

Policy learning for the UK from KiwiSaver

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Policy learning from KiwiSaver

- **Learning from KiwiSaver:**
 1. System and model
 2. Membership
 3. Policy choices
- **Integrating the lessons from KiwiSaver**

Model differences

	NZ	UK
Auto-enrolment vehicle	KiwiSaver	Occupational pensions, GPPs or Personal Accounts
Opt-in vehicle	KiwiSaver, unlimited	Individual pensions or PAs (restricted entry, capped)

KiwiSaver is *the* lifetime organising account

Personal Accounts is one scheme among many

System differences

	NZ	UK
System – auto-enrol	Centralised	Dispersed to employers with central regulation
System – product admin	Dispersed to private providers	Private providers except for PAs, a public body, and public sector DB

Timeline NZ vs. UK

*Savings Product
Working Group
report received*



24 months

*KiwiSaver Act
2006 Royal
Assent*



10 months

1 July 2007

Implementation

2012

*Pensions
Commission
report received*



...

6½ years



KiwiSaver set-up costs fairly modest

Fiscal cost of KiwiSaver for implementation and ongoing costs (operating and capital)

2007/8	2012/13
NZD 72 m	NZD 67 m
£28m	£26m

Includes all costs carried by Treasury for auto-enrolment and KiwiSaver e.g., Inland Revenue system set-up, communication, evaluation

Source: IRD; Budget Economic and Fiscal Update, 2008

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Learning from KiwiSaver:

1. System and model

- **KiwiSaver is similar to the UK's 'industry model', but is for all New Zealanders**
- **The KiwiSaver model - registering product providers - has worked well, quickly and efficiently**
- **Gradual start, auto-enrolling on job change, helped to ensure teething problems were minor**

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KiwiSaver enrolment statistics

