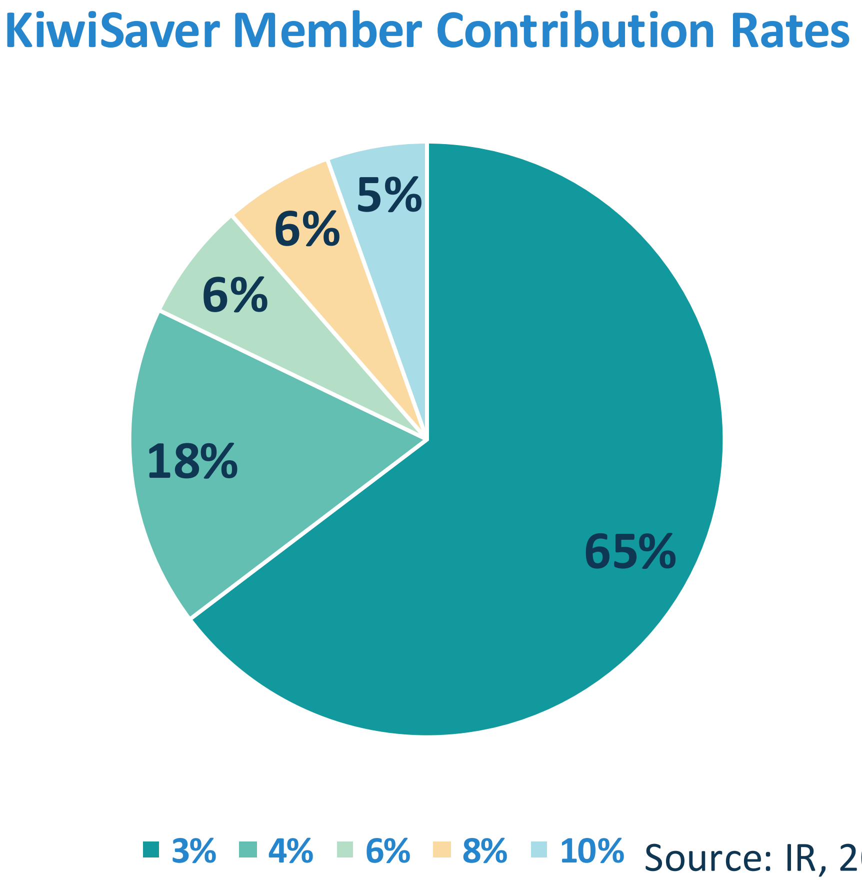
Source: IR, 2024

Incentives and defaults appear to be working to encourage contributions

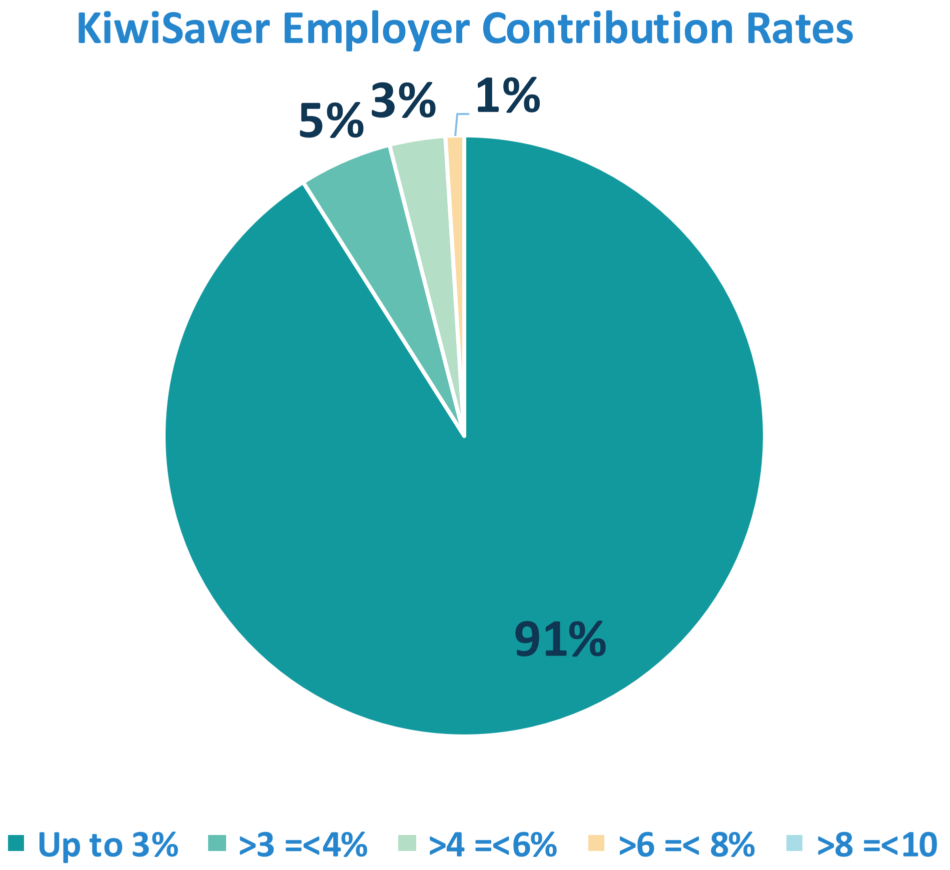
- **Large majority** of those in **paid employment**, especially salary & wage earners, are **already contributing**
  - only a small number on savings suspensions
- The majority of those who are **not currently contributing** are those not in a position to do so due to **low or no income**
  - **trade-off**: **current** versus **future financial wellbeing** (pre- and post-retirement income smoothed by moving to NZ Super for low income earners)
- **Self-employed** people are less incentivised to contribute

How much is being contributed?

