KiwiSaver’s 10th birthday is a major milestone and a cause for celebration. Enrolments have exceeded expectations, with more than 2.7 million people now members of the scheme. KiwiSaver has helped thousands of people grow their retirement savings, contribute to a deposit for their first home and expand their financial capability.

Looking back, it’s easy to forget how ground-breaking it was. KiwiSaver was the world’s first auto-enrolment, opt-out, national retirement savings scheme. It is now serving as an inspiration for other nations like the UK and Ireland.

There is clearly much to applaud. But KiwiSaver’s 10th birthday is also a chance to reflect, to look at what has worked, and to consider what can be improved.

At ANZ Investments, we are in a unique position to do just that. We have been on this journey with our members since KiwiSaver started 10 years ago. As the largest KiwiSaver provider in the country, managing over 725,000 members’ money is a responsibility we take very seriously.

We also need to represent the views of New Zealanders. The make-up of our scheme by gender and age is representative of the broader KiwiSaver population. That means the insights we gain from our own members can be of use to the wider industry and can drive conversations to help improve all New Zealanders’ retirement outcomes.

We’ve used these insights to make a number of recommendations and, as you’ll see throughout this report, the New Zealand public supports many of them. We want to turn the discussion into action so that the next 10 years can set New Zealanders up for even better retirement outcomes, and position us as a valued voice in the international pension industry.
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THE EVOLUTION OF KIWISAVER – FROM MAKING TO MAINSTREAM

Two decades ago, house prices were on the rise, home ownership defined a sense of wealth and people were spending more than they earned. You may think that still holds true in 2017, but what definitely has changed is our concern for securing a financial future, rather than just the ‘here and now’.

This mindset shift came with good reason. By the early 2000s, New Zealanders had gained an international reputation as the ‘worst savers in the OECD’, borrowers and a nation in debt. At the same time, the population began to age and longer retirements were on the horizon. In a bid to respond to these alarm bells, the government of the day introduced a solution that aimed to encourage long-term saving habits, secure the standard of living in retirement and maintain the economy’s ability to secure the financial future of its pensioners. Enter KiwiSaver, and not a moment too soon.

THE THREE PILLARS OF RETIREMENT SAVINGS

Before KiwiSaver, our retirement income framework balanced precariously on two pillars.

The first was the reliable government-funded New Zealand Superannuation (NZ Super), which still provides a pay-as-you-go, taxable-age pension to eligible New Zealanders, regardless of means. Yet, while regarded as generous by international standards, NZ Super alone may not be sufficient to fund the quality and standard of life we expect in retirement. This is particularly the case for those who enter retirement without the security of a mortgage-free home.

The second, and considerably more fragile, pillar was that of voluntary personal savings. This was made up of workplace saving schemes or personal saving accounts such as term deposits or private investment portfolios. Yet, as household costs steadily increased and people faced higher household debt, New Zealanders’ priority was paying off debt rather than saving.

Year-on-year, statistics confirmed our lack of a savings culture: in 1999, we saw the rate of New Zealand savings plummet to a 30-year low, and the early 2000s saw no real shift in this trend. Enrolment in workplace saving schemes sat at 15% (and was declining) and household savings remained low.

When compared to World Bank standards and our OECD peers, we lacked one further pillar to support retirement savings – an income or employment-related savings vehicle that depended on regular contributions that could grow over time.

To fill this void, and establish a stronger savings culture, the government introduced KiwiSaver on 1 July 2007 – the third pillar.
A STEP IN THE RIGHT DIRECTION

KiwiSaver was the world’s first auto-enrolment, opt-out, national retirement saving scheme. It has reinvigorated New Zealand’s savings framework and we’ve gone from being a laggard to setting the example for others like the UK and Ireland. In 10 years, nationwide uptake has grown substantially as employers and members alike commended the KiwiSaver initiative for providing an easy way to save. Today, over 2.7 million New Zealanders are enrolled in KiwiSaver – far exceeding the government’s initial expectations – and collectively, members have saved over $40 billion. With this, KiwiSaver members began experiencing a sense of ownership and future planning, an increase in financial engagement and a better understanding of investing for the sake of growing wealth.

TINKERING WITH THE ‘SWEETENERS’ IMPACTS ATTITUDES

At its inception, the government launched KiwiSaver with a series of ‘sweeteners’ to help incentivise members to join. These included the $1,000 kick-start, the annual government member tax credit and the obligation of regular employer contributions to match member contributions. But over the years, the terms of these incentives have changed, with some being removed entirely and, as a result, we’ve seen attitudes towards KiwiSaver shift. This was particularly the case when the $1,000 kick-start was removed in 2015, prompting an immediate and steep decline in member enrolments. In fact, the three KiwiSaver schemes managed by ANZ Investments saw a 35% decline of new members in the first year after this benefit was removed. A subsequent survey also found 62% of people who had not yet joined KiwiSaver were less likely to do so following this move. Ongoing removal or changing of incentives has also impacted those already in KiwiSaver. A survey of our non-contributing members indicated that only 50% felt the government does enough to support them in achieving their retirement savings goals. Some felt the changes meant the government was doing less to support them, while others were uncertain that future changes wouldn’t undermine their savings.

ROOM FOR IMPROVEMENT

While the inception of KiwiSaver marks a giant leap in the right direction, it is still young and there is plenty of room for improvement. Both financial capability and engagement are on the rise, but people still aren’t sure how much they need to save or what retirement actually looks like. At the same time, many members continue to contribute at minimal levels, or stop contributing altogether when other financial priorities arise. As a result, KiwiSaver member balances remain fairly low, and despite having an exemplary model in place, we continue to have the lowest rate of retirement savings in the OECD. While membership rates are high, ‘default’ members comprise 21% who were automatically placed in a scheme upon starting a new job and didn’t opt out. These members are sitting in lower-risk funds, aren’t taking an active interest in growing their KiwiSaver accounts and potentially don’t know who is managing their KiwiSaver savings at all.

Yet as new enrolments have slowed, some people are still without KiwiSaver. To address this, one-off auto-enrolment of the remaining working population could be one solution that would ensure a further 375,000 people are preparing for retirement. The government has, in principle, indicated support for this, but only when fiscal conditions allow. In the meantime, whether this will happen, and whether it will trigger additional changes to KiwiSaver’s current set-up, is still unknown.

While membership rates are high, ‘default’ members comprise 21% who were automatically placed in a scheme upon starting a new job and didn’t opt out.
Expanding who is eligible for incentives to the whole working population, not just 18-64 year olds, could also be explored. This is an opportunity to instil good savings habits in people when they are young, by showing them the benefits of KiwiSaver as they first enter the workforce.

The past 10 years have taught us many lessons. This milestone marks an opportune time to reflect on these and consider options that will help facilitate the ongoing success of KiwiSaver and, more importantly, New Zealanders’ financial futures.

And so the conversation continues as the industry and government work together to educate members on choosing the right fund, highlight the importance of returns after fees, and tackle the challenges of affordability and conflicting financial priorities.

**OUR RECOMMENDATIONS**

- KiwiSaver membership should be compulsory, in recognition of its role as the third pillar of New Zealand’s retirement savings framework.

  60% of respondents say it should be compulsory to join. Of those who said joining should be compulsory, 88% also thought it should be compulsory to contribute if you are earning an income.

- In the absence of compulsory membership, all those not currently enrolled in KiwiSaver should be automatically enrolled (with an opt-out provision) to capture those who are self-employed, contractors or unemployed.

- Ongoing government incentives are necessary to maintain trust in KiwiSaver and ensure its success. In particular:
  - So long as contributions remain voluntary, the member tax credits should not be withdrawn.
  - In the absence of compulsory membership or auto-enrolment, an incentive to join should be reintroduced to entice those joining the workforce.

- Members under the age of 18 who are working and contributing should be entitled to the same benefits as other employees, including the government’s annual member tax credit and employer contributions.
CHAPTER TWO:
FINANCIAL EDUCATION ON THE RISE

As children, we’re often introduced to money management concepts unintentionally. We’re tasked with a series of chores, get an allowance for completing them and then are left to choose how to spend that well-earned money. For some kids, the money disappears as quickly as it comes in, spending it all in one trip to the dairy. Yet others choose to set their allowance aside until they finally have enough to put towards their favourite toy.

In adulthood, we need to learn to be more structured in our money management. As we work for an income, we will still have ‘impulse buy’ moments but know we need to ration, budget and plan for the future. So, given many of us are ‘self-taught’, how do New Zealanders fare when it comes to financial knowledge, attitudes and behaviours?

AN EVENTFUL START

Cautious money management and conscientious savings patterns have not traditionally been associated with the Kiwi psyche. In the early 2000s, our national savings ranked lowest in the OECD, and we continued to amass unyielding debt as house prices climbed. But, like the majority of other nations, New Zealand received a deafening wakeup call when the Global Financial Crisis (GFC) struck in 2008 and markets plummeted. The nation worked to tackle debt and rebuild wealth, and the message of ‘save more’ rang loud and clear in most households.

At that stage, KiwiSaver, along with its monetary incentives, was an attractive option, and membership rose 54% in the year following the GFC – a promising way to celebrate KiwiSaver’s first birthday.

Almost a decade later, we continue to make great progress. In a recent international survey, New Zealand ranked fifth for competency in financial knowledge, attitudes and behaviours compared to 29 of our peers in the OECD. New Zealanders disagreed that ‘money is there to be spent’ and instead showed a strong desire to save and prepare for the future – with the survey majority confirming they held savings or retirement products. With KiwiSaver as the main retirement savings vehicle for many, this shift in attitude confirms its role in nurturing a sound savings mindset and setting New Zealanders on the right track for the future.
ACTIONS SPEAK LOUDER THAN WORDS: RISING KIWISAVER ENGAGEMENT

FROM DRIFTERS TO MAXIMISERS

ANZ data shows 70% of our KiwiSaver members are contributing\(^2\), making use of KiwiSaver’s benefits like employer contributions and the government’s annual member tax credit\(^3\). The great news is that the number of contributing members is rising.

In 2017, ANZ has 60,000 more members making contributions compared to 2015. Last year alone, voluntary contributions increased 25%, averaging $1,500\(^2\). These voluntary contributions are a popular way for irregular contributors to ensure they receive their ‘free’ member tax credit. In fact, ANZ’s KiwiSaver members who are eligible for the member tax credit are a good reflection of the industry, with almost 74% receiving either the partial or full amount in 2015. At the same time, 58% of those who qualify are contributing what it takes to get the full $521, up from 42% in 2012\(^2\).

Voluntary contributions are a popular way for irregular contributors to ensure they receive their ‘free’ member tax credit.

However, while contributions are on the rise, there’s still a concerning number of people not contributing and missing out on even a slice of their member tax credit benefit. Thus, as financial capability efforts continue to evolve, the government, industry bodies and providers all have a part to play in driving more action.