30 June 2008

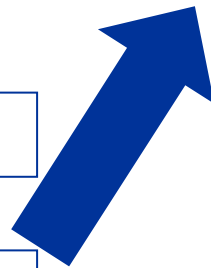
Opt-in
457,338



**Number
enrolled**
716,637

*Includes some
'provisional' in
8 week opt out
period*

259,299



Auto-enrol
397,061



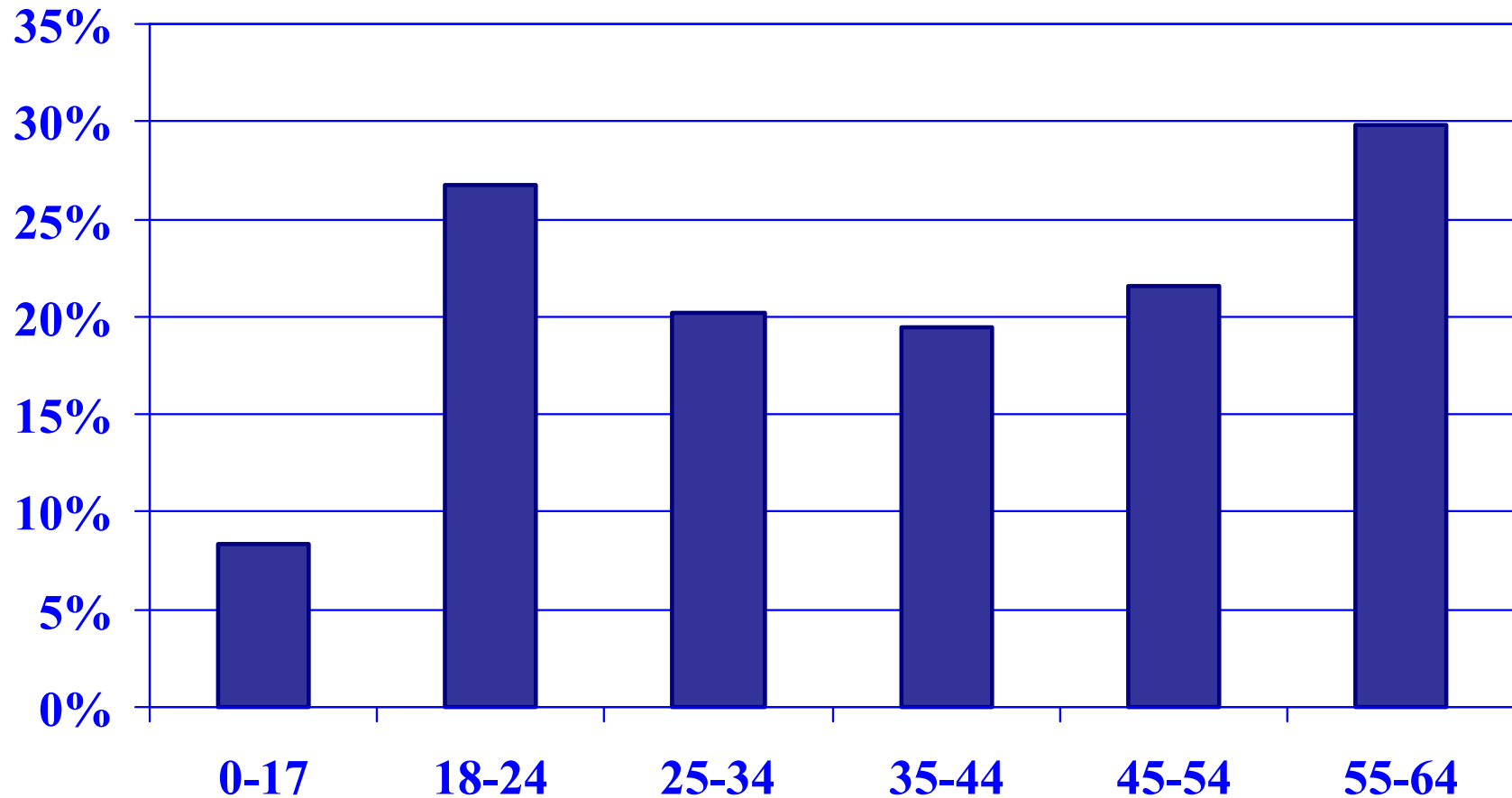
Opt-out
137,762

35% of auto-enrollees

*Includes 1,044
closed accounts
and 3,506
members taking
'hardship
holidays'*

KiwiSaver is reaching 20%+ of the population at most ages

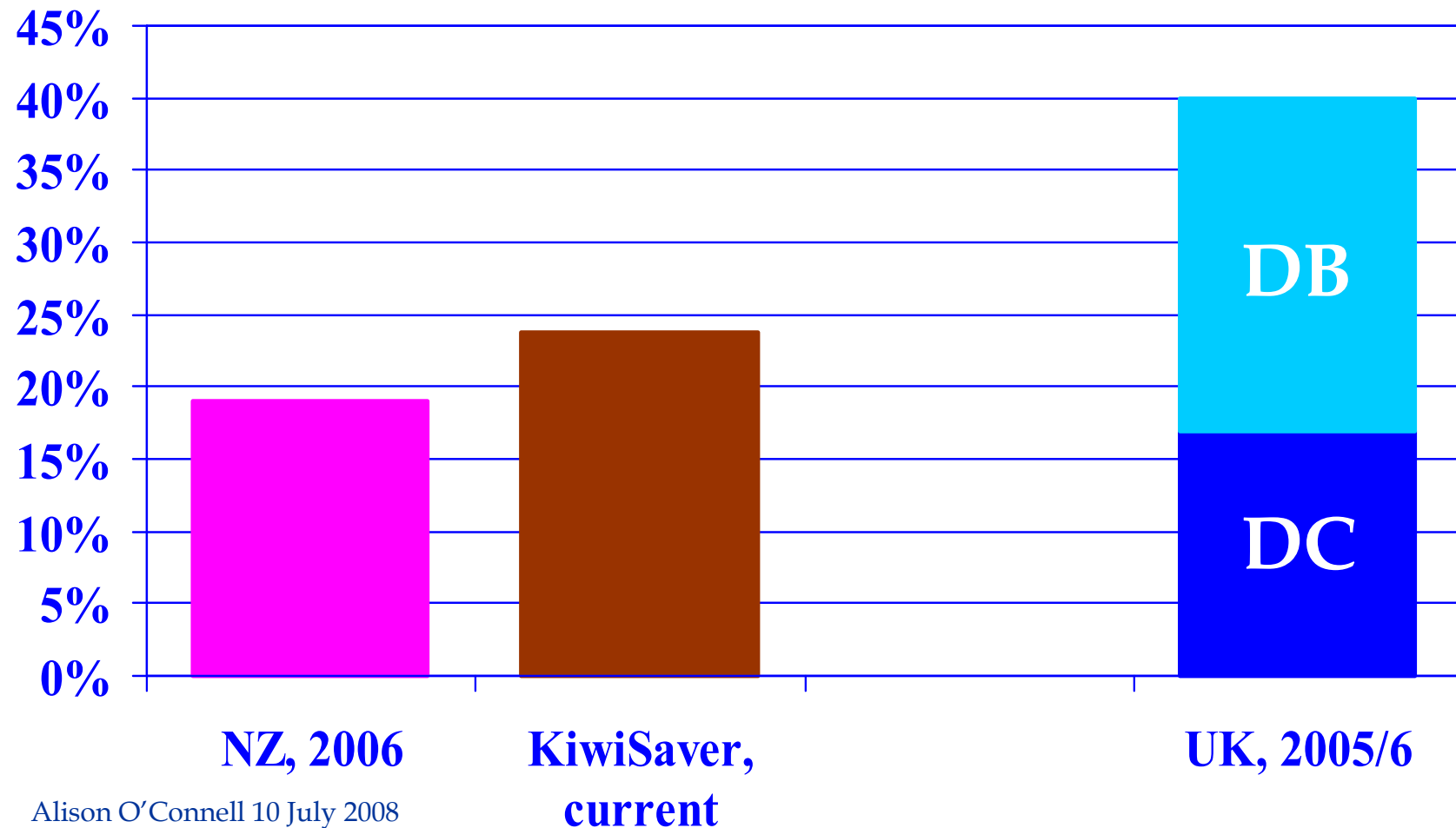
KiwiSaver enrollees as percentage of NZ population, by age band
30 June 2008



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KiwiSaver already has greater coverage than UK DC

Active members of non-state pensions as % population aged 15-64 (UK), 18-64 (NZ), estimates



Choices made in KiwiSaver

- **Opt-ins are over 60% of current net enrollees (proportion likely to reduce)**
- **74% of opt-ins have gone through a provider, 26% via their employer**
- **Around 8% of auto-enrollees have moved from the default or their employer-chosen scheme to another provider (early days)**

Learning from KiwiSaver:

