

NZSA Conference 2008
KiwiSaver – Evaluation of Supply Side
Impacts
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This is part of a project conducted by PricewaterhouseCoopers for the Ministry of Economic Development. As the final report has not yet been released by the Government, we are unable to provide handouts, or to give our final conclusions in this presentation.

Agenda

Background

The effect on Providers

KiwiSaver market

What we are starting to see

Background

The Government aim is to have an objective and comprehensive evaluation strategy for KiwiSaver covering implementation, long term impacts on savings behaviour and on the superannuation market and other matters.

Specifically, this evaluation was to examine:

the impacts of KiwiSaver on New Zealand's superannuation and managed funds market and the wider financial sector.

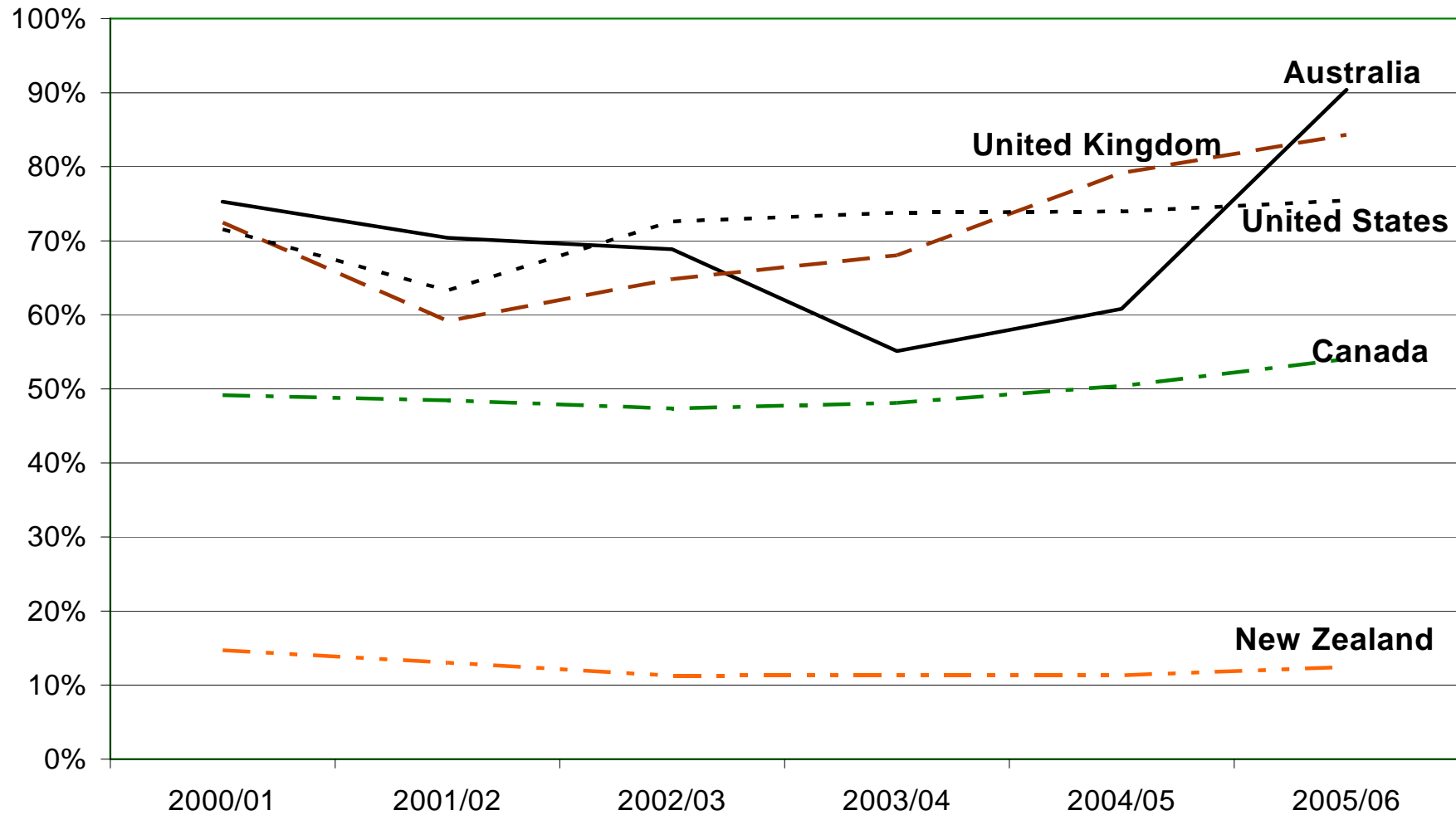
Consultation Approach

- Survey of Providers (84% response rate)
- Provider Interviews
All default providers, selection of active choice providers
- Stakeholder Interviews
Industry bodies and government agencies
- Government Reference Group (Treasury, MED, IR,)
- Attendance at IR providers' AGM