FROM SHORT-TERM SAVERS TO LONG-TERM INVESTORS

Unlike a traditional savings account, KiwiSaver introduces members to both the habit of saving and the concept of market volatility. A member chooses a fund, accepts a certain level of risk and hopes to reap the benefits of positive returns. As markets do well, so too do KiwiSaver balances. But as political or economic events cause markets to wobble, the opposite is bound to happen.

For many, this see-saw effect was a complete surprise and some reacted to adverse market events by switching to more conservative funds – unfortunately selling out of their existing investments at a time when markets were at their lowest.

Many members began to recognise they lacked the investment management expertise to know how or when to switch funds. As such, some turned to their KiwiSaver providers who offer an investment option which adjusts risk over time based on ‘life stage’. Over 60% of our ANZ KiwiSaver Scheme members have opted for this, accepting higher risk (and higher returns) at times in their life that suit them best. The reassuring drop in the number of fund switches following market events indicates that more members now understand that volatility is normal and they should keep their eyes on the ultimate end-goal of long-term returns.

KiwiSaver members have also discovered the power of activism. Media coverage around exposure to investments in controversial weapons and tobacco saw those who didn’t want exposure to these funds quickly switching to ones that excluded them. Providers took notice too, with many ensuring that their funds no longer invested in those industries.

DO WE KNOW WHAT WE DON’T KNOW?

DIY – it’s in our DNA. Our ‘number-8 wire’ mentality means we would rather do the hard yards ourselves than pay someone else to do it for us. This mentality is not very different when it comes to money management or retirement planning. But if you don’t know what you don’t know, it’s hard to take action. In some areas, New Zealanders, the government and the financial services industry alike still have plenty of work ahead of them to increase awareness, grow financial capability and prompt long-standing behaviours.
KNOWLEDGE IS POWER (TO DO IT YOURSELF)

Just days before KiwiSaver launched in 2007, the first generation of the iPhone hit stores in the US, changing the way business and people interacted with technology. This digital revolution has meant information is abundant, phone apps compete with face-to-face customer service and people are more empowered than ever to take matters into their own hands.

Kiwis are no different. Riding this digital wave, more and more members want to manage their KiwiSaver account from their smartphone. At ANZ, our members log in to ANZ Internet Banking and our goMoney app over four million times a year to check and manage their KiwiSaver accounts. During our 2016 MTC campaign period, over 30,000 members used digital channels to make a voluntary contribution. As members assessed their varying tolerance to risk, we saw 60% of fund switches online over a six-month period. And making use of online sign-ups, over 18,000 new members have initiated the application process from the comfort of their favourite device in the past three years.

While we don’t recommend members check their balances daily, as KiwiSaver is a long-term savings scheme, we are glad to see them using these channels to improve their financial capability. In fact, across the board, Kiwis want to know more. Top questions include how much they’ll need to support their lifestyles in retirement, what their balance is likely to be and what they can do to improve their retirement outcomes. A recent ANZ survey showed that, in typical Kiwi DIY fashion, the majority prefer to access information and ideas so they can make up their own mind, with very few wanting a recommendation to accompany this. Unsurprisingly, only 12% were interested in speaking to a financial adviser for help or having a personalised plan designed for them.

So where are New Zealanders turning to for answers? The majority rely on tools and resources they can access themselves and expect their providers to deliver information in the format they want it. When this doesn’t happen, they vote with their feet – we saw this happen across the industry when over 170,000 members switched providers last year alone.

To address this, providers are responding in different ways – targeted emails to customers, educational websites like ANZ’s own FutureWise, and numerous digital tools and calculators. These tools are increasingly popular. Nearly 700 ANZ members a week turn to our retirement calculator to gauge their potential balance at 65, while 400 use our risk profile tool to help them choose a fund. Many providers also have some form of retirement calculator projecting how much people may need to save for retirement. While the results of these calculators can vary from provider to provider, some indication is better than none. Regardless, this presents some opportunity to address the best way to provide members with their potential balances at retirement.

THE IDLE DEFAULT DWELLERS AND NIL-CONTRIBUTORS

While joining KiwiSaver is the first of many decisions that will lead towards a more comfortable retirement, for many, it’s an inadvertent or only step. Many of those who are automatically enrolled fail to make active choices about their new KiwiSaver accounts, such as setting a contribution level or choosing the right fund to help them grow their savings.

Today, nearly 450,000 people are still sitting in a conservative fund. While some are there by choice (it suits their risk tolerance and investment timeframes), others are there because they ‘will deal with it later’ or it’s simply the easiest option. But what does this low-risk, low-return conservative investment fund option mean for their balances?
Our modelling shows that a male who made an active choice and moved to a life stage model that adjusts risk over time will have $54,000 more at 65 than a person who stayed in a conservative fund from the start.20

How do we get these disengaged members to take action? Default providers have written many letters, brochures and information packs, launched targeted campaigns, used digital messages and even attempted to call these members one-by-one. Yet all of these methods face challenges, from incorrect contact details to the lack of member interest in even opening (let alone reading and actioning) the information they receive. There’s no silver bullet to motivate a change in behaviour.

**OUR RECOMMENDATIONS**

- There should continue to be one government agency tasked with the job of developing a comprehensive, well-designed, well-directed and well-delivered financial and investment education programme.
- To support this, KiwiSaver providers should be required to deliver financial education materials and tools to their members. This should include prompts to make the most of incentives, particularly annual member tax credits.
- The government should provide parameters for the development of financial education materials, tools and calculators to ensure consistency in the assumptions of providers and avoid duplication or confusion.
- Efforts to raise financial capability should initially be targeted at groups most in need of support and resources. These include default and non-contributing members, women and those 10 to 15 years out from retirement. To do this:
  - Centralised, government-funded financial capability initiatives should be easily accessible to these segments.
  - KiwiSaver providers should distribute targeted communications and educational materials recognising, and addressing, the needs of these segments.
- KiwiSaver members don’t just care about returns, they also care about where their money is invested. As such, all KiwiSaver providers should have a clear stance with regards to responsible investing. This should be clearly articulated, regularly reviewed and easy for investors to access and understand.
  - Only 27% of respondents know about the industry sectors their provider makes investments in, or what the providers’ views are on various sectors.21
- All default funds’ risk profiles should be more balanced or follow a life stage model (one with higher exposure to growth assets early on, then reducing over time) rather than conservative. This will provide better long-term outcomes to those default members who may be hard to reach or choose not to make active choices about their fund.
CHAPTER THREE: GROWING RETIREMENT SAVINGS THROUGH THE POWER OF RETURNS

With the Global Financial Crisis shocking the world not long after the introduction of KiwiSaver, the impact of market volatility was strongly felt. Since then, headlines have alerted us to events like the slowdown of China’s stock market and depreciating currency, the UK’s decision to ‘Brexit’ and the US’s vote to let Donald Trump ‘make America great again’. These events have been experienced by investors worldwide as market shifts impacted the value of their investments.

Closer to home, KiwiSaver members have asked, “What does this mean for me?”, with many questioning the impact on their retirement savings. Would these events lose them money? Should they switch to a lower-risk fund? Could they avoid this uncertainty again by planning for the next big event?

For many, KiwiSaver was their first stepping stone into the world of investing, and these are some of the questions that have started to fuel barbecue conversations as events sway the market. But there’s still much to learn.

FOR EVERY ACTION, THERE’S A REACTION

No one likes to see their savings balance drop, so when headlines warn of impending market events, KiwiSaver members tend to fall into two groups. The first group keep their focus on long-term outcomes and remain committed to their fund choice. The second group switch their investments into lower-risk funds to shield themselves from potential drops. But, sometimes, switching decisions are ill timed and result in members selling out of shares when prices are low, then buying back in later, at a higher price, when markets recover.

There’s also a third group, who look to take a ‘buy low’ approach and increase their contributions in the hope of gaining more value in the future.

Fortunately, with more KiwiSaver members monitoring their balances regularly via their smartphones, market volatility as a natural part of investing is becoming a familiar concept.

PREDICT THE FUTURE, TIME THE MARKET?

With so much information available, what should you be doing? Should you try to predict the future and ‘time the market’ so you have enough time to take cover before an event strikes?
The short answer is no. Even the most experienced investors struggle with timing, and the impact of each event remains unknown. Take Trump’s win in the US presidential race. Investors worldwide braced themselves for a steep market decline as the votes were counted and the possibility of a Trump presidency became a reality. However, almost overnight, the initial pullback seemed to correct itself and both international and New Zealand shares maintained their strong performance. In fact, KiwiSaver members with higher exposure to growth assets may have seen their balances grow more after Trump’s win than they did in the months leading up to the election.

So how do we make sure we maximise our KiwiSaver returns? Luckily, the design of KiwiSaver means everyone is ‘drip-feed investing’. As regular employer and employee contributions grow our balances, we’re buying into the market at different times. Sometimes the price will be high and sometimes it will be low. But, over the course of a lifetime, market fluctuations will average out, helping to negate any adverse effects on asset prices. What’s important is time in the market, not timing the market.

RISKY BUSINESS

Everyone’s different – especially when it comes to taking risks. That’s why all KiwiSaver members should take the time to choose a fund that reflects their tolerance for risk, their savings goals and their timeframe. Some turn to a growth fund where they must be prepared to face fluctuating market activity that may alter their balances in the short term. Others prefer not to experience these drops, especially as they near the eligible withdrawal age, and remain in the comfort of more conservative funds. But, while we know these decisions mitigate risks, how do they translate to investment performance?

Funds with a larger allocation to growth assets generally experience larger movements up and down in value. But in the long term, they may also perform better.

By looking at returns since KiwiSaver launched, we tracked how several funds in the ANZ KiwiSaver Scheme have performed.

GROWTH OF $1,000 IN THE ANZ KIWISAVER SCHEME

This growth is solely based on $1,000 – but imagine the difference if you were also taking into account your own continuing contributions, employer contributions and the government’s annual member tax credit.

It’s up to the member to choose a fund with the risk and reward trade-off they’re most comfortable with. To help make life easier, and mitigate the risk of sudden switching decisions, some providers offer members a life stage model that changes their asset allocation and risk exposure over time. Over 60% of our ANZ KiwiSaver Scheme members have opted for this, accepting higher risk (and the potential for higher returns) in earlier years, when they know they’ll have more time to recover from possible losses.
SHOW ME THE MONEY: THE ROLE OF LONG-TERM RETURNS IN RETIREMENT SAVINGS

Understandably, New Zealanders place high importance on returns. Many of our surveys indicate this is consistently one of the top three considerations when choosing a KiwiSaver provider. This makes sense as, after all, higher returns mean higher balances at retirement. Even a 1% difference in your KiwiSaver performance could give you an additional $48,000 at retirement.

HOW MUCH DO LONG-TERM RETURNS CONTRIBUTE TO RETIREMENT SAVINGS?

If a member joined the ANZ KiwiSaver Scheme at launch, made regular contributions and chose to remain in a growth fund over that 10-year period, they would have approximately $55,000 as at 1 April 2017. Over $20,000 of this amount can be attributed to returns.