2. Membership

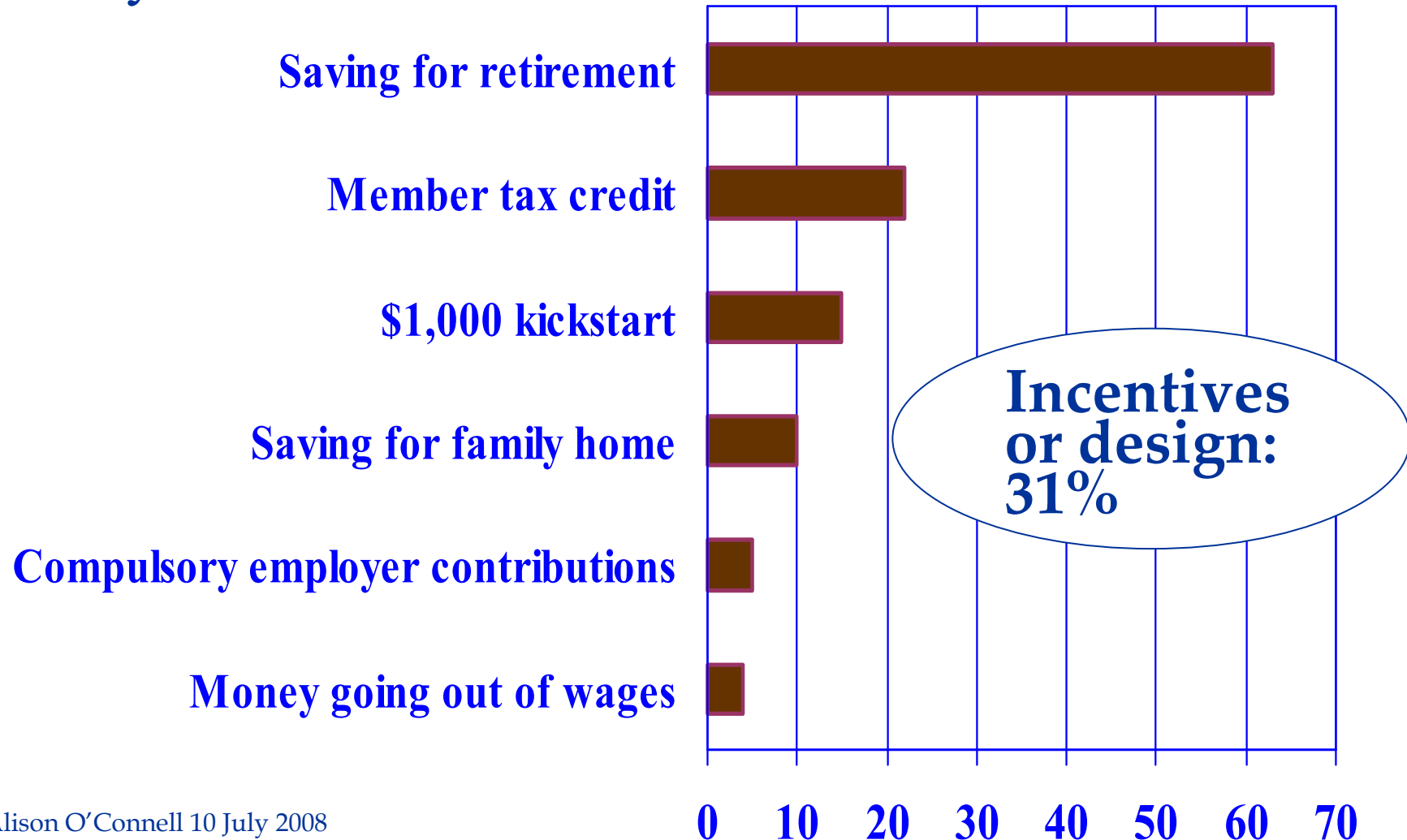
- **Auto-enrolment works to bring in new savers, but around one-third have opted-out**
- **Opting in has been popular at all ages, including for children**
- **Generally positive media coverage and marketing by providers have contributed to high uptake**
- **Choices have been made by individuals and employers**

