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

<table>
<thead>
<tr>
<th></th>
<th>NZ</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto-enrolment vehicle</td>
<td>KiwiSaver</td>
<td>Occupational pensions, GPPs or Personal Accounts</td>
</tr>
<tr>
<td>Opt-in vehicle</td>
<td>KiwiSaver, unlimited</td>
<td>Individual pensions or PAs (restricted entry, capped)</td>
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KiwiSaver is *the* lifetime organising account

Personal Accounts is one scheme among many

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## System differences

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</thead>
<tbody>
<tr>
<td>System – auto-enrol</td>
<td>Centralised</td>
<td>Dispersed to employers with central regulation</td>
</tr>
<tr>
<td>System – product</td>
<td>Dispersed to private</td>
<td>Private providers except for PAs, a public body, and public sector DB</td>
</tr>
<tr>
<td>admin</td>
<td>private providers</td>
<td></td>
</tr>
</tbody>
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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)

<table>
<thead>
<tr>
<th></th>
<th>2007/8</th>
<th>2012/13</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZD</td>
<td>72 m</td>
<td>67 m</td>
</tr>
<tr>
<td>£</td>
<td>28m</td>
<td>26m</td>
</tr>
</tbody>
</table>

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

Auto-enrol 397,061

Number enrolled 716,637

Opt-out 137,762

35% of auto-enrollees

Includes some ‘provisional’ in 8 week opt out period
Includes 1,044 closed accounts and 3,506 members taking ‘hardship holidays’

Includes some ‘provisional’ in 8 week opt out period

35% of auto-enrollees
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

NZ, 2006  |  KiwiSaver, current  |  UK, 2005/6
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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

- Saving for retirement: 60%
- Member tax credit: 50%
- $1,000 kickstart: 40%
- Saving for family home: 30%
- Compulsory employer contributions: 20%
- Money going out of wages: 10%

Incentives or design: 31%

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Reasons for *not* joining KiwiSaver

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

- Affordability
- Already have superannuation scheme
- Concern over long-term future of KS
- Contributions are locked-in to 65
- Not government guaranteed

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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 emplo
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 age.²
- 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.²
- 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 certain low income households if you're in
² 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

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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

High choice

Low cost

NZ

UK

Registration of KiwiSaver product providers: lower risk, quick set-up

Centralised Personal Accounts scheme new build: concentration of risk, new set-up cost
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