For this growth fund example, when we look at what makes up the member’s KiwiSaver balance, returns make up the biggest piece of the pie. In fact, returns, along with employer contributions and the government’s annual member tax credit make up 70% of the total balance, while the employee’s contribution is only 30%! This is a perfect showcase of how a member can reap the benefits of every dollar invested in KiwiSaver. Over time, this gap could become even wider thanks to the power of compounding returns.

THE DEBATE ON FEES

While we salute the ‘power of compounding returns’ for growing retirement savings, some members are starting to question the impact of fees on this growth.

To address this, the government has mandated KiwiSaver managers disclose their fees in dollar amounts in their annual account statements. That way, members can see how much they’re paying for the services and benefits they receive in return.

As the conversation shifts to what members are missing out on, there’s a concern that people are not considering the most important measure – returns after fees.

Our research shows that younger people and those with lower balances are placing more emphasis on fees that are as low as possible (even if it means compromising on returns) compared to older members with higher balances.

This trend is a concern, as choosing a fund solely on fees means members may miss out on greater returns and a larger balance in the long term. This issue is emphasised when considering the impact of compounding returns, as higher returns should compound at a higher rate.
WHY DO DIFFERENT KIWISAVER PROVIDERS CHARGE DIFFERENT FEES?

You get what you pay for. But, when it comes to investments, what exactly do you get? What goes on behind the scenes to generate your returns after fees? You may have seen the fee debate around charging for ‘passive’ versus ‘active’ investment management approaches. But what’s the difference and how does this translate to investment performance? In practice, no KiwiSaver manager is truly passive. Decisions still need to be made around the mix of asset classes in a fund, who they may outsource the money management to and what index they will attempt to match.

Good active managers believe they can deliver higher returns, without taking unnecessary risks, by carefully selecting each individual investment (for example, stocks and bonds). Managers who use a more passive approach, on the other hand, look to minimise investment fees and generally buy as many individual investments as they can.

But, if no one is truly passive, why the difference in fees? Active management involves a higher level of decision making and analytics as these managers select specific investments, which translates to higher operational costs. On top of that, not all providers have the same services. Do you want access to advice? Do you want to easily view and transact on your KiwiSaver account online? Is responsible investing important to you? Are you receiving regular information and updates? Each member needs to decide what they believe is a reasonable fee for both the returns and services they receive.

At ANZ, we’re committed to helping retirement outcomes improve through active management and our highly experienced in-house investment management team. Our consistent and disciplined process for managing investments helps us ensure we’re making the best decisions for our members, who trust us to help them grow their savings.

OUR RECOMMENDATIONS

- KiwiSaver fees should not be prescriptively regulated in recognition that providers manage investments differently and offer varying levels of services and tools.
- KiwiSaver providers need to continue to work with the government to increase transparency around fees through increased disclosures. More effort also needs to be made to educate members about their returns after fees.
- Industry and media commentators should play a bigger role in promoting educated debate around investments as people’s interest in the topic grows. Topics could include switching considerations, volatility and differences between active and passive investment management approaches.
CHAPTER FOUR: ARE WE SAVING FOR A HOUSE OR RETIREMENT?

For years, the Kiwi dream centred on home ownership, and it looked something like this: You live in a freestanding house in a cosy neighbourhood. Nearby, there are schools and a bus stop right across the road. The front yard is lined with a white picket fence where you’ll likely grow your veggie patch, and the size of the back yard is just right for a trampoline, a deck and a barbeque to entertain friends and family.

For many of us, this dream is alive and well, but with a shifting housing market and rising costs, can we afford to own a home at all?

To jump onto the property ladder, many have turned to KiwiSaver for help. Since 2010, more than 74,000 members used their KiwiSaver savings – amounting to $1.1 billion – for this purpose. Over the same period, ANZ alone helped almost 26,600 KiwiSaver members access $386 million to help them into a home.

But while using KiwiSaver savings helps us achieve that home ownership goal, we may be putting our retirement lifestyle at risk.

A HOME TODAY COULD MEAN LESS MONEY TOMORROW

The number of members using KiwiSaver savings as a home-buying vehicle continues to rise year on year. In 2016, over 26,000 Kiwis withdrew nearly $500 million to fund their first homes, in comparison to the 16,200 who withdrew $258 million in 2015. At ANZ, over 9,000 members made a first home withdrawal last year, with an average withdrawal amount of $18,000.

But what does this mean for KiwiSaver balances and the end-goal of saving for a comfortable retirement?

Our data shows that a 30-year-old taking a KiwiSaver first home withdrawal, who spent their working life in a life stage model that begins with a more growth-oriented fund, then adjusts risk over time could end up with $172,000 in their account at 65. That compares to $218,000, or $46,000 more, for someone who did not withdraw the money.
While we celebrate the sense of financial security and wealth that comes with home ownership, it’s important not to forget that we’ve just dented our KiwiSaver balances, and it’s time to start saving again from scratch. Even with a mortgage, getting back into the habit of saving is key to rebuilding your retirement nest-egg and protecting your future lifestyle.

**MORTGAGE PAYMENTS TRUMP RETIREMENT SAVINGS**

In the last five years, the shift in the housing market has placed undue pressure on home owners to pay off larger mortgages over a longer period. In this time, the average nationwide house price rose $127,000 (37%), and Aucklanders faced an even tougher challenge with an average increase of $304,800 (57%)44. So what does this mean for your savings?

**AVERAGE HOUSE PRICE INCREASES IN THE LAST FIVE YEARS**

- **37%**
- **57%**

As people channel more and more of their income to repay their mortgage, less focus goes on longer term priorities like retirement. On the bright side, our research tells us that prior to withdrawing their KiwiSaver savings, aspiring home owners have the best of intentions, with 81% planning to continue their contributions. But the real challenge lies ahead for those who don’t.

While recognising the need to rebuild their nest-egg, new home buyers don’t want to be forced into additional contributions. Only 15% of members think personal contributions should be automatically increased for those who have withdrawn funds from KiwiSaver so they can rebuild their balance faster45.

While we agree that paying down debt as fast as possible should be a priority, home owners need to realise that slowing down or stopping KiwiSaver contributions could mean they don’t have enough income to support their retirement. The $46,000 mentioned above is significant, and especially when you consider the average withdrawal amount is about $18,000, you start to understand how much disposable income Kiwis may be missing out on in retirement. After all, you can’t eat your house!

Even more worrying is that it’s taking New Zealanders longer to pay off their mortgages. Nationwide, almost one third of mortgages are held by people aged 55 and older and average $321,000. While some will repay this within 10 years, others will hit ‘retirement age’ and find themselves with ongoing mortgage payments to fund46.

**FORGET HOME OWNERSHIP, I’LL RENT INSTEAD**

As financial pressure peaks and house prices continue to rise, some New Zealanders feel the Kiwi dream is becoming more out of reach as they either delay home ownership or consider becoming lifetime renters.

But is renting through retirement a sustainable option? A recent NZ Herald article highlighted that people may need around $620,000 to cover rental costs only, compared to the expected $110,000 a home owner may need to maintain their home (based on a 30-year retirement in Auckland). This means renters will need to save an extra $510,000 to secure a place to live in retirement on top of living costs47 – so it may be more feasible to bear the brunt of financial pressure that comes with home ownership, knowing there is a light at the end of the tunnel.
OUR RECOMMENDATIONS

- Recognising that home ownership plays an important part in retirement planning, KiwiSaver should continue to provide a mechanism for members to withdraw their savings to fund a first home. First home buyers should also investigate whether they’re eligible for Housing New Zealand’s KiwiSaver HomeStart grant, which will give them additional funds towards their first home.

- KiwiSaver providers should offer home buyers educational material and free guidance on the various stages of the home buying journey and what it means for their retirement. This includes educating members on various fund options available to save for their deposit, the process for making a first home withdrawal and their options to regrow their retirement nest-egg after their withdrawal.

- KiwiSaver providers should proactively check in with members one year after their first home withdrawal. This interaction should be used to encourage members to seek tailored advice on contribution rates and fund choice to track progress towards retirement.

55% of respondents want a free financial health check to make sure they are on track.

- Government should centralise research efforts to provide New Zealanders with guidelines on the likely housing-related costs people may expect in retirement (for both renters and home owners). This will help people plan for a potential mismatch between their retirement income and expectations, and ensure providers and advisers are basing their retirement income recommendations on consistent assumptions.
CHAPTER FIVE:
THE CHALLENGE OF AFFORDABILITY

In a perfect world, we’d never have to worry about budgets. When our salary comes in, we’d swiftly cover household costs like rent or mortgage payments, utility bills and groceries. We’d have enough to enjoy a dinner out at our favourite eatery, or to buy those shoes that have finally gone on sale. We’d even have plenty left over to tuck away for those unexpected expenses, and a great lifestyle in retirement.

But even for the most meticulous money managers, this seamless split doesn’t come easily. In some cases, a $50 note will only go to one place – whether it’s our mouths, our landlords or a contribution into KiwiSaver. So when household costs rise and rainy days turn into downpours, focusing on the here and now isn’t a choice, but an inevitable reality. In these situations, something has to give and, quite often, our retirement savings will take the hit.

KIWISAVER: THE UNDER-COVER RAINY DAY FUND

When financial hardship strikes, some Kiwis are able to keep their heads above water by tightening their belt or dipping into short-term savings, but not all are so lucky. While New Zealanders have saved more since KiwiSaver’s introduction, savings balances are still low compared to OECD standards. Recognising these realities, KiwiSaver grants members who are facing significant financial hardship with the ability to access their funds.

Faced with hapless circumstances such as reduced income or redundancy, relationship breakups, unmanageable debt or unexpected household repairs, over 10,600 members withdrew close to $60 million from their retirement savings to help them get by in 2016. That’s about $18 million more than was withdrawn in 2015. Along with the rising withdrawal amounts, sadly, we’ve also seen the withdrawals become increasingly frequent, signifying more people are facing hardship.

While tapping into these funds may seem like a rainy day insurance policy, the process isn’t easy and the withdrawal is not a guaranteed outcome. KiwiSaver rules require members to provide documented evidence of their hardship before their request is reviewed and, if approved, a withdrawal amount is decided on their behalf. In most cases, members wouldn’t take this route unless they had exhausted all other options.

But can KiwiSaver continue to act as both the emergency fund and the future piggy bank? While it’s important to set money aside to prepare for the future, the reality is many Kiwis don’t have enough to cover the unexpected that can strike at any time. To address this, both the government and the financial services industry have worked hard to emphasise the importance of saving. While there are plenty of avenues of financial support, it remains a challenge that must be addressed. This will enable New Zealanders to account for both the present and the future, without additional financial strain.
WHEN THE GOING GETS TOUGH, TAKE A HOLIDAY

With over 60% of the eligible population already using KiwiSaver as a saving vehicle\(^1\), you would think comfortable retirements are well in reach. Not quite.

More and more working New Zealanders are stopping their contributions for a period of time. These ‘contributions holidays’ are rising year-on-year, with 131,000 members ‘enjoying’ one today\(^2\). Worryingly, over 80% of those who take these breaks opt to do so for the maximum period of five years\(^3\).