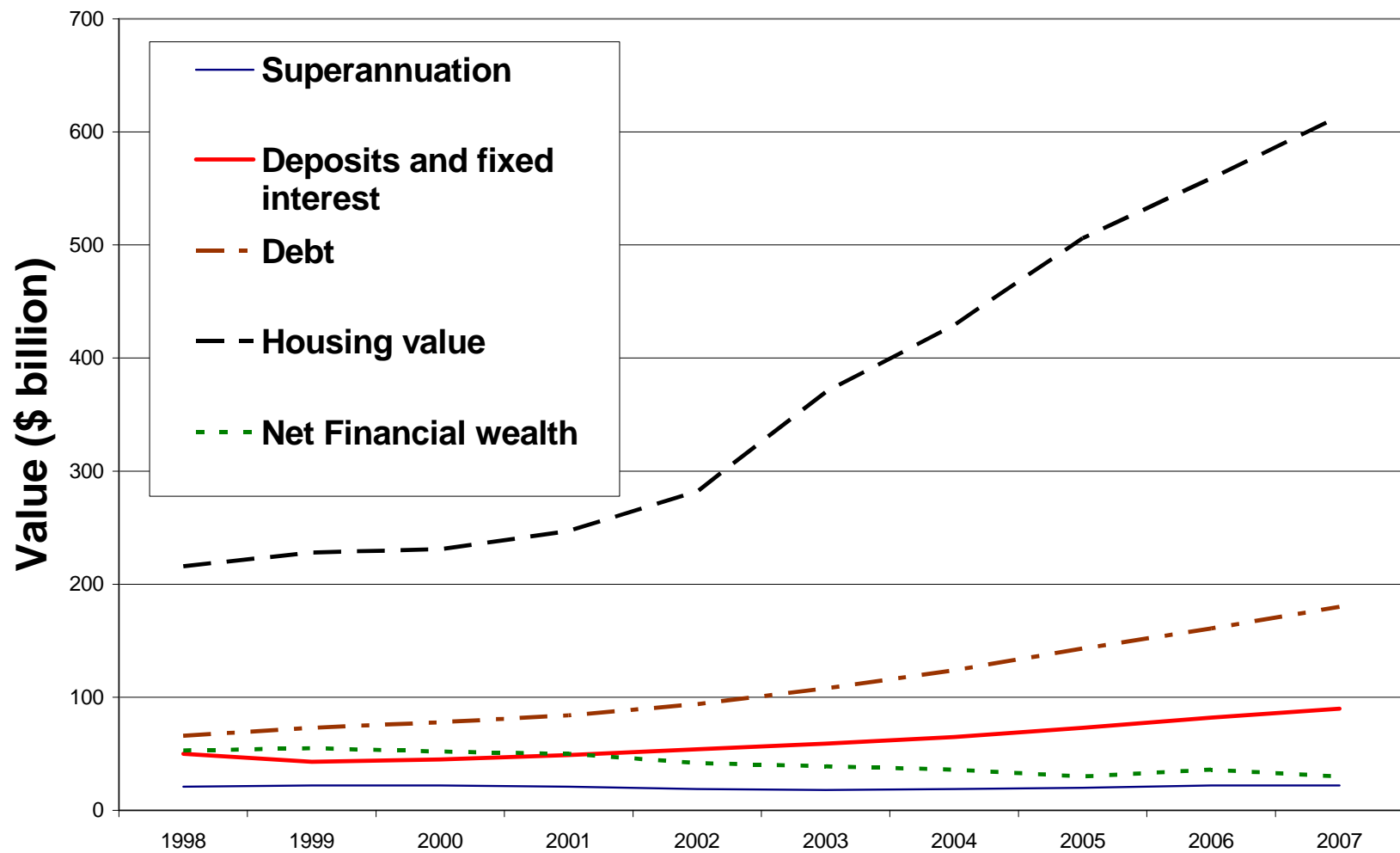
Government's reasons for introducing KiwiSaver

- To "encourage a long term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement"
- "the opportunity to increase our security in retirement and to build a large pool of domestic capital to drive economic growth"
- "KiwiSaver is all about making it as easy as possible for workers to develop long term savings habits"
- "KiwiSaver is a smart way the government can help the market produce the sort of outcome New Zealanders need by getting its hands a little bit dirty."

Pension Funds as a proportion of GDP (2000/01 – 2005/06)



New Zealand household financial assets and liabilities (1998 – 2007)



Source: RBNZ

Superannuation funds baseline

Superannuation schemes prior to KiwiSaver

Year	2003	2004	2005	2006	2007
Members	715,483	697,918	691,605	656,086	635,297
Schemes	675	625	590	576	560
Assets (\$m)	\$18,857	\$20,241	\$21,716	\$24,515	\$25,914

Source: Government Actuary Reports

Superannuation funds baseline

RBNZ Survey - Total managed funds (June years)

Year	2004	2005	2006	2007	2008
Assets (\$m)	52,648	55,248	61,610	66,505	60,223

Source: RBNZ

Percentage of managed funds invested in New Zealand (June years)

Year	2004	2005	2006	2007	2008
Percent	61	60	56	57	58

Source: RBNZ

NZX Statistics (December)

