PPI seminar: Lessons from KiwiSaver

The Pensions Policy Institute (PPI) held a seminar on 10 July 2008 to bring PPI Supporting Members up to date with the experience of the New Zealand KiwiSaver Scheme, which has been in operation since July 2007. The seminar aimed to explore the policy lessons for the UK.

The seminar was sponsored by Hewitt Associates and chaired by Niki Cleal, Director of the PPI. The audience represented a wide range of organisations from the pensions industry, consumer bodies, charities, and included officials from the Government and the personal accounts delivery authority (pada).

Cathy Magiannis (Programme Director, KiwiSaver) gave an overview of the KiwiSaver scheme, outlined the outcomes to date and discussed set up and implementation issues. She said that the KiwiSaver scheme has had a very successful first year with take-up figures (including opt-ins and auto-enrolments) far surpassing the initial estimations. The high level of take-up coupled with the complexities of launching the KiwiSaver scheme within very tight deadlines caused some initial teething problems, but these have since been resolved. She highlighted one way in which the aim of KiwiSaver was different from that of personal accounts; KiwiSaver's stated aim is to "encourage a long term savings habit and asset accumulation…" The aim of personal accounts is to build up retirement income.

Alison O'Connell (Independent Researcher and Adviser to the New Zealand Retirement Commission) considered the different policy choices for pension reform in the UK and New Zealand and highlighted the following issues:

- There are lower levels of means testing within New Zealand than the UK. She suggested that the UK Government should seriously consider further reform to reduce the extent of means-testing before launching auto-enrolment;
- the New Zealand Government has chosen to use existing providers to deliver KiwiSaver, which is for all New Zealanders rather than having restricted access as in the case of personal accounts;
- the KiwiSaver model makes a different trade-off between cost/risk/choice than the low cost focus of personal accounts. The KiwiSaver model appears to have worked successfully for New Zealand - it may be that it would also be attractive in the UK;
- people may find matching Government contributions easier to understand than tax relief;
- media encouragement or criticism will be important in determining the success of personal accounts; and,
- the UK Government should determine how it will monitor and evaluate the effects of auto-enrolment before it is implemented.

Andrew Warwick-Thompson (Head of DC Consulting and Services at Hewitt Associates) discussed the pension reforms within the context of the changing pensions landscape. He argued that there was a disconnection between policy making and how employers and employees viewed their financial priorities. Using evidence from a Hewitt survey (of employees and employers in organisations with existing workplace pension schemes) he argued that employees were more concerned with cash benefits and 'smart benefits' which enhanced life-style and life-stage goals than they were with saving for a pension. He also warned that stringent regulations on the pension industry could force large companies to base their pension plans in Europe rather than the UK.

The following points were raised by speakers or members of the audience in the discussion. They do not necessarily reflect the views of the PPI or the PPI seminar speakers.

- It was questioned whether it is ethical to automatically enrol people into funds with low risk investment strategies and large cash components, like KiwiSaver default schemes as these types of funds may deliver a lower investment return.
- There is no guarantee that means tested benefits will still be around in 2030. However, the uncertainty of whether people can rely on means tested benefits in the future makes savings decisions more complicated and difficult.
- KiwiSaver management charges are low but the central administration is handled within the Inland Revenue and funded by the NZ central government. Personal accounts will not be subsidised by the Government and will need to be very efficient in order to keep charges low.
- It was questioned whether people know enough about the potential effect of annual management charges on their final pot size to choose the correct provider for their individual financial circumstances.
- The experience of KiwiSaver suggests that it is important to develop a high level of understanding of the complexity of IT system requirements in order to implement auto-enrolment and anticipate potential complications.
- There is a trade-off between low-cost and choice and NZ and UK policy makers have made different choices on this trade-off.