We know that for many the decision to take a contributions holiday was not an easy one. A 2015 survey of our non-contributing members revealed over 60% stopped contributing due to affordability. Reasons included the lack of a sufficient income, the weight of paying off a mortgage or the birth of a child\(^4\).

Stats NZ confirms these pressures, with weekly household costs – made up of hefty mortgage or rent payments and utility bills – up 17% since 2013\(^5\). As a greater portion of our income goes towards alleviating these immediate financial strains, the result will be a larger, compounded dent in our retirement savings.

While the contributions holiday facility was originally provided to support working KiwiSaver members under temporary financial pressure, you have to wonder just how many take it up simply because they can.

ANZ data shows that one in five of our KiwiSaver members are not contributing\(^6\).

Industry rules make it too easy. After just 12 months of joining, members can put in their request for a contributions break without providing any reason at all. There’s also no limit to the number of times they can take a holiday and it can be renewed any time\(^7\). Some members also forget they’re not contributing until they get their reminder at the end of their holiday. By then it’s too late to turn back the clock and hard to make up the lost savings.

While the concept of a holiday may trigger images of a beach getaway or campervan tour across the country, this break isn’t quite the same thing. For a start, it’s not nearly as much fun, and it could cost much more. In fact, our modelling shows that a five-year contributions holiday could leave you with a $37,000 hole in your retirement nest-egg\(^8\) – equivalent to more than two overseas trips to Europe for a couple\(^9\)!

A person on an average salary who begins contributing to KiwiSaver when 25 years old and continues to do this regularly until they’re 65 can save $218,000 (Investor A).

But if they take a five-year contributions break in between, they’d end up with $181,000\(^8\) (Investor B).

### JUST ONE FIVE-YEAR SAVINGS GAP COULD LEAVE A $37,000 HOLE IN YOUR RETIREMENT NEST-EGG

![Graph showing the difference between Investor A and Investor B](image-url)
These are comments we often hear. But 40% of respondents weren’t sure or didn’t intend to start contributing again anytime soon\(^1\). Eventually, members could get used to having the money in their pockets and exhibit no sense of urgency to focus on the future. Reflecting this, a survey ANZ conducted in 2015 revealed that almost 30% of members on a contributions holiday hadn’t resumed their contributions because they’d completely forgotten about KiwiSaver altogether\(^2\).

**A PENNY SAVED IS A PENNY EARNED**

There’s a concerning number of KiwiSaver members missing out on ‘free money’ from their employer and the government, not to mention the investment returns these incentives could be earning them long-term. So what can they do to ensure their financial futures are not taking a backseat as their circumstances change?

Making use of the government’s annual member tax credit is the easiest way to do this. In fact, if a member had done nothing else but contribute the $1,043 required to maximise the ‘free’ $521.43 each year, they could have $237,000 in their KiwiSaver at 65\(^3\) – a great outcome for relatively little effort.

![A GREAT OUTCOME FOR RELATIVELY LITTLE EFFORT](image)

Capitalising on periods when money isn’t an issue can make a big difference. By increasing contributions in these times, members can grow savings early on, and reduce the impact of hardship on their savings when they can’t contribute.

To encourage members to do this, having plenty of flexible options is key. Our research tells us that about 65% of our members would take up the option of increasing their contributions by 1% when they receive a pay rise\(^4\). This 1% difference could mean an additional $36,000 at 65\(^5\). At the same time, 25% said they would likely take up the option of automatically increasing contributions year-on-year by small increments\(^6\).
OUR RECOMMENDATIONS

- As proposed by the Commission for Financial Capability, a series of changes should be made to the current contributions holiday facility, including:
  - Changing the name from the alluring ‘holiday’ to the more realistic ‘savings suspension’.
  - Reducing the maximum length to one year, thus requiring members to reapply annually.

- Inland Revenue should introduce an option for members’ individual employee contributions to automatically increase by small increments (e.g. by 0.25%, 0.5% or 1%) up to a capped maximum rate, so members can feel confident their savings will increase over time.

- Equally, some people might prefer to reduce their contributions when money is tight, rather than stop contributing to KiwiSaver altogether. Inland Revenue should therefore introduce options for members to reduce their contributions by small amounts (e.g. by 0.25%, 0.5% or 1%) for a set period.

- A centralised agency, like Work & Income New Zealand, should coordinate hardship pre-assessments to maintain consistency industry-wide and ensure all avenues of support are explored. With more and more people drawing on their KiwiSaver savings to support them in financial hardship, it’s essential the industry has a streamlined process in place to ease the experience on stressed applicants.
CHAPTER SIX:
ARE WOMEN BEING LEFT BEHIND?

$79,000 – if a woman had done nothing differently but be born a man, this is how much more she could have in retirement, due to a widening gender savings gap. With this gap sitting at more than double the average female salary, a woman could spend up to three years saving every penny to make up the difference.

LIVING OFF LESS, FOR LONGER

New Zealand has been making huge strides in addressing gender imbalances. We're now ranked second in the world for the highest proportion of women with a tertiary education, and more women are working than ever before, making them critical contributors to our economic prosperity.

But, are women prospering? Whether they are single, married or mothers, or in full-time, part-time or flexible working arrangements, women are still not earning a wage equal to their male counterparts. This gap equates to about $17,000 a year – similar to the average cost needed to raise a new-born in its first year.

If this sounds bad, it is. But that’s why New Zealand has committed to steadily bridging this gap, so that we now have one of the smallest gender pay discrepancies in the OECD – well ahead of Australia, the UK and the US.

Regardless of this progress, the gender pay gap could mean women are left behind when it comes to securing a comfortable retirement. This is bad news for Kiwi women, who on average live longer than men, yet retire two years earlier, leaving them with over 20 years to fund after they turn 65. These factors create the inequality that stands between women and the retirement lifestyle they deserve.

KIWISAVER: THE SAVINGS GAP WIDENS

Nearly 1.35 million women are doing what they can to reduce the savings gap by investing in KiwiSaver. So how are they tracking?

Our data tells us that average balances for female members in the ANZ KiwiSaver Scheme were almost 19% lower than men. That’s 4% more than it was in 2016, and it’s expected to continue widening. In fact, we estimate that a 25-year-old woman today is, on average, likely to retire with $144,000, compared to $223,000 for a 25-year-old man.
In addition, our research found certain life events such as getting married, having kids or facing a relationship break-up also cause women to think and act quite differently when it comes to how they manage their finances... and it’s not always for the better.

**RISKY BUSINESS**

Women are generally more risk averse than men. As a result, they’re more likely to invest in conservative funds where less risk means sacrificing potentially higher returns. Our data reflects this, as proportionately more women are in a low-risk fund compared to men.

Avoiding large exposures to equities may seem like a wise strategy during times of uncertainty (think the Global Financial Crisis or major elections overseas), but this tactic doesn’t necessarily pay off over the longer-term.

Our modelling indicates that someone invested in a life stage model (beginning in a growth-oriented fund, then moving to funds with reducing risk levels over time) could be up to $40,000 better off in retirement.

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**WHAT TO EXPECT WHEN YOU’RE EXPECTING**

As attention shifts to having children, women are more likely to take career breaks to care for their young and, when they do go back to work, are more likely to have reduced hours. Coupled with a reduced income, families often experience increased financial pressure due to new expenses.

When these newfound challenges arise, women look for ways to cut back on spending and, quite often, retirement savings are cast aside.

On average, we see women take a two-year career break to care for their children. When this happens, our ANZ panel survey showed more than 75% of women reduce or stop their contributions, further slowing their retirement savings progress. More than a quarter of these women also admitted that they were unsure when they would start contributing again.

With these factors impacting their ability to save, it’s no surprise that only 33% of women told us they felt confident of meeting their retirement savings goals, compared to 51% of men.
OUR RECOMMENDATIONS

- KiwiSaver providers should ensure women have access to the tools, information and resources they need to make informed decisions about their fund type and contribution level. This all needs to be readily available through the channel of their choice, at whatever time is convenient to them and in language that is relatable and easy to understand.

- KiwiSaver providers should encourage their female members to seek personalised advice to help them identify retirement goals and set a plan to achieve them.

- Organisations such as the Commission for Financial Capability, the Financial Services Council and Women in Super should continue to facilitate ongoing discussion with the industry around the unique challenges women face, and tactics to address these. In particular, they should facilitate debate on women’s retirement savings needs, increasing financial capability and decision making, and promote education and training support where possible.

- Employers should consider ways to help new parents save for their retirement. ANZ was the first large corporate to maintain KiwiSaver employer contributions for staff taking parental leave, regardless of gender.

56% of respondents think companies should continue making employer contributions for staff on maternity and parental leave.\(^{62}\)
We want it all, and we want it now. But, according to our Retirement Expectations survey, most Kiwis also want it later. After all, who wouldn’t want to spend retirement living in their own home, taking the occasional trip and not having to worry about unexpected costs?

While all this paints a pretty picture, worryingly, setting time aside to plan how we’ll source the money to pay for these retirement ambitions is not something we’re prioritising. So, before setting sights on that new four-wheel drive or overseas holiday, it may be time for a retirement reality check.

‘SHE’LL BE RIGHT’. BUT, WILL SHE?

We know that putting a plan in place can lead to better retirement outcomes. Yet, industry research tells us that 46% of those nearing retirement don’t have a financial plan. This was also reflected in our Retirement Expectations survey, where almost a third of respondents were unsure at what age they would retire as there were ‘too many things to consider’. A quarter didn’t know how much they’d likely spend on food or entertainment. When asked to consider what their spending may need to cover in retirement, respondents were concerned they wouldn’t have enough to live comfortably, pay for medical treatment or even buy the essentials. With basic groceries estimated to exceed $250,000 throughout retirement, these concerns are valid.

As we continue to live longer, many of us could expect to spend 20 to 30 years in retirement, so the reality of outliving our savings is an increasing possibility for the unprepared. Yet, one in five pre-retirees had not considered what they’d do if this happened to them.

With this prevalent sense of uncertainty, it’s no surprise that only 41% of New Zealanders felt confident that they were saving enough to meet their retirement income goals.

RELYING ON KIWISAVER – IS CONTRIBUTING 3% ENOUGH?

Current retirees are counting on NZ Super to help fund their retirement, but younger generations can’t rely on NZ Super remaining universally available at its current levels by the time they retire. The good news is the majority of our survey respondents are taking matters into their own hands, with 75% planning to use their KiwiSaver to help generate enough income in retirement.

While this is a step in the right direction, the ‘set and forget’ nature of KiwiSaver could be giving many people a false sense of security.
Our research shows most people hoped KiwiSaver would help them generate more than $300 a week to use on top of their NZ Super (about $390 a week\textsuperscript{38}). Sounds achievable, right?

To be able to withdraw $300 a week during retirement, KiwiSaver members would need to have saved around $370,000 (based on a 25-year retirement).

But our members’ current balances and minimum contribution rates tell us that many New Zealanders will fall well short of this amount. For example, a 30-year-old with $10,000 in their KiwiSaver account today, earning $50,000 and contributing 3% of their salary, matched by their employer, would have around $190,000 saved by the time they’re 65. A 45-year-old in a similar situation would only have saved $90,000\textsuperscript{39}.