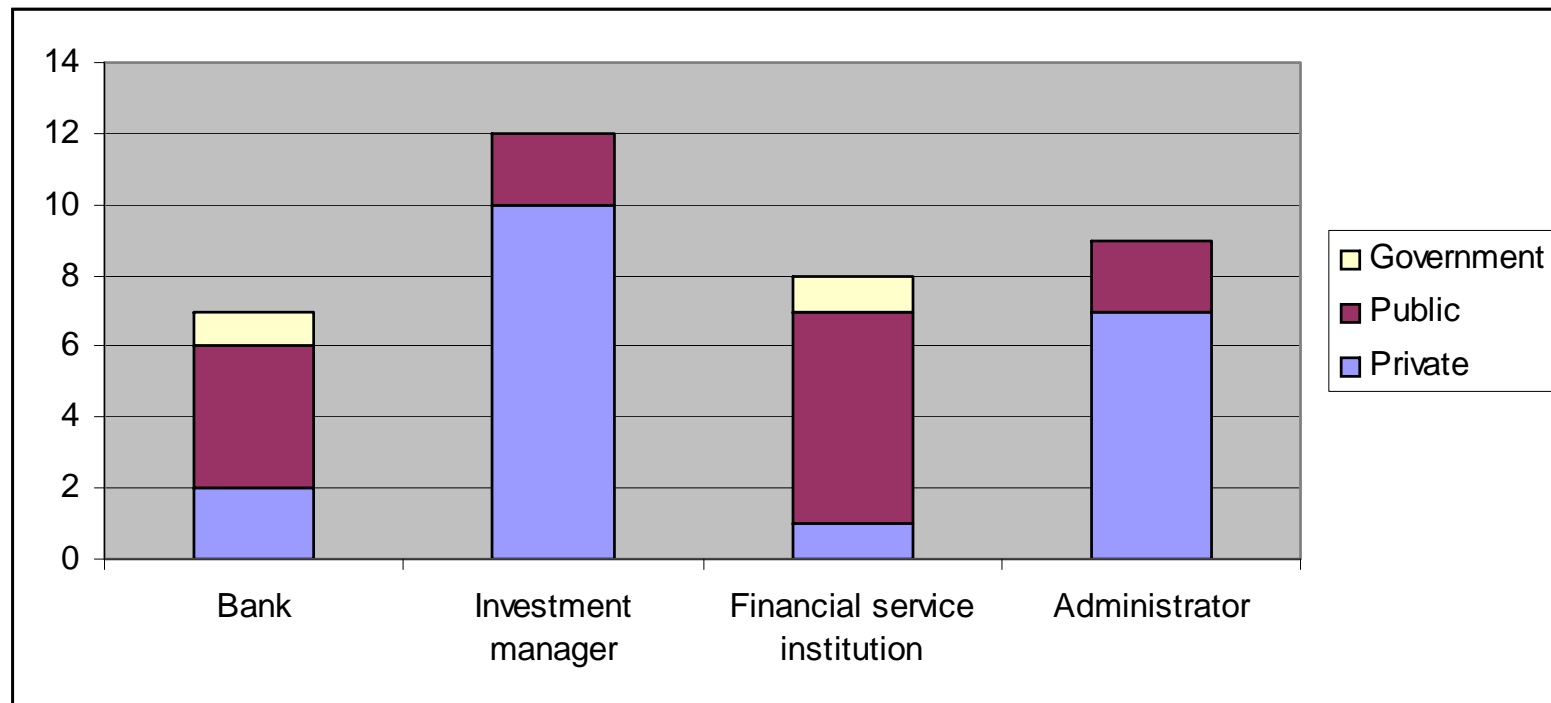
	2004	2005	2006	2007
Superannuation invested in NZ equity (\$ millions)	2,910	2,871	2,703	2,953
NZX Capitalisation (\$ millions)	49,543	56,746	59,654	59,999
Superannuation investment in the NZX (percent)	5.9	5.1	4.5	4.9

