PENSIONS POLICY INSTITUTE

PPI

PRESS RELEASE

EMBARGOED TO 00.01 THURSDAY 10th JULY 2008

PPI holds a policy seminar on lessons from KiwiSaver for the Government's pension reforms

The Pensions Policy Institute (PPI) will today hold a policy seminar on lessons from New Zealand's KiwiSaver scheme for UK pensions policy hosted by Hewitt Associates.

The speakers at the seminar will include Cathy Magiannis, Programme Director of KiwiSaver from the New Zealand Inland Revenue; Alison O'Connell, the former PPI Director, who is now an independent researcher and advises New Zealand's Retirement Commission; and, Andrew Warwick-Thompson, Head of Defined Contribution Consulting at Hewitt Associates. The seminar will be attended by around 50 attendees with an interest in pensions policy.

Niki Cleal, Director of the PPI, said:

"New Zealand is the first country to introduce a national system of auto-enrolment into retirement saving through its KiwiSaver Scheme. Around two-third of individuals who have been auto-enrolled into the New Zealand KiwiSaver scheme have chosen to remain in the scheme rather than to opt-out."

"If one-third of people auto-enrolled into UK pensions were to opt-out in 2012, as seen in New Zealand, that would equate to around 7 million new work-based pension savers. However, some of the key risks associated with introducing auto-enrolment into pensions saving in the UK do not apply to the same extent in New Zealand: such as the interaction with means-tested benefits and the risk of employers levelling-down existing pensions. The seminar will explore what lessons for policy the UK can draw from the New Zealand experience of implementing KiwiSaver."

ENDS

For further information please contact -

Niki Cleal, Director of the PPI, on 020 7848 3744 or 07834 275083
email: niki@pensionspolicyinstitute.org.uk

Martin Campbell, Beacon Strategic Communications, on: 07802 634695
email: martin@beacon.uk.com

Notes for editors

1. The Pensions Policy Institute (PPI) is an independent research organisation. Its aim is to improve information and understanding about pensions and retirement provision through research and analysis, discussion and publication. It does not lobby for any particular issue, but works to make the pension policy debate better informed.

2. Niki Cleal is the current Director of the PPI. Prior to joining the PPI she was a civil servant at HM Treasury and the Department of Health in the UK. She also advised HBOS plc on public policy.

3. Cathy Magiannis has been the Programme Director of KiwiSaver for the New Zealand Inland Revenue since 2005. Cathy's career spans both the public and private sectors and began in audit.

4. Alison O'Connell was the PPI's first Director. Alison is now based in New Zealand. She retains links with the UK and is a Governor of the PPI. Alison is an independent researcher on pension policy and financial education.

5. Andrew Warwick-Thompson works in strategic business development in Hewitt's Retirement practice and is Head of Defined Contribution (DC) Consulting and Services. Hewitt Associates are an international firm which provide outsourcing, consulting and integrated human resource services.

6. The UK Government has a programme of pension reform underway. If the Pensions Bill currently in Parliament receives Royal Assent, employers will be required by law to automatically enrol all eligible employees into a personal account or an existing qualifying good pension scheme from 2012. Once the reforms are fully implemented employers will be required to make a 3% employer contribution on a band of earnings (approximately £5,000 to £33,000 in 2006/7 prices). Individuals will contribute 4% of the band of earnings and the Government will add at least a further 1% through tax relief unless individuals choose to opt-out of the scheme.

7. The New Zealand Government introduced KiwiSaver on 1 July 2007. KiwiSaver is the world's first voluntary national recruitment saving scheme that uses automatic enrolment. Once the reforms are fully phased in NZ employers will contribute 4% of gross earnings if employees remain opted in. Individuals will contribute 4% or 8% of their gross earnings. The NZ Government provides matching contributions for both individuals and employers.

8. The PPI will today publish a Briefing Note on the policy lessons from KiwiSaver for the UK. The briefing note gives further information on the similarities and differences between the two approaches and the lessons for UK pensions policy.

PENSIONS POLICY INSTITUTE

PPI

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 changes announced in Budget 07 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

PENSIONS POLICY INSTITUTE PPI

	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 **Budget 07**	3% band earnings, phased in
Govt. contributions	Matching contribution up to ~NZ$1040 year **Budget 07**	Marginal tax relief of ~1% band earnings
Employer subsidy	Government matches employer contributions up to NZ$20 / week / employee **Budget 07**	None yet proposed
Charges	Govt pays NZ$40 / account / year	Low charges in personal accounts
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 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; which creates 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 are only auto enrolled when they change jobs and will, over time, 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, over time, be required to contribute 4% of employees' full earnings. The contribution level is currently in primary legislation and will be phased in over four years. NZ employers 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 are a ***new*** cost for most NZ employers. During 2008 the subsidy for employers will fully offset employer contributions for savers on salaries of around NZ$100,000[6] (~£38,000), 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 are also 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, the Government is matching 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 the 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 ongoing levels of participation and opt-outs 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 11 months,[10] and that higher than expected numbers of people have voluntarily joined KiwiSaver (about three-quarters of total enrolments).

Early data suggests that NZ Employers have complied with requirements to auto-enrol new employees into KiwiSaver.[11] And so far there has been little evidence of NZ employers switching away from existing providers or levelling down their contributions (as is potentially more likely 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) do not 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 continue to 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 simple comparisons.

[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: John Whitehead, Secretary of NZ Treasury, 13.08.07
[6] Originally estimated at NZ$104k but subsequently being revised by NZ Inland Revenue
[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.
[9] See PPI (2007) ***Pensions primer*** for exceptions
[10] KiwiSaver press release 18 June 2008 (KiwiSaver website) - rate could change as employees have 8 weeks to opt out
[11] Six-monthly Report 1 (2008) Inland Revenue NZ

For more information on this topic, please contact: Chris Curry 020 7848 3731, chris@pensionspolicyinstitute.org.uk