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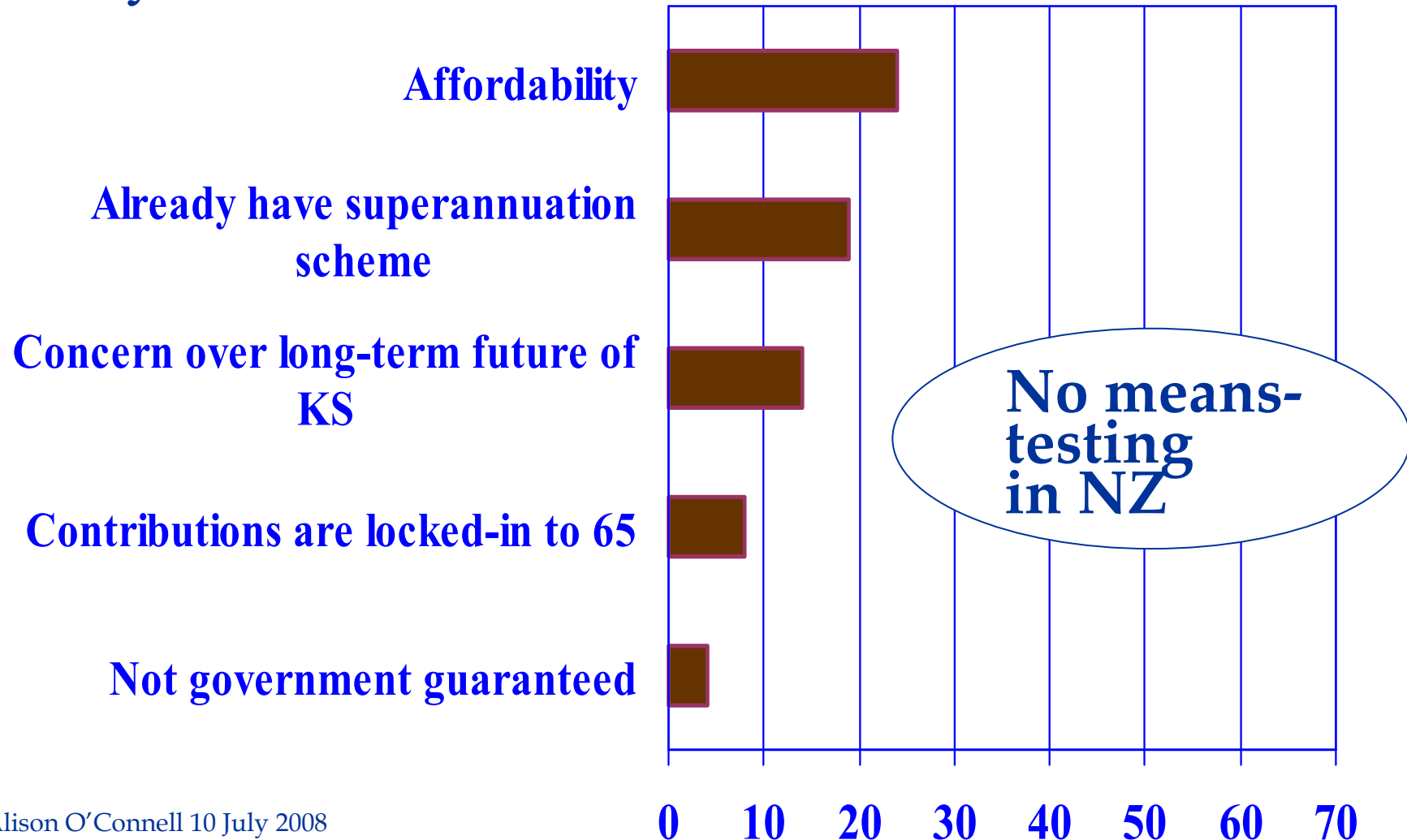
Reasons for joining KiwiSaver

Per cent of 83 opt-in and 50 auto-enrolled members surveyed Nov 2007-Jan 2008



Reasons for *not* joining KiwiSaver

Per cent of 571 non-members surveyed Nov 2007-Jan 2008



Confidence to save in KiwiSaver without affecting state pension

From www.kiwisaver.govt.nz/

If you join KiwiSaver will it affect your NZ Super?

Joining KiwiSaver won't affect your entitlement to NZ Super.

The deducting of pensions from NZ Super:

- is limited to overseas state pensions, and
- doesn't apply to pensions from voluntary private or emplc

KiwiSaver is treated in the same manner as other voluntary p

Can you afford 4%?