The Providers



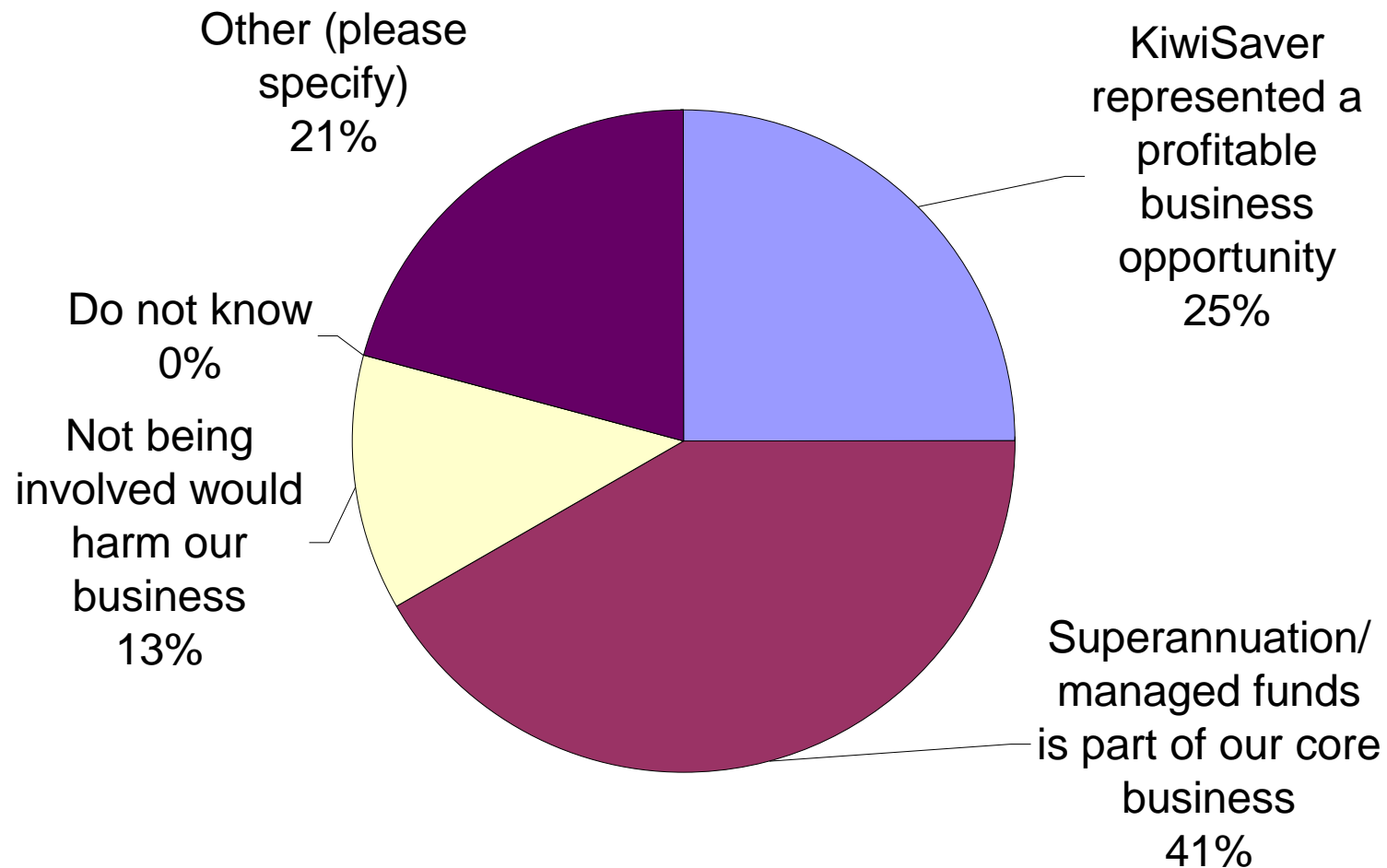
Survey Results

Who are KiwiSaver Providers and Promoters?



Survey Results

What was the key driver for your company offering a KiwiSaver product?



The Toll of Implementation

- Hard work!
- Took a toll on human and financial resources
- Changes part way through were expensive and difficult; caused duplication and wastage of effort
- Distraction of corporate attention

How did set-up costs compare to those for other products?

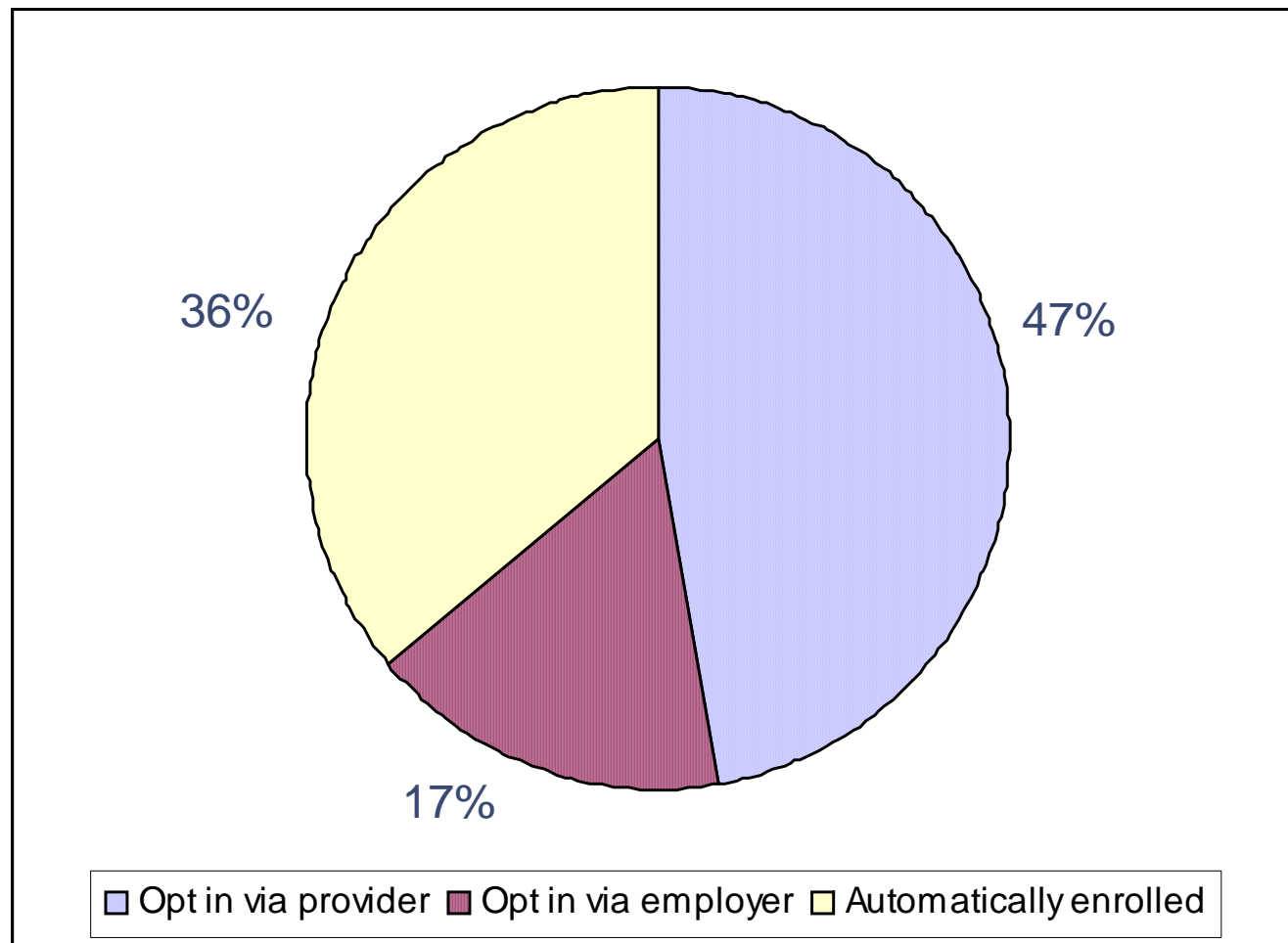
Response	Staff Resources (percent)	Software development (percent)	System integration (percent)	Marketing (percent)
Considerably higher	29	33	33	14
Higher	29	10	24	24
Similar	24	24	19	29
Lower	0	5	0	10
Considerably Lower	0	0	0	0
Do not know	5	5	5	10
N/A	14	24	19	14

