Review of KiwiSaver default provider arrangements: consumer summary

We want your feedback on how KiwiSaver default funds could be better.

KiwiSaver helps New Zealanders to save for their retirement. Many New Zealanders are automatically enrolled in KiwiSaver default funds when they start a new job. Around 715,000 people are still in default funds, and of those 430,000 haven't made an active choice to stay there.

There are currently 9 providers of default funds, and their appointments expire on 30 June 2021. Before we appoint new providers in July 2021, we are reviewing the settings for default funds.

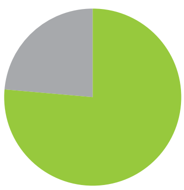
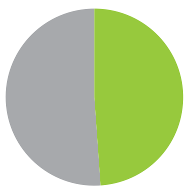
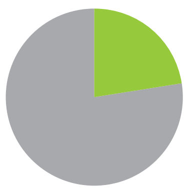
Submissions close on 18 September 2019. You can make a submission through the online portal at mbie.govt.nz/default-kiwisaver

We want to hear from you about how money in default funds is invested

Default funds currently have a **conservative** investment mandate. A change to invest more in growth assets could make a big difference to retirement incomes for people in default funds.

A person with a starting salary of $42,500 who starts in a conservative fund at 18 could have the a KiwiSaver balance at retirement that is $135,00 lower than if a growth fund was chosen and $56,000 lower than if a balanced fund was chosen. **That's an income of $166 a week in a conservative fund compared with $358 a week with a growth fund or $242 a week with a balanced fund (for a person who retires at 65 and lives to 90).**

We are considering four options:

Growth	Balanced	Conservative	Life-stages
 High level of investment in growth assets.	 Moderate level of investment in growth assets.	 Low level of investment in growth assets.	**The level of investment in growth assets decreases as the member ages.**
› Highest returns of the options, but balances would be likely to fluctuate. › People who withdraw their funds early (eg for a first home) could end up with lower balances due to market volatility.	› Higher returns than a conservative approach (about the same as life-stages). › Balances could fluctuate more than with a conservative approach.	› Lower long-term returns. › Balances are unlikely to fluctuate.	› About the same returns as a balanced fund. › Balances would be likely to fluctuate more in the early stages. › People in an early stage who withdraw their funds early (eg for a first home) could end up with lower balances due to market volatility.

Some of these options affect first-home buyers. We are interested in your ideas about how first-home buyers in the default funds could be encouraged to choose a fund that best suits their circumstances.

What is your feedback on these options?

We want to hear from you about fees

Fees and returns can make a big difference to retirement balances for default members. Fees have a compounding effect over time, especially for people on low balances.

Fees for default members usually include a fixed annual fee and a fee that is a percentage of the KiwiSaver balance. For a person with $20,000 in their KiwiSaver default fund, fees are approximately $100-$150 a year.

Some of the options we are considering are:

Option	Costs and benefits
The government sets the fee for default providers.	› This option could lead to lower fees. › BUT it may be difficult to determine what the right fee should be.
Requiring percentage-based fees to reduce over time as the provider's funds under management increase.	› This could lead to lower fees for default members. › BUT providers might build the requirement into their offerings, and instead offer higher fees to start with.
Zero-fees for under 18s or people with low KiwiSaver balances (eg under $5,000 or $10,000).	› The option would help under 18s to accumulate savings. › BUT providers might charge higher fees for everyone else, to compensate.
No fixed annual/monthly fees.	› This could result in higher after-fee returns, especially for those with low contributions. › BUT providers may compensate by increasing percentage-based fees.

Which option do you prefer and why?

We want to hear from you about responsible investment

Some providers take steps to invest responsibly (for example, not investing in certain kinds of weapons, or actively seeking out more "ethical" investments). We want to hear from you about what you think about responsible investment, and the steps that the government could take to ensure that the default funds invest more responsibly.

On the one hand, it might be that default members would want their investments to be made responsibly. On the other hand, imposing responsible investment requirements could be tricky, and could potentially impact on returns for default members. Some people might think that it isn't the government's role to ensure that investments are made responsibly.

Some of the options we are considering in relation to responsible investment are:

Option	Costs and benefits
Prohibit default providers from investing in particular sectors or industries or require them to meet certain certification standards.	› Providers might invest more responsibly. › BUT could lead to higher fees.
Require providers to give members standard information in relation to their responsible investment practices, so that members can make informed decisions.	› Allows easier comparison between default providers. › BUT could lead to higher fees.

Should default funds be used to promote responsible investment? If yes, how should this be done?

We want to hear from you about using the default funds to develop New Zealand's capital markets

We want to hear from you about how New Zealand's capital markets are performing, if you think KiwiSaver default providers have a role to play in developing New Zealand's capital markets, and how to achieve this. With $58 billion funds under management, KiwiSaver presents a unique opportunity to boost investment in New Zealand's capital markets.

Some of the options we are considering to use the default funds to develop New Zealand's capital markets include:

Option	Costs and benefits
A requirement that parts of the management of KiwiSaver default funds should be New Zealand-based.	› Could increase investment in New Zealand due to New Zealand managers having greater familiarity with the local market › BUT could lead to higher fees.
A requirement that a small percentage of default funds should be invested in a targeted area, for example early stage New Zealand businesses.	› Could increase investment in the targeted area, and could develop investment expertise in the targeted area. › BUT could lead to higher fees and reduce provider flexibility to invest in clients' best interests.

Should default funds be used to develop New Zealand's capital markets? If yes, how should this be done?

We want to hear from you about transferring default members to new default providers

We are considering transferring default members to the appointed default providers. If you are a default member, this could mean that your default provider changes.

How disruptive would it be for a person if their default provider changed?

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