Reasons for joining KiwiSaver:

- ✓ I like the idea of a \$1000 kick-start from the government.
- I like the idea of up to \$1040 a year in tax credits to increase my savings.
- I like the fact that my employer will contribute to my KiwiSaver account.
- I can put my contributions, and my employer's contributions, towards a first home deposit and might be eligible for a First Home Deposit Subsidy after three years.¹
- I like the idea of savings I can't touch until I'm eligible for New Zealand Super – currently 65 years of age².
- I'm not a natural saver so I need something that's easy to manage. The fact that it comes out of my pay before I see it is a plus.
- I can put my contributions on hold after 12 months if I hit a rough patch or if I change my mind.

Reasons not to join KiwiSaver:

- I can't afford to contribute 4% of my pay.³
- I'd rather put that money into paying off high interest debt (e.g. credit card, hire purchase) before joining KiwiSaver.⁴
- I don't want my savings locked away until I'm eligible for New Zealand Super – currently 65 years of age.²
- I'm already a member of (or I'm able to join) a superannuation scheme that my employer contributes to, that is better for me.
- I already have a plan in place for my retirement income that is at least as good or better.

¹ Qualification for a home deposit withdrawal or subsidy may be available to members before age 65 if you're in

sorted.org.nz
YOUR INDEPENDENT MONEY GUIDE

³ See the calculator in the full version of our KiwiSaver Decision Guide at sorted.org.nz for more information related to this reason.

Fee levels in KiwiSaver

- **Rough figures as no standard disclosure**
 - **Default 0.4% to 0.6% FUM**
 - **Active 1.0 % to 1.25% FUM**
- **Fee subsidy \$20 every 6 months**
- **Inland Revenue costs covered by general taxation**
- **Costs would be expected to reduce over time with more members, fewer opt-outs and refunds, growing fund size and, possibly, fewer providers/funds**
- **UK has 15x population, larger employers, higher salaries**

Generous KiwiSaver incentives

- Surprise political choice in Budget 2007 after previously strong adherence to TTE
- Concern that high cost will be an excuse to cut back NZ state pension

BUT

- KiwiSaver incentives capped per person, so much less regressive than UK tax relief
- UK pension tax relief ‘EET’ likely to be higher value per saver, so more costly

Learning from KiwiSaver:

3. Policy choices

- Lock-in to 65 – saving for retirement – can be appealing in itself (although no compulsory annuitisation in NZ)**
- KiwiSaver fees in line with pensions in other countries; default fees in line with PA target**
- No evidence that fee levels are off-putting**
- Incentives are important, but perhaps less so than expected**
- Matching contributions are easy to understand**