Source: Evaluation Survey

Default providers

- Six default providers selected through competitive tender
- Is seen as a competitive advantage
- The six default providers are amongst the seven largest providers
- Other providers keen to obtain default status in the future

Enrolment methods



Source: Inland Revenue

Survey Results

Distribution - Member growth strategies

Strategy	Percentage of providers using strategy
Direct marketing to existing client base	80
Employer choice agreements	63
Approaching clients/cross selling	58
Financial advisors	42
Advertising	33
Default provider status	21

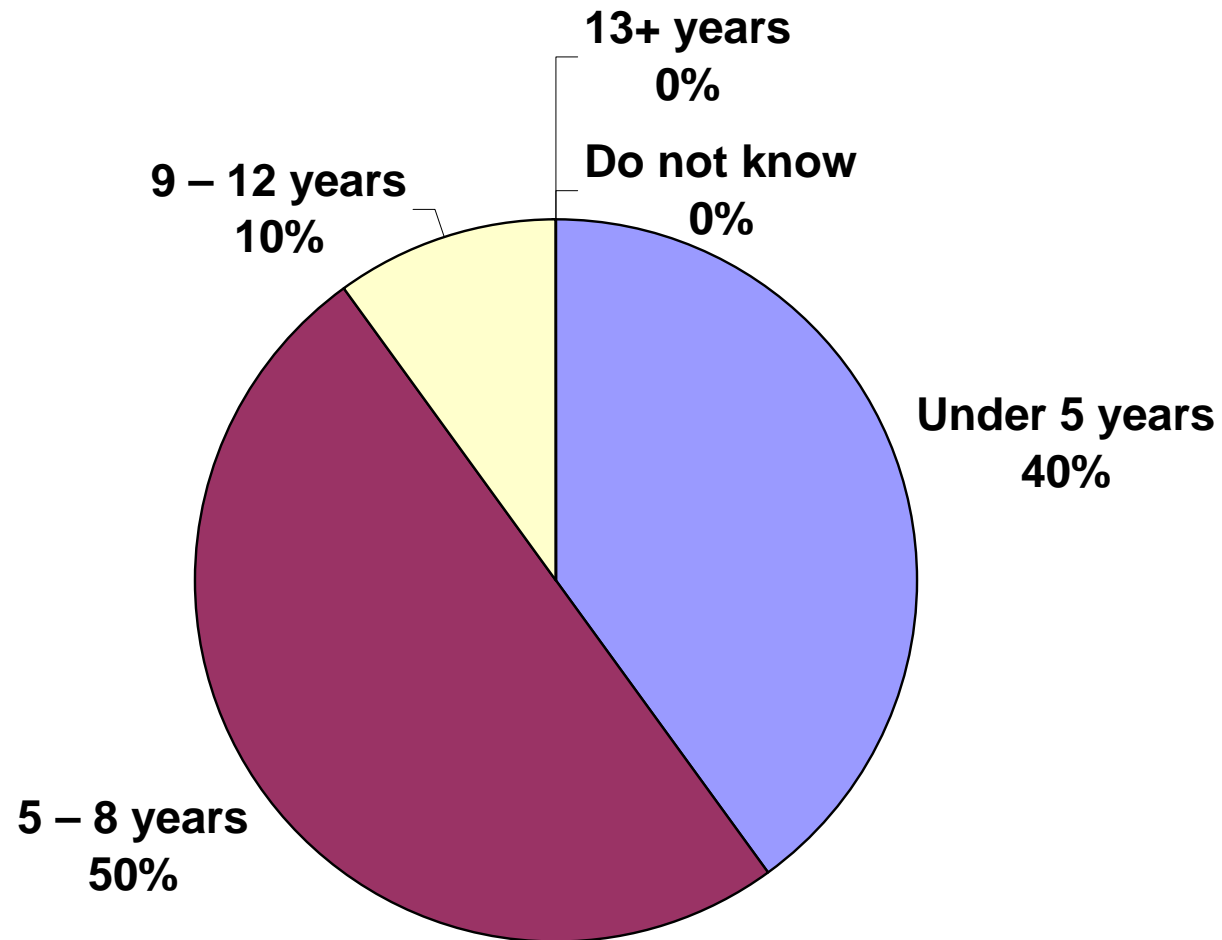
Survey Results

