

28 February 2006

ISI SUPPORTS KIWISAVER

“ISI supports the Government’s objective of developing “better long-term savings habits” announced by the Minister of Finance, Dr Cullen, today”, said Vance Arkinstall, CEO, Investment Savings & Insurance Association.

“NZ has a recent history of low personal savings rates and compared with many countries we are poorly prepared in terms of possible income to meet retirement aspirations. NZ has a heavy reliance on NZ Superannuation as the primary source of retirement income. NZ Superannuation is only intended to provide a basic no frills income. Many people will simply not be able to live the life style they aspire to on the basis of NZ Superannuation alone. Supplementary personal savings are essential. It is hoped that KiwiSaver will become a major driver of this change in savings habits”, said Mr Arkinstall.

“The industry has always believed that workplace savings is the most effective and efficient way for New Zealanders to save. We believe the Government is right to target deduction from salary/earnings making KiwiSaver an easily accessible option for New Zealanders”.

“KiwiSaver is certainly a step in the right direction towards changing the existing “it’s too hard” culture that is prevalent in NZ. However, there are some doubts whether the KiwiSaver approach will be sufficiently compelling to many New Zealanders, but it represents an important first step”, said Mr Arkinstall.

“Automatic enrolment is an interesting approach that has been effective elsewhere”, said Mr Arkinstall.

“The \$1000 locked in Government start-up contribution is a welcome addition. But the absence of ongoing encouragement may count against long term saving”.

“The \$5000 assistance to buy a first home is simply a novelty targeted at a very small low income group – the introduction of housing assistance only reduces the focus on long term saving objectives and is an option many will never be able to access”, Mr Arkinstall said.

“The industry is concerned that the 4% minimum contribution rate may set the hurdle too high for many potential savers. Certainly we anticipate low participation at the 8% level. We would have preferred a lower introduction level increasing in steps as people adjust to regular contributions to long term saving”.

“The prospect of a Government subsidy to fees is an attractive feature. Details of the subsidy have yet to be released and we await the regulations containing this missing information”, said Vance Arkinstall.

“It is not clear how potential investors will access advice regarding the investment options most suited to their individual circumstances. The risk is that investors may be attracted only by low fees and drawn into conservative options, missing long term growth options that might be more suitable and which good advisers might lead them to. Ensuring the provision of quality advice will be a challenge for both Government and industry”, Mr Arkinstall said.

“Extending the contribution holiday option from the 3 months announced at the 2005 Budget to 12 months as provided in the legislation reveals a sudden lack of confidence in the automatic enrolment and ability to opt out feature that is such a strong feature of KiwiSaver. Time will tell if this will become a negative for potential KiwiSavers”

“It is not clear exactly how employers will resist pressure from employees who decide to cease contributions after less than the minimum 12 month membership. This may be a negative aspect for employers”.

“The portability feature allowing investors to transfer between different products will ensure healthy competition and is welcomed by the industry”, said Vance Arkininstall.

“ISI welcomes KiwiSaver as the first strong and clear signal from successive Governments for over 15 years on the importance of personal long term savings”.

“The simplicity and automatic enrolment features that are a strong element of KiwiSaver we hope will be attractive and drive a stronger savings ethic”.

“We encourage Government to utilise the shortly to be announced reform of taxation on savings as a further opportunity to make saving through managed funds and collective investment vehicles an attractive option for savers”.

“Overall, whilst we may have reservations around some design aspects the savings industry welcomes KiwiSaver as a major step towards an effective, efficient and easily accessible long term saving option”, Vance Arkininstall said.

For further information contact:
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