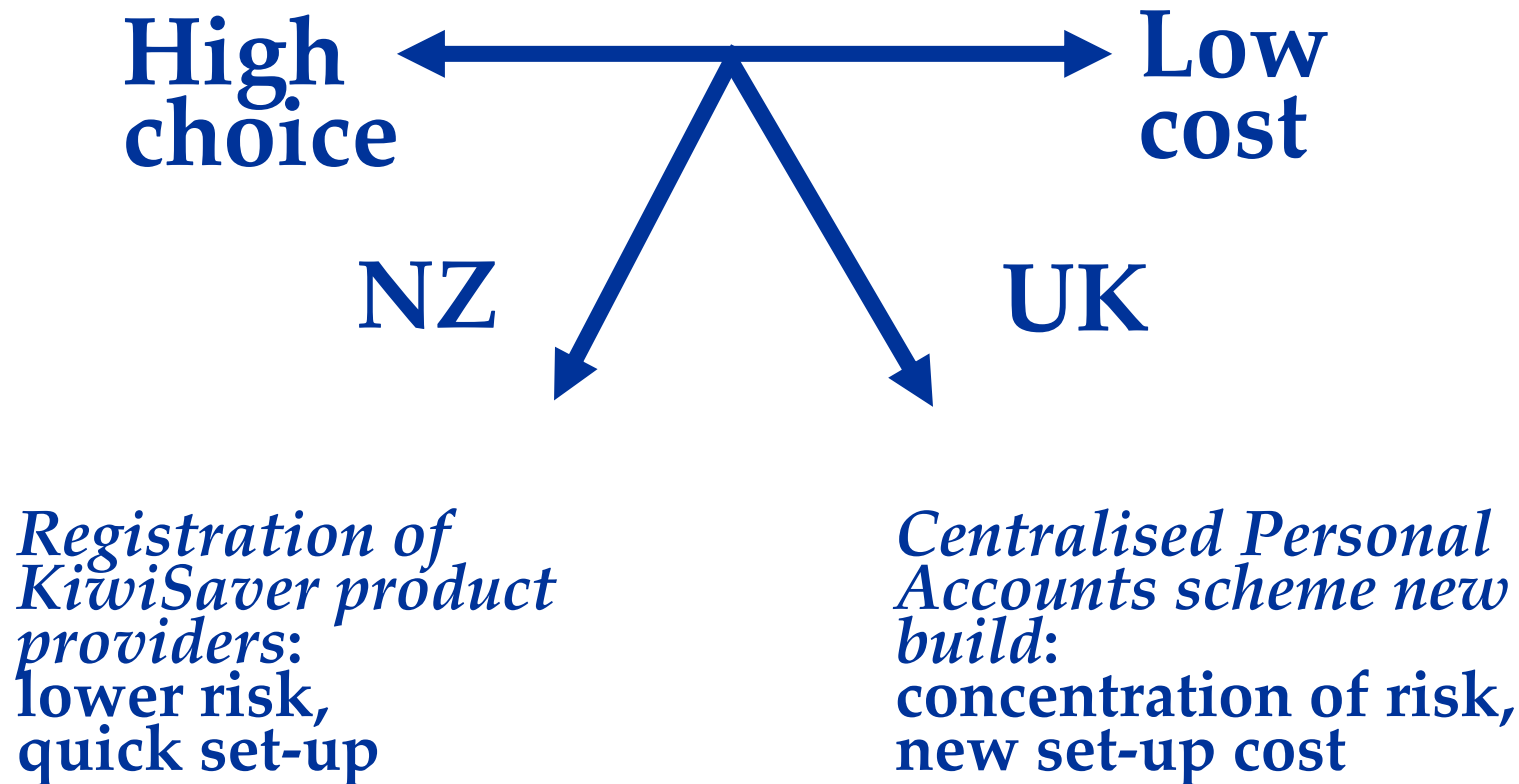
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Integrating KiwiSaver lessons

- **Early days from KiwiSaver; more learning to come**
- **UK policy has to resolve issues KiwiSaver does not have...**
 - **means-testing**
 - **more existing provision**
- **... and those chosen as policy for PAs**
 - **lowest possible fees**
 - **limited choice**
 - **‘ring-fenced’ from other provision**

Risk implications of model choice: KiwiSaver vs. PAs



Possible ways to integrate policy lessons from KiwiSaver (1)

- **Auto-enrol gradually: on job change?**
- **Choice may be more important (and low cost less important) than current UK policy expects**
- **If really worried about fees, consider a fee subsidy**
- **Demand for opt-in may be considerable: consider if fair to restrict access to PAs**

Possible ways to integrate policy lessons from KiwiSaver (2)

- **Could take opportunity to change pension tax relief to matching contributions (needs costing)**
- **Then relaxing compulsory annuitisation would be easier, and ...**
- **... ‘lifetime savings account’ would be feasible**
- **Financial education for pension decision needs to be integrated with lifetime planning**

Possible ways to integrate policy lessons from KiwiSaver (3)

- **Keep sight of whole picture: auto-enrolment not just Personal Accounts**
- **This is political: media encouragement or criticism will matter**
- **Consider evaluation metrics now**
- **Consider unintended consequences: Personal Accounts set up a very significant benchmark**