# KiwiSaver insights study

## Time to help Kiwis make informed decisions

## Introduction

KiwiSaver has just gone through its 12th birthday and has been a massive success. In its short 12 years, KiwiSaver has enrolled 3 million people who have invested over $61 billion[1] in the range of KiwiSaver schemes available.

To mark our launch, kōura, delved into the country's KiwiSaver behaviours, surveying 1,000 New Zealanders about their KiwiSaver – how they were using it, what their retirement expectations were, and how informed they felt about the investment scheme.

From other surveys we know, people struggle to engage with or understand their KiwiSavers. While this survey confirmed the previous findings it also for the first time shows the implications of that lack of engagement.

## Summary of findings

A large majority of New Zealander's think they are fine due to the fact they are participating in KiwiSaver. They do not realise that the decisions they are (or most probably are not) making today will not deliver the outcomes they expect.

**Some of our key findings were:**

- **68% of Kiwis believe KiwiSaver to be a very important tool for their retirement**
- **The average person contributes 3% to their KiwiSaver; this will provide a retirement income that is less than half their current income**
- **Less than half of people are sitting in the type of fund that's right for their risk appetite and objectives. This could cost an average Kiwi hundreds of thousands of dollars**
- **People do not have access to personal financial advice. Digital advice will therefore be a critical tool in helping improve KiwiSaver engagement and outcomes for people**

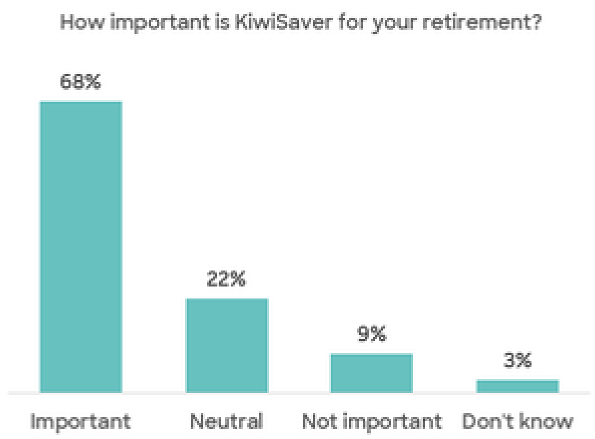
Rather than crossing their fingers and hoping, we need Kiwis to start making active and informed decisions so that they can achieve the objectives they have set themselves.

kōura has been built to address these issues, a friendly consumer focused digital advisor to help Kiwis make the right decisions about their KiwiSaver.

## KiwiSaver is very important for most peoples retirement

Most New Zealanders are expecting to rely on their Kiwisaver when they finish working, 68% of people consider Kiwisaver to be extremely or very important for their retirement.

37% of Kiwis had no other retirement savings outside of KiwiSaver and this number rose to 49% for those under the age of 45.

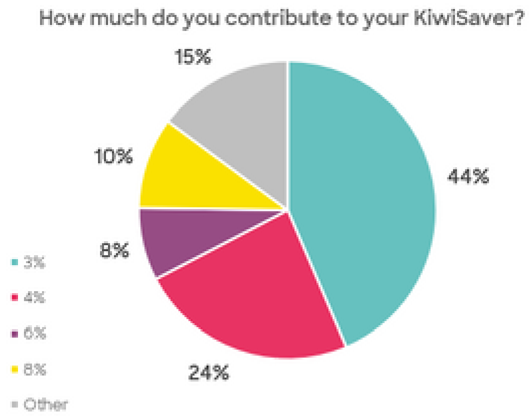



**Given how important KiwiSaver is for people's retirements, we need to ensure they are making the right decisions to allow them to meet their objectives.**

## Despite being important, most Kiwis won't have anywhere near enough for a comfortable retirement

44% of Kiwi's contribute only 3% of their salary. For an average Kiwi, this will deliver a post retirement income of around half of their current income.

Research shows that you should aim to have 70% of your pre- retirement income to be comfortable in retirement. If Kiwis are relying on their KiwiSaver, they will either have to work longer, or will need to make serious adjustments to their lifestyle when they retire.