Please indicate the importance of the following factors in influencing the profitability of your KiwiSaver scheme(s)?

Answer Options	Very important	Important	Somewhat important	Not important	N/A
Total funds under management	15	2	2	1	1
Number of Members	10	9	1	0	1
Total contribution per member	9	9	0	2	1
Administration costs	6	7	5	2	1
Position as a default provider	4	1	0	2	14
Distribution of members across investment funds	3	1	3	11	3
Fee structure constraints	3	5	3	8	1
Opportunities to leverage other parts of our business	0	5	6	8	2

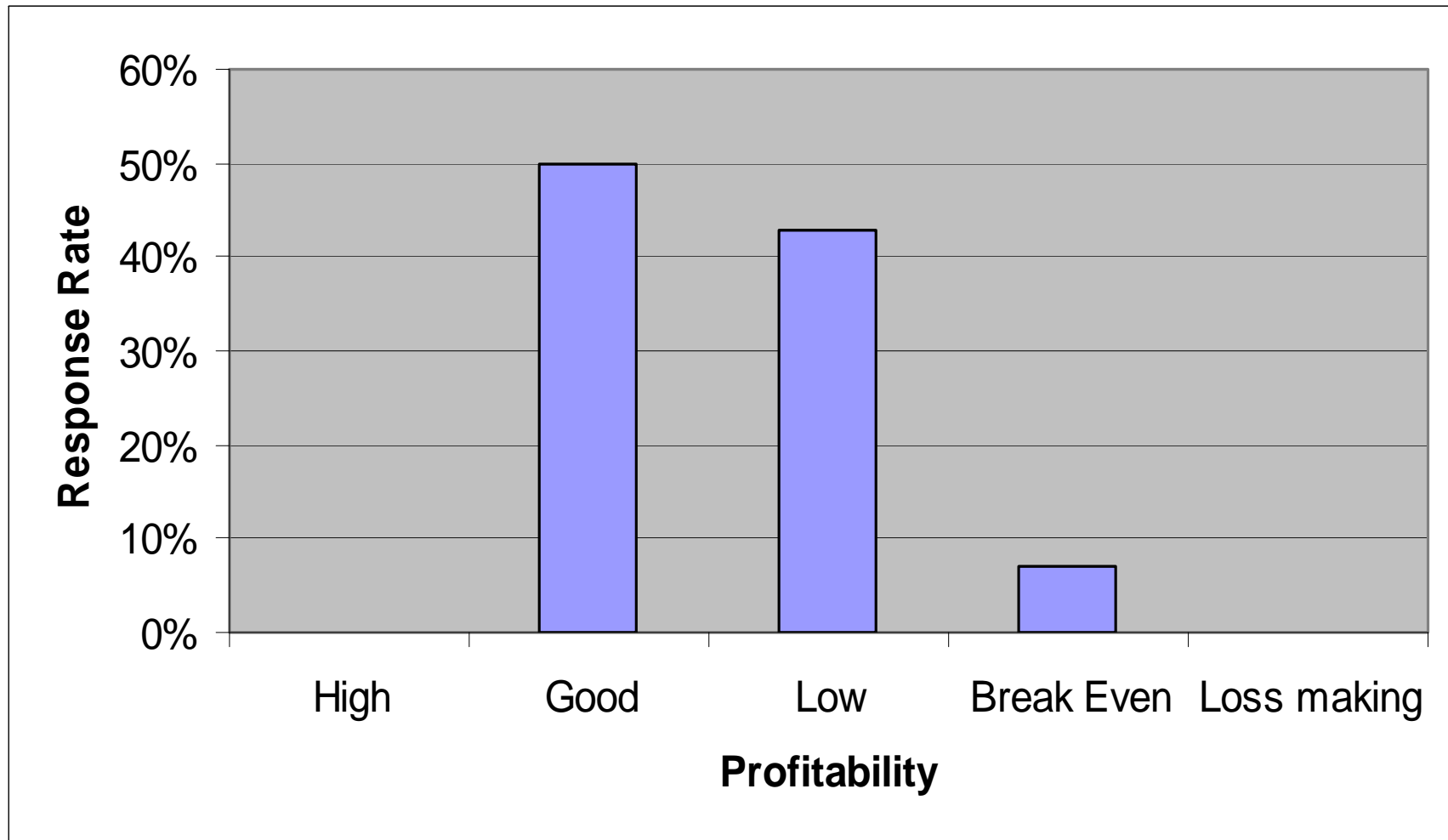
Survey Results

What payback period are you expecting on your KiwiSaver investment (including recouping set up costs)?