About two thirds of KiwiSaver members contribute at the minimum (default) rate of 3%, while 90% of their employers contribute at the minimum rate



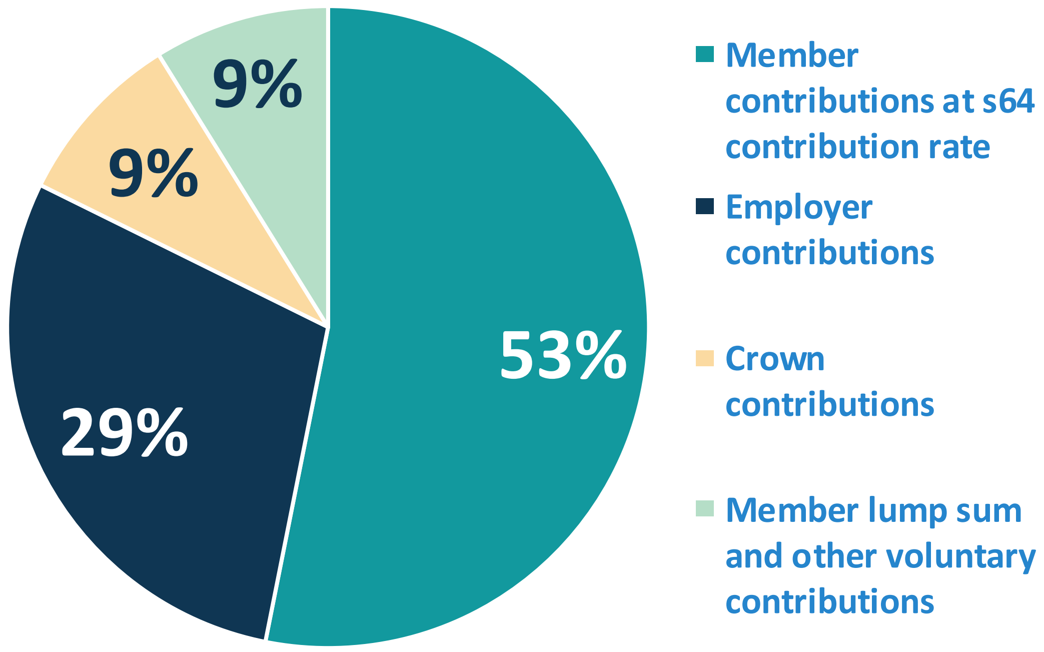
Source: IR, 2024



Source: AUT, 2023

Almost two-thirds of total $ contributions are from KiwiSaver members, less than a third from employers and less than 10% from Government

Proportion of contributions from members, employers, and government for the year ended March 2024



Source: FMA, 2024

- An **average earner** in New Zealand has **contributions totalling 7.5%** of their **earnings** going into KiwiSaver
- Many countries where the contribution is higher have a larger proportion funded by employer contributions

Should people be contributing more?

- **Purpose:** enjoy **standards of living in retirement similar to those in pre-retirement**
- Assess using **replacement rates**, commonly used = **70% benchmark**
  - research finds replacement rates decrease with income, households at bottom level of income distribution have higher fixed costs to replace when they retire
- NZ retirement income system includes **NZ Super (universal non means tested pension)**
- Modelling indicates for **target replacement rates** for **20 to 30 years**
  - **4%** contribution rate (**4% employer match**) suited for **median income earners**
  - However, **3%** contribution rate (**3% employer match**) may be suitable for **low income earners**

Contribution focus areas for change

- Encourage **higher contribution rates** using **defaults** and **opt-outs**
  - Encourage those who can contribute more, without disadvantaging those who cannot
  - Introduce higher default rate of 4% (with employer matching this level)
  - Retain the 3% minimum contribution rate
- **Focus** on those **not** particularly **incentivized** (e.g. self employed)
- **Limit inequities** where possible (settings related to paid parental leave)

Withdrawals

- **Pre age 65 withdrawals**
  - Withdrawals are **proportionately small** in terms of both member **numbers** and **funds** under management **withdrawn**
- **Post age 65 withdrawals**
  - The scheme is maturing….almost a **quarter of the over 65 population** has a KiwiSaver account
  - Default is the account stays open, individual makes an **active choice** in terms of drawdown so **guidance** is **needed**
  - This is an area that **requires more attention** as many are now using account as a drawdown product

KiwiSaver Settings: Conclusions and recommendations

The settings for joining and withdrawals appear to be working as intended and only minor adjustments are recommended

The main area where settings could be improved relate to the **contributing phase**:

- Encourage higher contribution rates using defaults and opt-outs
- Focus on those not particularly incentivized
- Limit inequities where possible

Questions