**The implications**

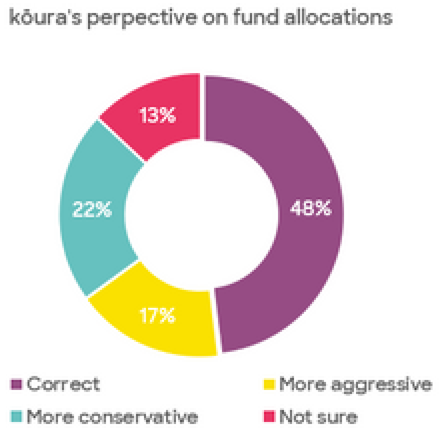
An average KiwiSaver earning $80,000 currently takes home $1,159 per week after tax. A 3% contribution will only deliver an income of $614 per week, (including NZ Super) a little more than half of their current income.[2]

**Kiwis are expecting to rely on their KiwiSavers for their retirement, though are not contributing anywhere near enough for this to happen. As an industry, we need to give them the tools to get the answers.**

## Less than half of people are sitting in the right type of fund

We assessed each person's risk appetite and objectives using the Kōura tools and algorithms. We saw that less than half of KiwiSavers that were saving for their retirement were in the type of fund that we would have recommended for them.

As we would expect, the people that were most likely to be in the right type of fund were those that had sought advice from a financial adviser, with those that had not sought any advice at all (or used google) least likely to be in the right type of fund.




**Too many KiwiSaver members are in the wrong type of fund. Being in the wrong fund could cost a member hundreds of thousands of dollars.**

### Impact of being in the wrong fund

We looked in detail at the under 45 age category - arguably the people that will be most impacted by the decisions they make today for their retirement. They also make up 63% of all people enrolled in KiwiSaver

- Only 53% of people under 45 intending to use their KiwiSaver for retirement were in growth funds
- Of the 47% who were not sitting in growth funds, 67% told us that they wanted to prioritise growth of their KiwiSaver versus managing volatility - a low risk profile indicator.

There are 1.8m people under the age of 45 in KiwiSaver with $38 billion invested. Our analysis shows this segment of population have missed out on over $2.5 billion in returns over the past 2 years.[3]

At the individual level, the difference between being in a default fund and an appropriate set of funds will be hundreds of thousands of dollars by the time a member is 65.

## Digital advice will play a key role in improving engagement

Previous industry research has found that only a small percentage of New Zealander's engage with a financial advisor. Most people don't engage with their retirement due to a lack of time or knowledge. Our follow up survey confirmed this with only 41% of people indicating they would even be open to talking to an financial advisor.


KiwiSaver members need to become more involved with their saving decisions and understand the outcomes they may want to achieve. The recent Financial Services Council's report, KiwiSaver 2050[4] suggested that the use of artificial intelligence and digital advice to help kiwis make plans for their retirement could be a significant breakthrough with improving financial literacy and engagement.

The OECD (2017), Robo-Advice for Pensions Report[5] further confirms that user-friendly digital interfaces can facilitate investing and make the process more transparent and accessible. An increased benefit is that the use of algorithms allows investment recommendations to be based on financial techniques and theory free from the behavioural bias of an advisor, resulting in objective recommendations for the client.

**Lowering the barriers to financial advice will be a critical point in helping people make the most out of their KiwiSaver. We strongly believe that free digital advice will play a key role in improving the financial literacy of KiwiSaver members and help them make meaningful informed choices that are in their own interest.**

## Our Conclusions

KiwiSaver has been successful and has been a very useful tool to help get people start to think about their retirement. Though unfortunately we have not yet got to the point where people understand how to make the most out of their KiwiSaver or what to consider. Anecdotal evidence shows that people believe it is dealt with and they do not need to make any decisions.

What is happening as a result of this ennui is that there is a significant difference between what people expect their KiwiSaver to deliver for them and what it actually will. This problem is exacerbated by the fact that many people have never made an active decision on their funds so remain in very conservative options that will make it even harder for them to achieve their goals and objectives.

### Core steps forward

As an industry, we need to do a better job at helping people get to a better world. Some of the steps we could take are:

- Develop tools to help people assess their risk appetite rather than asking them what their risk appetite is
- Improve our efforts to educate and inform people on the implications of their decisions they are / or are not making so they can make better decisions
- Remove barriers so more people can secure the financial advice they need to maximise their KiwiSaver

**Assumptions & References**

1. Source: KiwiSaver Statistics, http://www.kiwisaver.govt.nz
2. Assumes KiwiSaver is invested as per kōura recommendations using FMA prescribed returns. These figures include NZ Super payments of $316/week. Investment starts at age 30, with $0 balance and employer contributions are capped at 3%.
3. Calculation is based on a 5% earnings differential between a conservative and growth fund.
4. Source: OECD. (2017). Robo-Advice for Pensions
5. Source: Financial Services Council. (2019). KiwiSaver 2050: Pathways to the future