Survey Results

Expectation of 10 year Financial Performance



Substitution effects

- Increase in the rate of demise of corporate super schemes
- Some redirection of existing business contribution flows
- Reduction in new superannuation business written
- Very little evidence of lump sum transfers into KiwiSaver
- ...but some new corporate schemes set up

Key messages – effect on providers

A lot of hard and at times frustrating work, but

- Providers are extremely positive about Kiwisaver and membership has exceeded expectations
- System and process changes will provide benefits to other products as well
- Early indicators are that substitution effects are probably mainly a redirection of future contributions

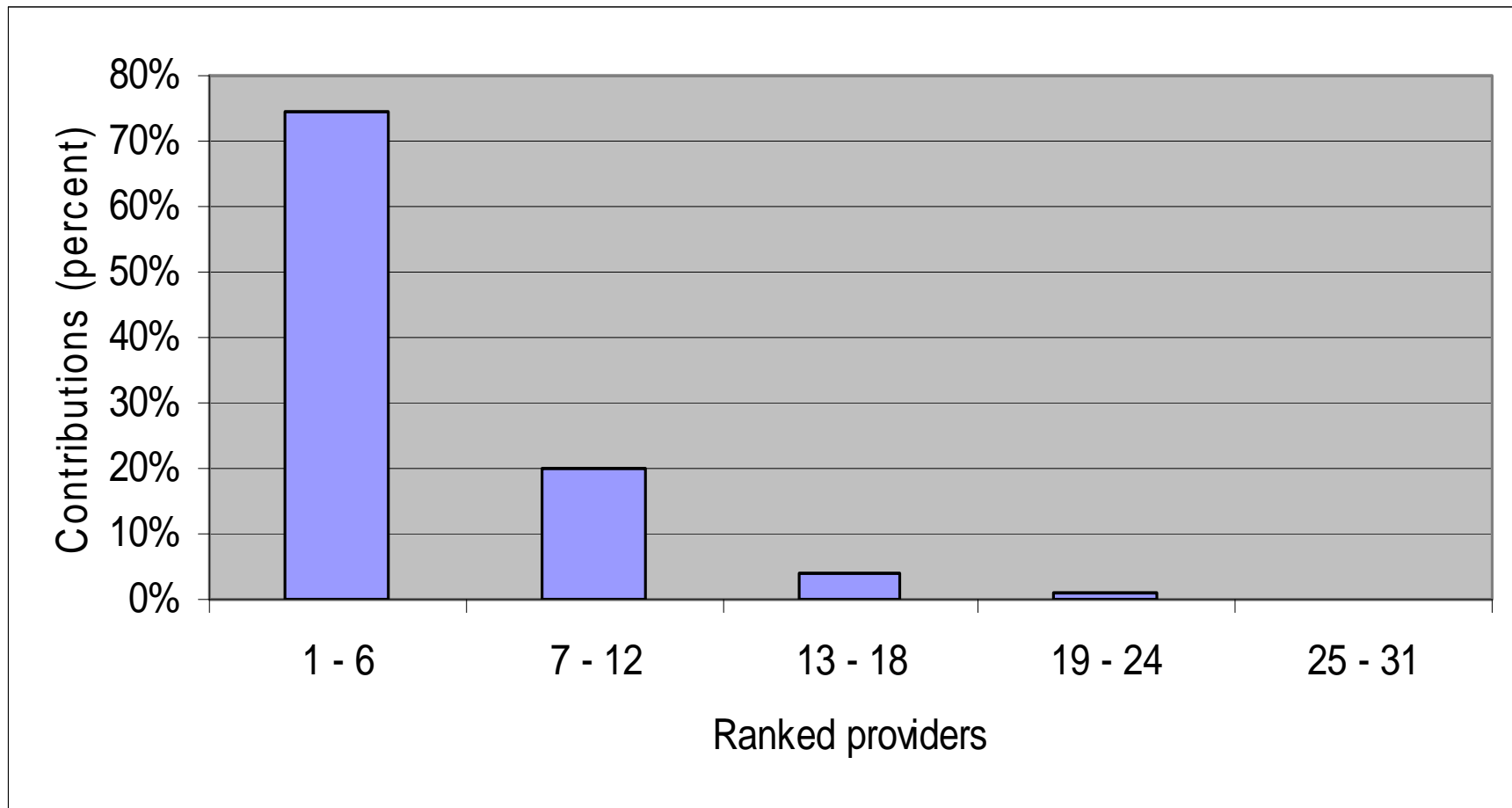
“In ten years it will be the number one game in town”

