Are there lessons from KiwiSaver for the UK?

Introduction

New Zealand's KiwiSaver is the world's first voluntary national retirement saving scheme that uses automatic enrolment. It went live on 1st July 2007, following last-minute changes that introduced for the first time: compulsory employer contributions; a subsidy for employers; and a Government contribution to match members' contributions.[1]

This Briefing Note explores the similarities and differences between KiwiSaver and Personal Accounts to see if early indications of New Zealand employee and employer behaviour could provide lessons for the UK.

KiwiSaver vs. Personal Accounts

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	NZ - KiwiSaver	UK - Personal Accounts
Auto-enrolment with option to opt out	New employees aged 18-65 (SPA) when they change jobs	All employees aged 22-65 (SPA) earning >~£5k
Member contributions	4% or 8% full gross earnings	Min. 4% band earnings (~£5k-33k), £3,600 cap on contributions to PAs
Compulsory employer contributions	4% of full earnings, phased in **NEW**	3% band earnings, phased in
Govt. contributions	Matching contribution up to ~NZ$1040 year **NEW**	Marginal tax relief of ~1% band earnings
Employer subsidy	Government matches employer contributions up to NZ$20 / week / employee **NEW**	None yet proposed
Charges	Govt pays NZ$40 / account / year	Low charges in Pas
Annuitisation	Voluntary	Compulsory by age 75
Other incentives / flexibility	Kick start payment (NZ$1000); savings withdrawal for first home / hardship; rewards for first-home buyers with savings habit; divert contributions to pay home mortgage	None yet proposed

KiwiSaver vs Personal Accounts

Different contexts

NZ and the UK have different contexts within which a national auto-enrolment scheme is being introduced. In particular:

- NZ's state pension system does not have the income inequality, means-testing or complexity of the UK system.[2]
- NZ has lower levels of private pension / retirement saving than the UK, and therefore less risk of replacing the existing market or of employers levelling down their contributions.[3]
- In NZ there is no evidence of widespread 'undersaving', but some concern that the retirement income outlook for young people is unclear.[4]
- The NZ Government is keen to increase household saving levels for macroeconomic reasons: in particular, the Government is worried that New Zealanders have too little invested in financial markets, are over dependent on property, and that the NZ capital markets are underdeveloped.[5]

The UK and NZ have opted for different delivery approaches in their national savings schemes:

- In the UK, Personal Accounts will be a single scheme run by the PA Board and providers will compete for contracts.
- In NZ, any provider can register a scheme for KiwiSaver if it meets certain requirements; so there will be competition between providers.

While there are many similarities between NZ and the UK in terms of their polices for retirement / pension saving, there are significant differences between the countries in terms of how those policies are delivered.

Auto-enrolment

NZ and the UK will both have auto-enrolment policies with the option to opt-out:

- In the UK, all eligible employees will be auto enrolled over a specified period and then re-enrolled periodically (perhaps every 3 years). They will be required to contribute a minimum of 4% of band earnings.
- In NZ, employees will only be auto enrolled when they change jobs and will contribute 4% or 8% of full earnings. Others can opt in.

The UK approach is likely to result in faster introduction of Personal Accounts than has been seen for KiwiSaver, but of itself should not affect differences in participation in the long term.

Compulsory employer contributions

- In the UK, employers will be required to contribute 3% of band earnings (around £5,000-£33,000 a year). The contribution level will be set in primary legislation and phased in over 3 years. Fiscal incentives for employers have not yet been proposed.

- In NZ, employers will be required to contribute 4% of employees' full earnings. The contribution level will be in primary legislation and will be phased in over four years. NZ employers will also receive a tax credit reimbursing their contributions up to a maximum of NZ$20 (~£8) per week, per employee.

Low levels of existing provision mean that NZ does not face the same risks as the UK of employers levelling down their contributions. However, it also means that compulsory contributions will be a ***new*** cost for most NZ employers. In 2008 the subsidy for employers will fully offset employer contributions for savers on salaries up to NZ$104,000[6] (~£40,000), thus easing the financial impact on employers. Even when employer contributions are fully phased in, the tax credit could offset 100% of employer contributions for low earners. NZ employers will also become exempt from paying withholding tax on their contributions.

Government matching contributions

- In the UK, individuals will receive Government contributions of around 1% through income tax relief on their contributions—meaning that higher earners will receive higher relief because they pay higher rates of income tax.
- In NZ, Government will match individuals' contributions up to around NZ$1,040 a year (around £400).

The NZ approach should be relatively more favourable for low-moderate earners, who are less likely to be saving already. This approach seeks to maximise the amount of new saving and reduce income and wealth inequalities.[7, 8]

Decumulation

- The emphasis of pension saving in the UK is on ensuring an income in retirement, and annuitisation by age 75 is compulsory in almost all cases.[9]
- In NZ, policy emphasis is on building up assets for retirement provision and there is no policy of compulsory annuitisation. Also, KiwiSaver includes features to encourage and enable home-ownership, such as early withdrawal of funds in some circumstances.

The greater flexibility in NZ could result in different participation rates from those in the UK. For example, young people in NZ may be more inclined to save in KiwiSaver because they will have flexibility to withdraw money for a first home purchase; lessening the direct competition between retirement saving and saving for other life goals.

Lessons for the UK?

While it will be interesting to monitor levels of participation and opt-out from KiwiSaver, there are differences in the designs of the schemes and wider contexts that will make comparisons difficult.

NZ Government statistics suggest that around one-third of new employees automatically enrolled into KiwiSaver have opted-out in the first 3 months.[10] And, that higher than expected numbers of people have voluntarily joined KiwiSaver (about three-quarters of total enrolments). This could result from the ***Kickstart*** incentive payment that NZ savers receive.

NZ is yet to release any official information about how employers have reacted to the reforms. We can expect there is less risk in NZ of employers switching away from existing providers or levelling down their contributions than there is in the UK. This is because: design features allow employers to convert existing schemes to become KiwiSaver schemes; there are low levels of existing provision; and, some costs to employers will be offset by tax credits.

Conclusions

Some of the key risks in the UK context (interaction with means-tested benefits/ risk of levelling-down) don't apply to the same extent in NZ and different incentives for new joiners may drive different participation rates. No doubt the UK pensions sector will watch with interest to see how employees, employers and providers respond to KiwiSaver. However, given the different policy contexts and starting points in the two countries, spectators need to be wary of very simple comparisons.

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1 See www.kiwisaver.govt.nz for full details of changes
2, 3, 4 See PPI (2005) BN 21 ***KiwiSaver: another lesson from NZ?***
5 Speech by John Whitehead, Secretary of the NZ Treasury, 13 August 2007
6, 7 Joint IRD & Treasury report to NZ Cabinet 19 April 2007
8 The UK and NZ also have different tax treatment of savings in the accumulation, investment and decumulation phases.
8 See PPI (2007) ***Pensions primer*** for exceptions
10 KiwiSaver press release 9 Oct 2007 (KiwiSaver website) - this rate could change as employees have 8 weeks to give notice of their decision

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