MEDIA RELEASE

FinancialServicesCouncil.
growing and protecting the wealth of New Zealanders

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KiwiSavers consigned to Conservative Default Funds have to Save Harder and Pay more Tax

The Government's decision to retain the conservative default funds approach to KiwiSaver means New Zealanders will have to save a lot more for a lot longer and pay a lot more tax on those savings as they try and build their retirement nest egg.

"Many people who have enrolled into KiwiSaver have defaulted into conservative funds without making an active choice to be there," says CEO Peter Neilson. "If someone on the average wage contributing 6% p.a. stays in a conservative fund for the next 40 years they'll end up with a nest egg at least $150,000 smaller than if they invested in a balanced portfolio $250,000 less than being in a growth fund. Investors also need to know that conservative funds suffer the highest effective tax rate which increases the savings required to get to a comfortable retirement."

Nest Egg for Someone on Average Wage Contributing 6% to KiwiSaver over 40 Years

KiwiSaver Fund	*Interest Rate Return After tax and Fees*	*Nest Egg at 65*	*Difference*
Conservative	4.0%	$328,772	-
Balanced	6.0%	$514,521	$185,749
Growth	6.6%	$596,543	$267,771

The Financial Services Council earlier this week presented a package of evidence-based and researched options on ways to double retirement incomes and make KiwiSaver more affordable, fairer and accessible so New Zealanders could reach a comfortable retirement.

The key points of the FSC plan presented to policy makers and decision makers are to:

- keep as is NZ Super and the link to wages
- gradually increase contributions by 1% p.a. to 7%

- move default KiwiSavings into higher earning, life stage appropriate funds
- offset additional risk with insurance or a capital guarantee
- level the tax playing field for KiwiSaver
- re-target the KiwiSaver incentives to fund lower tax rates

Mr Neilson said while he understood that Government believed retaining the conservative, risk-averse investment approach was the most appropriate choice when it was taking decisions about other people's private savings, there were other ways to mitigate risk and volatility of higher earning funds.

The OECD recommends a life stages approach to default investment so younger people invest in more growth assets and then move into conservative funds close to retirement. The OECD has also provided advice on how to provide guarantees to manage the risk of retirement savers.

"Obviously with more growth assets, there is more volatility in the returns year by year so the FSC suggests providing a form of insurance or a top-up to guarantee a level of funds in your account when you reach 65," Mr Neilson said. "One way of doing this would be to guarantee that anyone who saved over say 30 years would get enough in their retirement nest egg to purchase a second pension, equivalent to NZ Super, and double your retirement income.

An independent assessment shows that this would cost KiwiSavers about 0.31-0.35 of 1% in additional contributions which is a bargain if your returns are to be 2.0-2.5% higher per year.
This would be of particular value to people who spend more time out of the paid workforce, like women looking after family members, or if your retirement collided with poor financial markets.

"Ours is not a tax system that encourages people to save a little for a long time and make it part of the New Zealand way of life. That is another reason to move people into balanced and growth funds to better match their life stage," Mr Neilson said.

"We have the most hostile tax environment for long term savings in financial products with compound returns like KiwiSaver conservative assets that we could find anywhere in the world. The amount you need to save each year under current settings is 10% of your income for 40 years if you want a comfortable – not lavish – retirement," he said. "Over 40 years the impact of the effective tax rate on your investment returns reduces your retirement nest egg by more than 50%.

While the Government is advocating the importance of financial literacy and education so individual KiwiSavers actively decide how they invest and wants to instil a culture of saving, there is a need to ensure that members understand how their savings will be taxed and therefore what they need to do to save themselves.

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