KiwiSaver Provider

The KiwiSaver Market



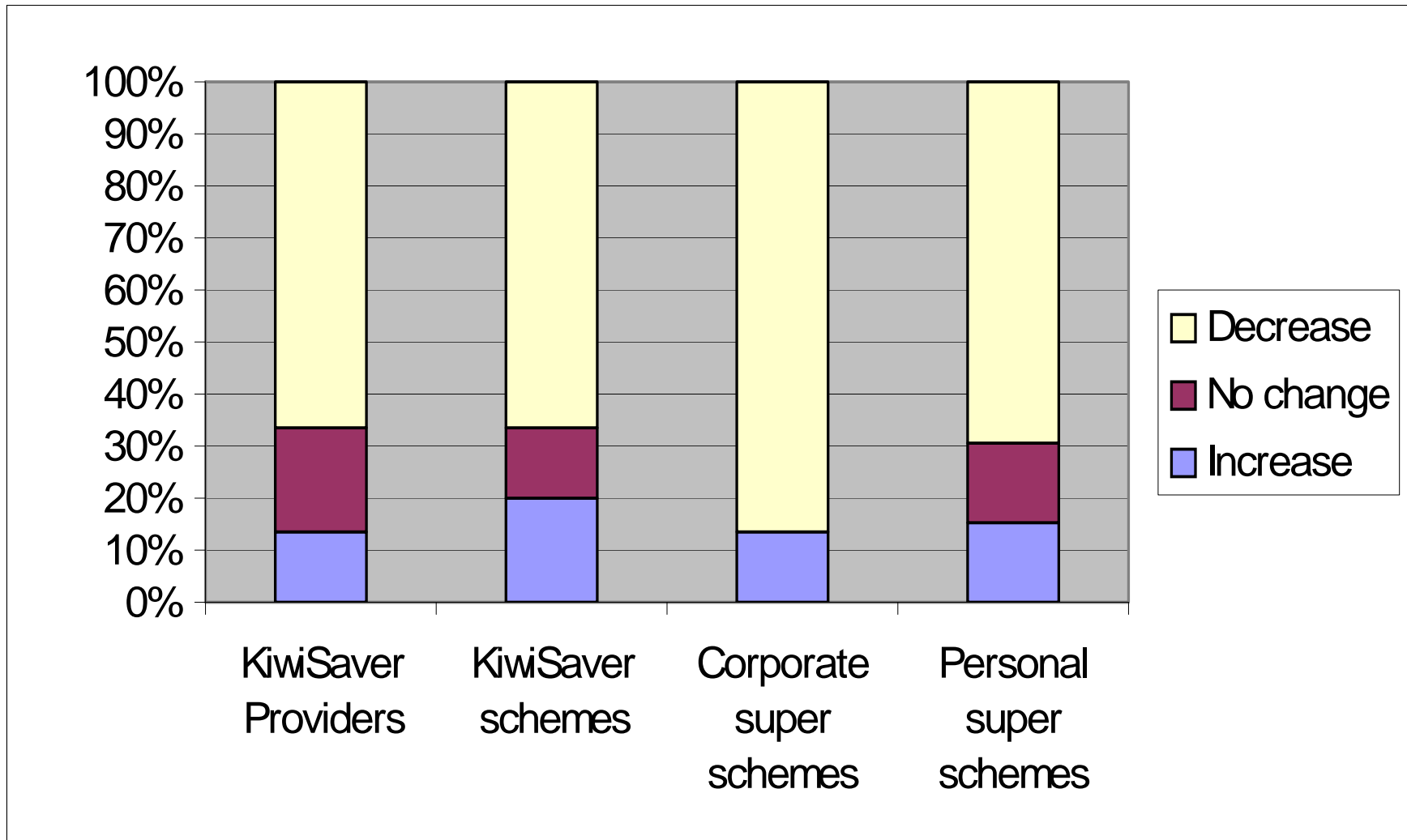
Distribution of contributions by ranked KiwiSaver Providers



Source: IR, as at June 2008

Survey Results

Consolidation - outlook for next three years



Possible risks to the stability of the KiwiSaver market

Survey responses:

- Government intervention (17)
- Financial market/economic performance, investor confidence (7)
- GA –fee expectations (2)
- Financial literacy (2)

What are we starting to see?



Investment Choices and Financial Literacy

- The Government has mandated a conservative default fund.
- Currently 1/3rd of all members are in such funds.
- Is this a matter for concern?
- Whose responsibility is investor education?

“The challenge for the industry in the next 12 to 24 months is to engage with investors around risk appetite and savings strategy.”

KiwiSaver Provider

Survey results

Could you please estimate your percentage split of assets by portfolio risk profile across all schemes as at 31 March 2008?

Answer Options	Weighted Average
Cash and fixed interest only funds (0% invested in growth assets)	2%
Low risk profile funds (1% - 29% invested in growth assets)	45%
Low to medium risk profile funds (30% - 49% invested in growth assets)	10%
Medium risk profile funds (50 - 60% invested in growth assets)	17%
Medium to high risk profile funds (61 - 84% invested in growth assets)	11%
High risk profile KiwiSaver funds (85% - 100% invested in growth assets)	14%

Based on 67% of funds under management

Other discussion points

Liquidity risks

Transparency and comparability of fees and performance

Industry representation

Questions