TIME FOR A #RETIREMENTREALITYCHECK

To add to this sobering reality, there’s a risk that the current minimum contribution rate of 3% isn’t enough to help us achieve the retirement lifestyles we hope for. In fact, New Zealand has the lowest rate of minimum retirement savings in the OECD\textsuperscript{90}. Just across the ditch, Australians have a compulsory saving rate of 9.5% and their government aims to increase this to 12% by 2025\textsuperscript{91}. Australia is regularly rated as having one of the top pension systems in the world\textsuperscript{92}.

As KiwiSaver continues to evolve, there are steps we can take to improve our situation today. Actions like increasing contributions, moving into the right fund to optimise market returns and maximising the government’s annual member tax credit can make a big difference.

Along with this, it’s important for each individual to set a plan, adopt saving habits early and regularly make sure they’re on track.

As KiwiSaver continues to evolve, there are steps we can take to improve our situations today.
OUR RECOMMENDATIONS

- KiwiSaver providers should supply members with tools to calculate how much they should be saving, based on what they are likely to spend in retirement.

  Only 35% of respondents have worked out what their KiwiSaver and other savings are likely to be by the time they are 65. Of those who had worked it out, only 54% are confident about the reliability of their estimated amount.

- As KiwiSaver providers look to include projected retirement savings and retirement income in annual KiwiSaver statements, the government should work closely with the industry to provide guidelines around calculations.

- KiwiSaver providers should grant a free service to investors at age 40 to help them identify their retirement savings and income needs, and to plan accordingly. A ‘check-up’ should also take place at age 55 to ensure they are on track to meeting their financial goals.

- As recommended by the Commission for Financial Capability, the minimum contribution rates should be raised in an effort to increase KiwiSaver account balances in the long term.

- Inland Revenue should add in more flexible employee contribution rates, increasing in 1% increments, to give members more flexibility and control over their savings. As recommended by the Commission for Financial Capability, at a minimum, 6% and 10% employee contribution rates should be implemented.
CHAPTER EIGHT:

RETIREMENT FOR AN AGEING POPULATION

ANZ’s Retirement Expectations survey shows people are looking forward to living in a holiday home or renovating their existing home, travelling overseas or buying a new car – but will they be able to? Like many other developed countries, New Zealand’s population is ageing. While the increase in life expectancies is cause for celebration, funding longer retirements will pose challenges for us all.

AN AGEING POPULATION

The number of New Zealanders aged 65 and over nearly doubled between 1981 and 2013, and will likely double again by 2038\(^4\). By then, nearly one in five New Zealanders will be 65-plus and preparing to settle into more than 20 years of retirement\(^5\). Along with this, New Zealanders are living longer. On average, 65-year-old men can expect to live until they’re 86, and 65-year-old women until they’re 88\(^6\).

WHAT DOES RETIREMENT LOOK LIKE?

SPENDING EXPECTATIONS VERSUS REALITY

A recent ANZ market-wide survey revealed that a third of retirees were spending more in retirement than planned. While this might prompt images of exotic destinations and cruises, the survey revealed a harsher reality. Most retirees faced increasing household costs, higher healthcare spending and difficulty budgeting on a lower income.

For one in seven retirees, this came as a complete surprise and they had never given any prior thought as to how they would stretch their savings further. Of those who had thought about it, the majority expected to ‘tighten the belt’, and over 30% would return or continue working part time\(^7\).
WORKING DURING YOUR SIXTIES

Currently, all New Zealanders are eligible to receive the government pension, NZ Super, at age 65. But statistics show people in this age group are working longer, regardless of the additional government income they’re entitled to. There are now over 100,000 65 to 69-year-olds in either full or part-time employment, compared to 15,000 in 1997. This amounts to 45% of 65 to 69-year-olds currently participating in the labour force – and the numbers are expected to continue rising.

In line with this, our research found the average age of retirement was 67. Of those who had retired, only 42% said they did so at the age they had expected to. For those who retired later than expected, almost a third said they did so because they didn’t have enough money to retire comfortably. Of those who retired earlier than planned, almost half attributed this to health issues.

HOME OWNERSHIP IN RETIREMENT

For some New Zealanders, the goal of home ownership remains an important part of securing a comfortable retirement. Census figures from 2013 show that almost 65% of the population own their own homes, and our Retirement Expectations survey shows that less than 1% intend to give that up to fund their retirement.

Of the 555 people surveyed, only 15% intended to stay in their current home, while the rest were open to selling. Of those who considered selling, nearly a quarter were open to downsizing and many were considering moving to other towns or cities, likely lured by their capital gains from the rising cost of housing. This was particularly the case among Aucklanders, where one in five intended to leave the city as they head into retirement.

While the majority of New Zealanders aged over 65 can count on having their own home, this isn’t a reality for everyone. Currently, one in six people aged 65-plus don’t own their own home, and this is likely to rise along with housing prices. At the same time, close to 40% of people over 65 depend on NZ Super as a main source of income. Yet the NZ Super payments have been set on the assumption that retirees would own their own homes, so, for the 50,000 people who currently need to pay rent during retirement, the NZ Super allocation of about $390 a week may not leave enough to comfortably fund other living expenses. Trade Me confirms this, as their recent rental property analysis revealed the median rent in New Zealand, excluding Auckland is $390, while Aucklanders pay a median of $530!

THE ROLE OF KIWISAVE IN RETIREMENT

To align with the demographic shift, the government recently announced that it will progressively lift the age of eligibility for NZ Super from 65 to 67, starting in 2037. With this change, people preparing for retirement need to consider ways to fund those additional two years.

KiwiSaver was introduced to supplement NZ Super and help members grow their retirement savings over time by giving them exposure to market returns. This is increasingly important at a time when interest rates in traditional savings products (like savings accounts and term deposits) remain low.

The good news is New Zealanders have caught on and our Retirement Expectations survey tells us 75% of respondents feel they are ‘on the right track’ as they aim to depend on both KiwiSaver and NZ Super to fund their retirement.

With the eligibility age for KiwiSaver and NZ Super being ‘decoupled’ after 2037, 45-year-olds today who plan to withdraw from their KiwiSaver at 65 will find they’ll need a greater amount of retirement income in their first two years than previously anticipated. These larger withdrawals will have a significantly adverse impact on their long-term savings, as they miss out on the benefits of compounding returns.
OUR RECOMMENDATIONS

- NZ Super should remain a universal benefit as most New Zealanders are counting on it to help them fund retirement.

- The age at which people can access NZ Super should increase, in line with the government’s proposal and in recognition of increased longevity.

- Any proposed changes to the age at which people can access NZ Super need to give those affected sufficient time to prepare, and should be accompanied by clear, centralised government-sponsored efforts to increase awareness of the need for personal accountability (e.g. through vehicles such as KiwiSaver).

- People should be allowed to join KiwiSaver after 65, as it remains a useful, cost-effective and well-regulated investment option for all New Zealanders.

- Employers should be required to make contributions on behalf of their employees, irrespective of their age.

61% of respondents agree companies should continue the employer contribution for those over 65, but 47% don’t think over 65s should receive the member tax credit.106
As we enter the workforce, we expect to secure a steady income, to be able to maintain our lifestyles, cover our necessities and even indulge in occasional luxuries. And while we are still earning, we are wired to think of ways to make it go further. Save, invest and grow wealth, because another pay cheque is on its way. Accumulate, accumulate, accumulate.

So what happens when we decide to stop working and no longer expect a regular pay cheque? At this point, we switch gears from accumulation to ‘decumulation’ and begin to spend the savings we amassed over the years. Yet, this is no easy feat. The majority of us will spend over 20 years in this phase, and as things become more expensive, how can we make sure we don’t outlive our savings?

WHAT GOES UP, MUST COME DOWN

There’s no shortage of articles or advice on how to save more and KiwiSaver is usually at the heart of this discussion. The regulator and financial services providers have been focused on ensuring people are in the scheme and contributing regularly to grow their retirement savings, and the effort is paying off. In the last three years, ANZ research showed the average balance of members over 65 has climbed from $17,400 to $23,300. And, the New Zealand Society of Actuaries (NZSA) predicts that in 25 years’ time, the average KiwiSaver balance for members in this age group will be $100,000.

Yet our research shows that over half of respondents are worried they won’t have enough to retire comfortably, cover healthcare costs or buy the essentials. At the same time, 46% fear the possibility of outliving their retirement savings altogether.

So, both balances and uncertainty are rising. Chances are our retirements won’t play out in the same way – and, as a result, won’t cost the same year on year. Putting some science behind this, the NZSA has identified three distinct phases. Phase one is made up of ‘active’ retirees who are newly or partly retired, still in good health and have a high spending potential as they undertake new activities like embarking on a coveted cruise or buying a new car. As time passes and retirees become less active, they enter into phase two, where they’re more restricted in what they can do and expenditure becomes limited to the essentials. From here, it’s a gradual progression into phase three, where they begin facing health problems associated with ageing. Expenditure rises once more as they look to cover healthcare costs or move to retirement communities.

Do people nearing retirement have a structured plan for how they’ll withdraw their savings over a 20+ year period? And even if they do, do they stick to it once their nest-egg is finally ‘unlocked’? The above ANZ study of KiwiSaver members aged 65+ revealed that over a third withdrew all of their funds as soon as they became available, and another third did so before reaching the age of 70.
Based on current trends, it looks like KiwiSaver members may be using their savings to cover the ‘active years’, but are not counting on it to support them through the other two phases. With the current average life expectancy for a 65-year-old reaching at least 86, that leaves at least another 16 years to account for.112

So what can people do to make their savings last?

**THERE’S NO CRYSTAL BALL, JUST RULES OF THUMB**

Ideally, it would be easy to work out how long our retirement would be and spread the money out evenly over this period. But, without a crystal ball, it’s almost impossible for most people to establish just how much they should be withdrawing.

This becomes even harder when we try to consider the impact of actions like relying solely on NZ Super, sourcing income from other areas or reinvesting savings to take advantage of compounding returns (whether through KiwiSaver or other investment options).

