Media Release

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ANZ calls for a change to KiwiSaver to defuse $14 billion savings time bomb

ANZ New Zealand is calling for a change to the terms and conditions that govern the default KiwiSaver provider schemes to prevent a potential $14 billion retirement savings time bomb, as savers continue to be enrolled in conservative funds through the default scheme investment options.

Research by ANZ Wealth and OnePath – the country's largest KiwiSaver funds manager[1] - estimates that under the current default settings about 191,000[2] New Zealanders could potentially face a shortfall of $72,000 each in their final account balance, when they turn 65. This compares with the final balance an average member could experience after 40 years with an investment strategy that changes as the circumstances of their lives change.

This "life stages" investment strategy – sometimes called the 'Lifetimes Option' (see box below) - gradually adjusts an investor's fund allocation from growth-oriented assets to income-oriented assets, based on each individual's length of time to the retirement age.

ANZ Wealth Managing Director, John Body, said today that this ticking time bomb inside KiwiSaver was a $14 billion shortfall for current New Zealand savers and would continue to blow out as more people enrolled in the scheme in coming years.

"Our research demonstrates that over the long term, investors are likely to be significantly better off through the life stages approach than with the current default 'conservative option'," Mr Body said.

"A life stages approach tends to lift overall performance and moves investors to more defensive investments as they get closer to retirement."

The ANZ KiwiSaver Scheme and the National Bank KiwiSaver Scheme already use the life stages investment fund selection as the default setting for people who do not select their own investment fund.

However, people who do not actively select their own scheme provider are put into one of six default schemes. Under the current terms and conditions for KiwiSaver default providers, new members are automatically defaulted into 'conservative' investment funds, if they do not choose their own investment fund.

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[1] FundSource Wholesale and Retail Managed Funds Report, September Quarter 2011

[2] The basis for this figure is derived from the total number of 15-24 year olds in Statistics NZ population figures, 638,000, multiplied by the estimated 30% of current KiwiSaver members who are in conservative funds, (an approximate figure based on publicly available statistics from a variety of sources including IRD, FMA).

"Over the medium to longer term – and this is what the vast majority of retirement savings plans are designed for - conservative funds can seriously disadvantage the saver."

Mr Body said this was a major problem that was missed during recent debates around retirement savings. ANZ believes that the investment options for default KiwiSaver funds should be reset to better reflect the age and investment horizons of investors.

"We're calling for a simple adjustment to the Government prescribed default investment fund settings that are permitted under the contracts for the six government-appointed default providers. If we do nothing, it will cost New Zealand billions of dollars and seriously compromise the standard of living for a generation of retirees."

He said conservative funds were more appropriate for short-term savers due to their lower risk profile.

"This is an important consideration for preserving your savings as you approach retirement and also if you have a short-term focus, such as saving for your first home.

"In these circumstances you may not want to experience the short-term fluctuations that can come with growth funds. We highly recommend that everyone in KiwiSaver receives appropriate professional advice according to their individual circumstances.

"For younger people coming into the scheme now they have a lifetime ahead of them to prepare for retirement. The small change we are proposing to the current default provider investment settings will have a major impact on this younger generation's financial well-being in retirement."

KiwiSaver case study: Conservative fund vs life stages investment funds

Jonathan is a 25 year old sales coordinator from Wellington who recently signed up for KiwiSaver and was placed into a default scheme. Jonathan earns the average wage, $36,000*, and pays the current minimum contribution of 2% of his salary until he retires, and his employer contributes 2% of his salary. In his current conservative fund, he stands to accumulate about $248,000 in his KiwiSaver account by the time he turns 65.

But if he had been placed into a life stages option, which adjusts the mix of investment allocations according to his age, he would have accumulated around $320,000 – a difference of $72,000, according to median projected returns.

Note: *based on Statistics NZ figures for average wage, calculation assumes wage increase based on inflation of 2.5% per annum over forty years and a "Wage Alpha" that increases someone's pay as their skills increase over time . The proposed increase from 2% to 3% of salary has not been taken into account in this example.

Continues below

Lifetimes Option information

The Lifetimes Option adjusts an investor's allocations to the five main asset classes based on his or her specific length of time to the standard New Zealand Superannuation qualification age (currently 65). By selecting the Lifetimes option, investors are automatically transitioned through the various funds as they reach pre-determined age milestones.

Investment funds for specific age groups

Age group	Allocated fund
0 - 35	Growth Fund
36 - 45	Balanced Growth Fund
46 - 55	Balanced Fund
56 - 60	Conservative Balanced Fund
61 - 64	Conservative Fund
65+	Cash Fund

For more information contact Andrew Park, Corporate Communications Manager, ANZ Wealth, 09 638 6175 or 021 911 787

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