This complexity brings further uncertainty, which draws more risk aversion. Just last year, the Commission for Financial Capability found that most New Zealanders take a conservative approach to risk and investments when they get to 65. It therefore urged the industry to innovate and offer easy-to-use drawdown options for members.113

Without this encouragement, there’s a risk that many New Zealanders will ‘blow’ their savings, leaving them no option but to fall back on the state for financial support.114 Luckily, the NZSA has suggested some ‘rules of thumb’, laying out four nest-egg management strategies for retirees to consider when deciding how much of their retirement savings to spend each year:115

<table>
<thead>
<tr>
<th>Rule of thumb</th>
<th>Description</th>
<th>Most suitable for</th>
</tr>
</thead>
<tbody>
<tr>
<td>6% rule</td>
<td>Each year, take 6% of the starting value of your retirement savings</td>
<td>• People who want more income at the start of their retirement, to ‘front-load’ their spending, and not concerned with inheritance</td>
</tr>
<tr>
<td>Inflated 4% rule</td>
<td>Take 4% of the starting value of your retirement savings, then increase that amount each year with inflation</td>
<td>• People worried about running out of money in retirement or who want to leave an inheritance</td>
</tr>
<tr>
<td>Fixed date rule</td>
<td>Run your retirement savings down over the period to a set date – each year take out the current value of your retirement savings divided by the number of years left to that date</td>
<td>• People comfortable with living on other income (for example NZ Super) after the set date • Those wanting to maximise income throughout life, not concerned with inheritance</td>
</tr>
<tr>
<td>Life expectancy rule</td>
<td>Each year take out the current value of your retirement savings divided by the average remaining life expectancy at that time</td>
<td>• Those wanting to maximise income throughout life, not concerned with inheritance</td>
</tr>
</tbody>
</table>

While these strategies have yet to be adopted by KiwiSaver members, they provide a good starting point for providers and financial advisers looking to help. And ANZ is not the only one who thinks so. The Commission for Financial Capability is keen to put these ‘rules of thumb’ into calculators on their Sorted website to help members decide what approach they’d like to take.116
However, while these rules could inform better decision making around managing retirement savings, they are not the only guidelines retirees should consider.

A CIRCUMSTANTIAL AFFAIR

Each person’s retirement will be different, so picking the right decumulation path depends on personal circumstances and goals. Before looking at the rules of thumb, there are a number of things to consider. Luckily, many of these are the same questions we face when trying to decide how much to save for retirement.

<table>
<thead>
<tr>
<th>How long will you live?</th>
<th>Some people will live longer than others, and life expectancy is just that. The reality may be very different.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will you be working?</td>
<td>People are working longer, and some are forced to retire before they planned. Health plays a huge factor in this, and people may face unexpected costs as a result.</td>
</tr>
<tr>
<td>What sort of lifestyle do you want?</td>
<td>Will you travel? What other savings do you have? Do you want to leave an inheritance? There is the fear that if you’re too conservative, you’ll live so frugally you miss out on enjoying your retirement. On the flip side, you don’t want to blow it all so your later years are a struggle.</td>
</tr>
<tr>
<td>What part will home ownership play in this?</td>
<td>Will you own a home? Will you still be paying off a mortgage? Will you be renting? Are you expecting to sell your home and downsize to help fund your retirement? And when will you do this?</td>
</tr>
<tr>
<td>How will you fund your retirement?</td>
<td>While you may have a mix of assets to draw from (KiwiSaver, home(s), personal savings, other investments), you’ll need an idea of when and how you’ll use them to fund different stages of your retirement. What will you do with the proceeds from the sale of physical assets? Will you invest them to gain market returns or leave them in a savings account?</td>
</tr>
</tbody>
</table>

The list goes on. In these instances, the importance of speaking to a financial adviser cannot be overlooked. Minister of Commerce and Consumer Affairs, Hon Jacqui Dean, also stressed this, noting that planning for retirement is a complex matter, and while the rules of thumb can help, people should also have access to advice through both formal and informal networks.

Advice is particularly important as people reach retirement. With people living longer, retirement savings need to work harder for retirees today than they did for previous generations. The mix of growth and income assets will need to be considered – people may need to take on more risk to ensure their savings can fund their retirement. So, while they become eligible to access their KiwiSaver savings at 65, retirees should consider keeping a foot in the world of investing so they continue accessing market returns. Additionally, as we move through the three phases of retirement, these plans will need to be reassessed on a regular basis.

At ANZ, we offer free financial advice to ensure members can continue to benefit from exposure to markets, with the right risk profile for their retirement circumstances. We also promote use of the regular withdrawal option to discourage people from impulse buys or reallocating their money to misguided investments. While this is a good first step, there’s still plenty more the government and financial services industry can do to help educate New Zealand’s ageing population on how best to decumulate to achieve a comfortable retirement lifestyle.
OUR RECOMMENDATIONS

- KiwiSaver providers should encourage members approaching retirement to set a plan to decumulate their savings. Members not comfortable with DIY tools should seek advice to ensure they are planning correctly for retirement spending and are aware of how to draw an income from all their financial assets (i.e. not just their KiwiSaver savings).

  62% of respondents want their KiwiSaver provider to give them access to free professional advice on withdrawal options tailored to their needs or circumstances\textsuperscript{19}.

- KiwiSaver providers should provide members aged 65 with a set of options to help them regularly draw down on their KiwiSaver savings. If the ‘rules of thumb’ developed by the New Zealand Society of Actuaries are adopted, the regular withdrawal facility could also help facilitate the implementation of some of them.

- KiwiSaver providers should provide members aged 65 with access to free advice on ways to invest their ‘unlocked’ funds.

  A third of respondents (34\%) would prefer to access advice about their retirement savings via another person\textsuperscript{20}.

- The government and financial services industry should work together to enhance the financial capability of New Zealanders receiving NZ Super. This could be in the form of a comprehensive information pack that accompanies SuperGold cards, with directories on where to access financial advice, and a range of investment and decumulation options available to them.
CHAPTER TEN: GLOBAL LEARNINGS FOR LOCAL CHALLENGES

There was a time in New Zealand when the median age was 23 and for every person aged 65+, there were eight budding young’uns under the age of 15. A century later, this thriving pyramid is inverting. Those aged 65+ make up 15% of the population and, with longer life expectancies, it’s only a matter of time until there are more people retired than in the workforce.

Given these demographic shifts, it’s no wonder that discussion has recently turned to how we can better support our ageing population in retirement. KiwiSaver has become the metaphorical megaphone in this conversation and, over 10 years, has achieved greater success than anyone originally predicted. Yet, despite an impressive 2.7 million members and over $40 billion in funds under management, we still have the lowest rate of retirement savings in the OECD and a long way to go to ensure New Zealanders will live comfortably in retirement.

Luckily, this discussion is not confined to our shores, as many other developed nations look for ways to improve retirement outcomes for their own ageing populations. With global pension assets totalling more than US$38 trillion, there’s a lot we can learn from our global community.

PENSION POTS UNDER PRESSURE

Like New Zealand, most developed countries are grappling with increasing life expectancies (up by nearly 14 years in the last four decades) and decreasing fertility rates. These demographic shifts mean government-funded pension pots are shrinking as fewer people make up the workforce (and therefore contribute less to the economy) and more people claim their share to support longer retirements. To combat this, most countries are taking two particular steps.

Firstly, they’re reconsidering when those eligible should have access to government pensions. By 2030, residents of Australia, Denmark, Germany, Italy, the Netherlands and the US will need to be older than today’s retirees to access the pension, as the threshold age increases to at least 67. The UK and Ireland have taken this one step further and are already preparing to shift eligibility to 68. Following this trend, New Zealand’s National government announced its intention to raise the age of NZ Super eligibility from 65 to 67 by 2037. This gives today’s 45-year-olds 20 years’ notice to plan for the extra two years they will have to ‘self-fund’.

What do these changes to the age of eligibility mean for KiwiSaver members? Fortunately, when it comes to accessing your KiwiSaver funds, the goal posts aren’t moving any time soon. No matter what happens to the pension age, you will be able to access your KiwiSaver funds when you turn 65, irrespective of when you were born, whether you own a house or if you earn a wage. This isn’t the case for our Australian neighbours who have to get their heads around different preservation ages and exceptions for different cohorts when planning for retirement.
Secondly, as pension pots shrink, some countries are also reviewing how much each person should be eligible for. Australians have a means-tested model where, based on residents’ incomes and financial assets, pension amounts may be reduced accordingly. Countries like Denmark, Canada, Ireland and the UK also conduct means testing for some pension benefits or top-ups. For now, this remains a foreign concept to Kiwis. NZ Super gives us all the same allocation, regardless of our personal financial situations, income or assets. But will we always maintain this universal benefit – one that may only fund the most basic of retirements? Only time and advancements in the retirement conversation will tell.

Any reduction in NZ Super will mean more accountability will be put back on New Zealanders to save more for their retirement. KiwiSaver will become an increasingly important vehicle to achieve this as members’ savings are complemented through regular employer contributions, some government benefits and market returns.

**SHIFTING THE ONUS BACK ON THE INDIVIDUAL**

While employment-related savings schemes are a useful vehicle for retirement savings, governments and financial services institutions worldwide are focused on three key areas to increase individual accountability and improve long-term retirement outcomes.

1. **DRIVING MORE ENGAGEMENT, MORE CONTRIBUTIONS, MORE ACTION**

For some, retirement feels a lifetime away, making it hard to put tomorrow’s needs ahead of today’s. This challenging trade-off is experienced worldwide, and governments and financial service providers alike are trying out new and innovative ways to convince people to join and contribute to private or employment-based schemes like KiwiSaver.

So, who is doing this well? Just across the ditch, Australia’s superannuation schemes collectively hold AUD$2.3 trillion of funds under management – the fourth largest in the world. Membership is high, at 71% of the population aged 15 and above (up from 64% in 2003/4) or 85% if only considering those aged 25-54. How did our neighbours achieve such high participation rates? Similar to us, the Australians have a ‘default’ option to automatically enrol those who start a job but don’t choose a scheme. However, there are no limits on the number of superannuation schemes you can belong to – so, if you change jobs and don’t nominate a scheme, your future contributions may go to a new scheme. Over 40% of Australian employees have multiple super accounts, and there is AUD$14 billion of lost and unclaimed super spread over 5.7 million accounts. Luckily, we’ve learned from their experience and limited the number of KiwiSaver accounts a person can have to just one.

Once you’re in, Australia’s superannuation rules give you no choice but to contribute 9.5% of your salary, and this will eventually increase to 12% in 2025. With KiwiSaver’s minimum (and voluntary) contribution rates sitting at 3% + 3%, it’s no wonder Australians are more likely to have higher balances when they retire. Nevertheless, almost 45% of Australia’s superannuation members are worried their savings won’t be enough in retirement.

Similarly, other retirees around the world are finding that their savings don’t go as far as expected and are finding themselves having to tighten the belt. Recognising this affordability issue, governments worldwide are taking different approaches to encourage additional savings. The UK has turned to improving communications to better engage their members, using behavioural insights to trigger members into action. Ireland is looking to wave a ‘stick’ and, in a revamp of its pension system, considering moving to compulsion. Meanwhile, Canada has opted for the ‘carrot’ approach to attract members, via deferred tax incentives.

At home, our own Financial Markets Authority is keeping an eye on these global changes and actively working with the industry and individual providers, including ANZ, to trial new ways to engage KiwiSaver members and prompt action. At the same time, the Commission for Financial Capability is also assessing KiwiSaver’s current contribution rates, and has put forth several recommendations on how changes to the current rates can help KiwiSaver members increase their balances long term.
2. DELIVERING ADVICE THROUGH DIGITAL CHANNELS

Every day, we’re witnessing the digital revolution. Whether in the middle of a bustling city street or sitting on the couch in the comfort of our home, we can do almost everything from our devices – and accessing financial services is no exception. The industry has already given us the ability to view, transact and grow our balances at the touch of a finger. But as balances grow and people consider how to use their nest-eggs, easy access to reliable financial advice is becoming increasingly important.

Unsurprisingly, the home of the iPhone and Silicon Valley leads the way in digital innovation when it comes to investments. With retirement assets worth US$25.3 trillion\(^1\), the US has sprouted a number of ‘robo-advisers’ who, relying heavily on an online model, are targeting digitally-savvy DIYers and millennials to advise them on how to make the most of their money. Betterment, Personal Capital and Wealthfront are standout examples who now manage over US$16.3 billion in assets.

But it’s not just start-ups or ‘disruptors’ looking at robo-advice. Larger, more traditional investment companies have entered this space too, with US investment giant Vanguard developing a human-robo hybrid, where robo-advice is used along with human advisers. Many companies are adopting this model, recognising that people may not be quite ready for a fully online service when it comes to investments.

With over 75% of Kiwis using mobile banking apps to access information and transact online\(^2\), New Zealand is following suit. A recent review of the Financial Advisers Act has welcomed innovation, and, hopefully, it will only be a matter of time before KiwiSaver members can access robo-advisers to help grow their savings and spend them responsibly in retirement. Meanwhile, KiwiSaver providers continue to support the needs of DIY Kiwis through self-service tools and calculators, while still providing a human touch through dedicated financial advisers.

3. BUILDING FINANCIAL CAPABILITY FOR RETIREMENT PLANNING

Governments and financial services industries worldwide want people to make better financial decisions. Yet, if we want better ‘accumulation’ and ‘decumulation’, improving each individual’s financial capability is absolutely essential.

Topping Standard & Poor’s Ratings Services Global Financial Literacy Survey, Denmark sets the example for strong nationwide financial capability\(^3\). Since 2015, the country has enforced compulsory financial education in its national curriculum for school students aged 13-15. Early on, they’re taught to budget, save and compare different types of loans\(^4\). As they move into the workforce, they continue to have access to information and services to support their financial needs.

When it comes to retirement planning, the Danes were the first to have an ‘A’-rated pension system\(^5\). They’ve also earned themselves an ‘A’ in collaboration as pension industry players have worked together on how best to support the ageing population. Smaller industry players have joined forces to share investment mandates and resources, thereby increasing their scale and reducing duplication of efforts to lower costs and improve outcomes for investors\(^6\). Potentially, the most valuable outcome of this collaboration was the launch of PensionInfo, an online service compiling everything investors need to know to retire comfortably. Here, they can track their pension funds, view solvency scenarios and access individual pension payments or insurance data from most providers, making it easy for the individual investor to see their current position\(^7\).

As demand for convenient access to information grows, there will be increased demand for this sort of one-stop shop here in New Zealand. Aggregating information will also help improve the quality of advice New Zealanders receive, as advisers will have a single, clear view of a person’s overall savings.

From the above, it’s clear that countries around the world are looking at ways to ensure positive retirement outcomes for their populations. To ensure that New Zealand can do the same, we must continue to monitor these initiatives and participate in discussions around retirement policy with our global partners.
OUR RECOMMENDATIONS

- To keep things simple for retirement-planning purposes, there should continue to be only one age at which New Zealanders can access their KiwiSaver savings, irrespective of their demographics or working arrangements.

- The ages at which New Zealanders can access their KiwiSaver savings and NZ Super should be decoupled. This will provide New Zealanders with certainty around when they will access their KiwiSaver savings.

- New Zealanders should not be able to join more than one KiwiSaver scheme at a time, to avoid the ‘lost super’ problem experienced in Australia. New Zealanders can still benefit from diversification of assets and investment management styles by spreading any additional savings among providers with ‘unlocked’ investment options.

- As the industry prepares to welcome robo-advice, KiwiSaver providers should continue to develop digital tools to help members plan, accumulate and decumulate.

  31% of respondents would seek advice on their retirement savings via a sophisticated robo-advice online calculator (whether alone or with someone helping).\(^{46}\)

- Government should provide some guidance around assumptions and parameters regarding robo-advice to make sure there is some level of consistency in the provision of mass-scale advice.

- Government bodies, like the Commission for Financial Capability and Financial Markets Authority, should continually interact with dedicated university research centres, to identify ‘best practice’ among our global peers and share these findings with KiwiSaver providers.
CONCLUSION:

ANA-MARIE LOCKYER

GENERAL MANAGER WEALTH PRODUCTS

As you will have read in this report, there have been some tweaks and changes to KiwiSaver over the last 10 years. But if you joined in 2007 – or anytime since then – you are hopefully well on your way to saving towards a more comfortable retirement through growing your KiwiSaver funds.

Despite its growth, we know there is still room for improvement. For many, retirement remains a distant concept. Or, even if it is fast approaching, it can be quite daunting as people consider all the variables they have to account for. It can be difficult to know how much you will have (or need) by the time you choose to retire. Without knowing this, it can also be hard to know what fund you should be in or how much you need to contribute now to make sure you have enough to last you throughout your retirement.

While choice is good, around 375,000 working-age New Zealanders have still not signed up to KiwiSaver.

For many people, money is tight. They have living expenses to think of and, for most, a mortgage or rent to pay. But every dollar saved counts and every extra cent helps. Even seemingly small amounts can add up to quite a lot when you eventually retire, thanks to the power of compounding returns. Yet, many of those who have enrolled have opted to suspend their contributions, or are not contributing enough each year to receive the government’s full member tax credit.

So what can providers and the government do to lift membership and increase contributions?

We have outlined a number of recommendations throughout the report that we believe will encourage more people to join KiwiSaver, and help members maximise their savings and make the best use of their funds once they choose to retire.

We hope that our recommendations help drive change and better outcomes for all KiwiSaver members.
OUR RECOMMENDATIONS

For convenience, the full set of our recommendations is collated below.

CHAPTER ONE:
THE EVOLUTION OF KIWISAVER – FROM MAKING TO MAINSTREAM

<table>
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<tr>
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<th>Recommendations</th>
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<tbody>
<tr>
<td>1</td>
<td>KiwiSaver membership should be compulsory, in recognition of its role as the third pillar of New Zealand’s retirement savings framework.</td>
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<tr>
<td>2</td>
<td>In the absence of compulsory membership, all those not currently enrolled in KiwiSaver should be automatically enrolled (with an opt-out provision) to capture those who are self-employed, contractors or unemployed.</td>
</tr>
</tbody>
</table>
| 3 | Ongoing government incentives are necessary to maintain trust in KiwiSaver and ensure its success. In particular:  
|   | – So long as contributions remain voluntary, the member tax credits should not be withdrawn.  
|   | – In the absence of compulsory membership or auto-enrolment, an incentive to join should be reintroduced to entice those joining the workforce. |
| 4 | Members under the age of 18 who are working and contributing should be entitled to the same benefits as other employees, including the government’s annual member tax credit and employer contributions. |

CHAPTER TWO:
FINANCIAL EDUCATION ON THE RISE

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>1</td>
<td>There should continue to be one government agency tasked with the job of developing a comprehensive, well-designed, well-directed and well-delivered financial and investment education programme.</td>
</tr>
<tr>
<td>2</td>
<td>To support this, KiwiSaver providers should be required to deliver financial education materials and tools to their members. This should include prompts to make the most of incentives, particularly annual member tax credits.</td>
</tr>
<tr>
<td>3</td>
<td>The government should provide parameters for the development of financial education materials, tools and calculators to ensure consistency in the assumptions of providers and avoid duplication or confusion.</td>
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</table>
| 4 | Efforts to raise financial capability should initially be targeted at groups most in need of support and resources. These include default and non-contributing members, women and those 10 to 15 years out from retirement. To do this:  
|   | – Centralised, government-funded financial capability initiatives should be easily accessible to these segments.  
|   | – KiwiSaver providers should distribute targeted communications and educational materials recognising, and addressing, the needs of these segments. |
| 5 | KiwiSaver members don’t just care about returns, they also care about where their money is invested. As such, all KiwiSaver providers should have a clear stance with regards to responsible investing. This should be clearly articulated, regularly reviewed and easy for investors to access and understand. |
| 6 | All default funds’ risk profiles should be more balanced or follow a life stage model (one with higher exposure to growth assets early on, then reducing over time) rather than conservative. This will provide better long-term outcomes to those default members who may be hard to reach or choose not to make active choices about their fund. |
**CHAPTER THREE:**
**GROWING RETIREMENT SAVINGS THROUGH THE POWER OF RETURNS**

1. KiwiSaver fees should not be prescriptively regulated in recognition that providers manage investments differently and offer varying levels of services and tools.

2. KiwiSaver providers need to continue to work with the government to increase transparency around fees through increased disclosures. More effort also needs to be made to educate members about their returns after fees.

3. Industry and media commentators should play a bigger role in promoting educated debate around investments as people’s interest in the topic grows. Topics could include switching considerations, volatility and differences between active and passive investment management approaches.

**CHAPTER FOUR:**
**ARE WE SAVING FOR A HOUSE OR RETIREMENT?**

1. Recognising that home ownership plays an important part in retirement planning, KiwiSaver should continue to provide a mechanism for members to withdraw their savings to fund a first home. First home buyers should also investigate whether they’re eligible for Housing New Zealand’s KiwiSaver HomeStart grant, which will give them additional funds towards their first home.

2. KiwiSaver providers should offer home buyers educational material and free guidance on the various stages of the home buying journey and what it means for their retirement. This includes educating members on various fund options available to save for their deposit, the process for making a first home withdrawal and their options to regrow their retirement nest-egg after their withdrawal.

3. KiwiSaver providers should proactively check in with members one year after their first home withdrawal. This interaction should be used to encourage members to seek tailored advice on contribution rates and fund choice to track progress towards retirement.

4. Government should centralise research efforts to provide New Zealanders with guidelines on the likely housing-related costs people may expect in retirement (for both renters and home owners). This will help people plan for a potential mismatch between their retirement income and expectations, and ensure providers and advisers are basing their retirement income recommendations on consistent assumptions.

**CHAPTER FIVE:**
**THE CHALLENGE OF AFFORDABILITY**

1. As proposed by the Commission for Financial Capability, a series of changes should be made to the current ‘contributions holiday’ facility, including:
   - Changing the name from the alluring ‘holiday’ to the more realistic ‘savings suspension’
   - Reducing the maximum length to one year, thus requiring members to reapply annually.

2. Inland Revenue should introduce an option for members’ individual employee contributions to automatically increase by small increments (e.g. by 0.25%, 0.5% or 1%) up to a capped maximum rate, so members can feel confident their savings will increase over time.

3. Equally, some people might prefer to reduce their contributions when money is tight, rather than stop contributing to KiwiSaver altogether. Inland Revenue should therefore introduce options for members to reduce their contributions by small increments (e.g. by 0.25%, 0.5% or 1%) for a set period.

4. A centralised agency, like Work & Income New Zealand, should coordinate hardship pre-assessments to maintain consistency industry-wide and ensure all avenues of support are explored. With more and more people drawing on their KiwiSaver savings to support them in financial hardship, it’s essential the industry has a streamlined process in place to ease the experience on stressed applicants.
### CHAPTER SIX:
**ARE WOMEN BEING LEFT BEHIND?**

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<tr>
<td>1</td>
<td>KiwiSaver providers should ensure women have access to the tools, information and resources they need to make informed decisions about their fund type and contribution level. This all needs to be readily available through the channel of their choice, at whatever time is convenient to them and in language that is relatable and easy to understand.</td>
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<tr>
<td>2</td>
<td>KiwiSaver providers should encourage their female members to seek personalised advice to help them identify retirement goals and set a plan to achieve them.</td>
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<tr>
<td>3</td>
<td>Organisations such as the Commission for Financial Capability, the Financial Services Council and Women in Super should continue to facilitate ongoing discussion with the industry around the unique challenges women face, and tactics to address these. In particular, they should facilitate debate on women’s retirement savings needs, increasing financial capability and decision making, and promote education and training support where possible.</td>
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<tr>
<td>4</td>
<td>Employers should consider ways to help new parents save for their retirement. ANZ was the first large corporate to maintain KiwiSaver employer contributions for staff taking parental leave, regardless of gender.</td>
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### CHAPTER SEVEN:
**RETIREMENT REALITY CHECK – ARE WE ON TRACK?**

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<td>KiwiSaver providers should supply members with tools to calculate how much they should be saving, based on what they are likely to spend in retirement.</td>
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<tr>
<td>2</td>
<td>As KiwiSaver providers look to include projected retirement savings and retirement income in annual KiwiSaver statements, the government should work closely with the industry to provide guidelines around calculations.</td>
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<td>3</td>
<td>KiwiSaver providers should grant a free service to investors at age 40 to help them identify their retirement savings and income needs, and to plan accordingly. A ‘check-up’ should also take place at age 55 to ensure they are on track to meeting their financial goals.</td>
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<td>4</td>
<td>As recommended by the Commission for Financial Capability, the minimum contribution rates should be raised in an effort to increase KiwiSaver account balances in the long term.</td>
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<td>5</td>
<td>Inland Revenue should add in more flexible employee contribution rates, increasing in 1% increments, to give members more flexibility and control over their savings. As recommended by the Commission for Financial Capability, at a minimum, 6% and 10% employee contribution rates should be implemented.</td>
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### CHAPTER EIGHT:
**RETIREMENT FOR AN AGEING POPULATION**

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<td>NZ Super should remain a universal benefit as most New Zealanders are counting on it to help them fund retirement.</td>
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<td>2</td>
<td>The age at which people can access NZ Super should increase, in line with the government’s proposal and in recognition of increased longevity.</td>
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<td>3</td>
<td>Any proposed changes to the age at which people can access NZ Super need to give those affected sufficient time to prepare, and should be accompanied by clear, centralised government-sponsored efforts to increase awareness of the need for personal accountability (e.g. through vehicles such as KiwiSaver).</td>
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<td>4</td>
<td>People should be allowed to join KiwiSaver after 65, as it remains a useful, cost-effective and well-regulated investment option for all New Zealanders.</td>
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<td>5</td>
<td>Employers should be required to make contributions on behalf of their employees, irrespective of their age.</td>
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2 NZIER. (October 2007). Does New Zealand Have a Household Saving Crisis? https://nzier.org.nz/static/media/filer_public/9d/94/9d94d87a-6ebf-4ec8-89b9-2db6922fba0c/wp2007-01_does_new_zeland_have_a_household_saving_crisis.pdf


CHAPTER TWO: FINANCIAL EDUCATION ON THE RISE

17 NZIER. (October 2007). Does New Zealand Have a Household Saving Crisis? https://nzier.org.nz/static/media/filer_public/9d/94/9d94d87a-6ebf-4ec8-89b9-2db6922fba0c/wp2007-01_does_new_zeland_have_a_household_saving_crisis.pdf


21 ANZ internal KiwiSaver data based on members aged 18 and over who have contributed any amount over a 12-month period.

22 ANZ internal KiwiSaver data – all members as at 30 April 2017.


ANZ internal KiwiSaver data based on a 25-year-old male earning $50,000 and contributing 3% plus his employer’s 3% (Difference based on Conservative versus Lifetimes option). Total figure is adjusted for inflation. Non-adjusted figure is $119,000.


CHAPTER THREE: GROWING RETIREMENT SAVINGS THROUGH THE POWER OF RETURNS


ANZ internal KiwiSaver data – KiwiSaver members in Lifetimes as at 30 April 2017.


ANZ internal KiwiSaver data based on a 25 year-old member with a salary of $50,000 contributing 3% and receiving matching employer contributions of 3%. The 1% difference is calculated by considering a 4% return per annum. Figures have been adjusted for inflation ($195,000 ($430,000 non-adjusted)) versus a 5% return per annum ($243,000 ($537,000 non-adjusted)), after fees and taxes. Non-adjusted difference is $107,000.

ANZ historical returns data. All numbers have been rounded. Assumptions as below:
- Investor in KiwiSaver scheme from 01/10/07 to 31/03/2017.
- No lag in money being received by provider.
- Individual salary of $50,000 before tax per annum, increasing by CPI of 2.5 percent.
- Fortnightly contributions of 4% (decreasing to 3% from 1 April 2009), the employer matching with 1% from the start, increasing to 2% from 1 April 2009, and 3% from 1 April 2013.
- PIR of 17.5% (previously 17.5% and 19.5%).
- Daily returns, taxable income, MER etc. as actually experienced by associated fund.
- Government kick-start of $1,000 and (maximum) MTCs of $1,042.86 (decreasing to $521.43 from 1 July 2011), accrued fortnightly.
- ESCT applies from 1 April 2012.

Past performance does not indicate future performance. The actual performance any given investor realises will depend on many things, is not guaranteed and may be negative as well as positive.

CHAPTER FOUR: ARE WE SAVING FOR A HOUSE OR RETIREMENT?


ANZ internal KiwiSaver data – first home withdrawals 2016.


ANZ internal KiwiSaver data – first home withdrawals 2016.

ANZ internal KiwiSaver data based on a KiwiSaver member who began saving at 25 years old and made a first home withdrawal at 30, contributed at 3%, invested in Lifetimes and had a salary of $50,000. Total figures are adjusted for inflation. Non-adjusted difference would be $101,000.


CHAPTER FIVE: THE CHALLENGE OF AFFORDABILITY


ANZ internal KiwiSaver data, excluding members under 18 years old, as at 30 April 2017.

REFERENCES

ANZ internal KiwiSaver data based on a 25 year old earning $50,000, invested in the ANZ Lifetimes option and contributing 3% plus their employer’s 3%. The member takes a five-year contribution holiday at 30. Figures are adjusted for inflation. Non-adjusted difference would be $83,000.


ANZ internal KiwiSaver data based on a 25 year old earning $50,000, invested in the ANZ Lifetimes option and contributing 3% plus their employer’s 3%. The member takes a five-year contribution holiday at 30. Figures are adjusted for inflation. Non-adjusted figures would be $482,000 and $399,000 respectively.


ANZ internal KiwiSaver data based on a 20 year old contributing $21 a week ($1,092 a year) and invested in ANZ’s Lifetimes option. The member makes no additional employee contributions, receives no employer contributions and receives the full annual member tax credit of $521.43 each year.


Calculation based on a 25-year-old earning $50,000 and is invested in our Lifetimes option. The 1% difference is based on a comparison between 3% and 4% contributions. Figure is adjusted for inflation. Non-adjusted figure is $79,000. Figures are rounded.

CHAPTER SIX: ARE WOMEN BEING LEFT BEHIND?


ANZ internal KiwiSaver data based on 25 year olds earning the average wage for each gender, invested in the ANZ Lifetimes option and contributing 3% plus their employer’s 3%. The woman takes the average two-year break at the age of 30, and retires two years earlier at the age of 65. Figure is adjusted for inflation. Non-adjusted figure is $195,000.


ANZ internal KiwiSaver data based on 25-year-olds earning the average wage for each gender, invested in the ANZ Lifetimes option and contributing 3% plus their employer’s 3%. The woman takes the average two-year break at the age of 30, and retires two years earlier at the age of 65. Figures are adjusted for inflation. Non-adjusted figures would be $317,000 for females and $512,000 for males.

ANZ industry research. (December 2015). ANZ Light Advice focus group. ANZ Investments.


ANZ internal KiwiSaver data based on a 25-year-old woman earning $35,000 and contributing 3% plus her employer’s 3%. Figure has been adjusted for inflation. Non-adjusted difference would be $88,000.

ANZ industry research. (June 2015). ANZ Barometer panel survey. ANZ Investments.

ANZ industry research. (December 2015). ANZ Retirement Savings Barometer. ANZ Investments.


CHAPTER SEVEN: RETIREMENT REALITY CHECK – ARE WE ON TRACK?


ANZ industry research (May 2016). Retirement Expectations survey. ANZ Investments.

ANZ industry research (May 2016). Retirement Expectations survey. ANZ Investments.


Calculations are determined using the ANZ KiwiSaver calculator. Figures are adjusted for inflation. The KiwiSaver member has a current balance of $10,000, earning $50,000 a year, contributing 3% of their salary, matched by their employer, and a 25-year retirement is assumed. Figures have been rounded.
CHAPTER EIGHT: RETIREMENT FOR AN AGEING POPULATION


CHAPTER NINE: DECUMULATION – THE MISSING PIECE OF THE PUZZLE

107 ANZ internal KiwiSaver data – KiwiSaver balances as at April 2017.
CHAPTER TEN: GLOBAL LEARNINGS


ANZ internal KiwiSaver data – Market Share as at March 2017.


Melbourne Mercer Global Pension Index 2016.


Melbourne Mercer Global Pension Index 2016.


Melbourne Mercer Global Pension Index 2016.


ABOUT OUR CASE STUDIES

All of the case studies in this report are examples to help you understand how your choices can affect your KiwiSaver savings. The figures used are for illustration only and may not reflect actual returns. The figures in our case studies:

- show projected savings, both:
  - where they haven’t been adjusted for the effect of rising prices over time (that is, inflation), in which case the amount does not reflect the ‘real’ buying power in the future
  - where they have been adjusted for inflation of 2% per year to show the ‘real’ buying power of the savings in the future

- assume employer contributions are 3% of the stated before-tax salary, where applicable
- apply member tax credits appropriate to the contributions made and at today’s levels only
- assume salaries will increase by 2.5% each year, where applicable
- assume positive investment performance in our funds each year (after fees and taxes using a prescribed investor rate of 28%) of: Conservative Fund: 3.2%; Conservative Balanced Fund: 3.9%; Balanced Fund: 4.6%; Balanced Growth Fund: 5.3%; and Growth Fund: 6.0%
- assume a membership fee of $2 per month
- generally round savings to the nearest $1,000
- account for tax on employer contributions, where applicable
- assume the member has a date of birth of 1 July, with projected savings calculated in July.

Individual assumptions and figures for case studies can be found in the relevant chapters references.

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