KiwiSaver Evaluation
Survey of Individuals
Summary Report

Prepared by Evaluation Services

Inland Revenue

Contents

Introduction

In 2010 Colmar Brunton was commissioned to undertake a survey of individuals with respect to the early impacts of KiwiSaver. Colmar Brunton provided a detailed technical report at the completion of the survey process. This report is available on the Inland Revenue website. The purpose of this summary report is to synthesise the data presented in the Technical Report under each of the four objectives listed below and to provide a discussion of the findings from this work. As such it focuses on the impact of KiwiSaver on individuals during the first three years of implementation.

The four objectives of this survey were:

1. To gain a greater understanding of the profile of members and non-members and the reasons for membership/non-membership in order to determine whether participation is being successfully encouraged.
2. To investigate the drivers behind members' use of KiwiSaver features with a view to understanding how longer-term use of KiwiSaver might develop, whether the features are operating as intended, and how the use of these features may influence savings outcomes.
3. To investigate members' and non-members' attitudes and approach to savings for retirement to understand whether longer-term savings behaviours are being established.
4. To provide an indication of the extent to which members' KiwiSaver saving is additional with a view to determining whether KiwiSaver will promote greater financial independence in retirement for the target group, i.e. individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.

The work by Colmar Brunton was an important first step in considering the impact of KiwiSaver on individuals. Further analyses will be undertaken with respect to these objectives. Such analyses are needed in order to consider the relationship between multiple variables and to better isolate the effect of particular variables of interest. They are also needed to more fully consider the questions of longer-term savings and additionality; key areas of concern.

In the first instance this will be through an augmentation of the survey data with Inland Revenue administration data and subsequent focussed analyses around areas of interest by different agencies. It is intended to commence these analyses late in 2010. Subsequent work will also utilise data from the Survey of Families, Income and Employment (SoFIE) undertaken by Statistics New Zealand. This will be undertaken in 2012.

Methodology

A face-face survey was undertaken of 825 participants aged between 18 and 65. Of these 557 were randomly selected and 268 selected from a sample of KiwiSaver members. The response rates were 75% and 57% respectively. Of the total number of respondents 474 were KiwiSaver members and 351 non-members. These numbers were weighted to reflect population characteristics for gender, age and household size. They were also weighted to ensure that KiwiSaver members were not over represented.

Demographic information collected included the following:

- Gender, age, ethnicity.
- Partner or no partner, number of dependent children.
- Home ownership.
- Combined annual income, net worth.
- Education of respondent and partner.
- Occupation of respondent and partner.
- Current employment situation of respondents and their partners where applicable.

Other data collected enabled the development of psychovariables including:

- Attitude to risk.
- Attitude to planning for retirement.
- Knowledge of KiwiSaver.
- Extent of engagement (active decision-making).

Data were analysed using cross tabulations between key groups of interest. Only statistically significant differences at the 95% level were reported. For those questions where a number of factors were considered categories of response were created. A number of derived variables were also constructed and details of how this was done are provided in the Colmar Brunton report.

For more detailed reporting of the substantial data collected through this survey as well as a detailed description of the methodology please refer to the Colmar Brunton technical report.

Limitations to the study

There are a number of limitations to the data reported here and in the technical report. These are in both the nature of the data and the analyses that have been undertaken to date. The limitations include:

- This is self-report data based largely on perception. There is room for misinterpretation and varying understandings of different features of KiwiSaver on the behalf of respondents.
- The financial literacy of respondents (which is not measured) and their engagement in their own finances may also impact on the accuracy of responses. There are some answers which do not appear to have face validity; when compared with administrative data. This may be due to inaccuracies in the understandings of the respondents.
- There are a number of questions where the large numbers of 'don't know' responses have impacted on the findings. This is of particular relevance to questions related to provider and investment fund choice.
- Caution is needed in interpreting the initial results. In some cases an apparent relationship with one variable (e.g. age or income) might in fact be obscuring the effect of other more critical variables.
- The survey data do not provide sufficient detail for in-depth analyses of the impact of KiwiSaver on national savings or overall consumption levels. Nor do they consider asset accumulation. Economic analyses of this sophistication were outside the scope of this project and will be conducted as part of subsequent research.

These limitations not withstanding the Colmar Brunton technical report does provide clear indications regarding the implementation and impact of KiwiSaver in its initial phases. The findings from this work provide clear signposts for further evaluation and policy work. It is these that are highlighted in this summary report.

To note

Throughout this report the term *members* refers to all those aged 18 to 65 who are members of KiwiSaver. The phrase *Kiwisaver households* refers to households where at least one adult is a member of KiwiSaver. All percentages reported are weighted data and the sub-groups they are drawn from vary in both size and nature; different groups of respondents were asked different questions throughout the survey.

Objective 1: Who has joined KiwiSaver and why?

This first section considers the demographics of KiwiSaver members and provides an understanding of the profile of KiwiSaver members. It should be noted that more sophisticated analyses will be required to develop a deeper understanding of who is joining KiwiSaver and what, if anything, is driving their membership.

Also discussed are the reasons given for joining KiwiSaver along with the reasons for not joining.

Who are KiwiSaver members?

The demographic data show that KiwiSaver members are drawn from a wide cross section of the New Zealand population. Proportionally, they are broadly similar to the national population across a number of demographics including age, gender, ethnicity, homeownership, education and general health.

Key demographics of KiwiSaver members include:

- They are predominantly NZ European (71%).
- 49% are male and 51% female.
- 31% are in the 50 to 65 age group and 28% are aged between 18 and 29.
- They are generally employed either full time (51%) or part time (25%).
- 50% are home-owners
- 64% have a combined annual income of less than $80,000 (those reporting this level of income are predominantly single individuals although a few are couples).
- 42% do not have a partner and 61% have no dependent children.

Further analyses are needed to consider the implications of these findings. Of particular interest, is how these demographics fit together and which, if any, are the key determinants of membership. Income is of particular concern and further analyses are required to control for family size when considering combined annual incomes.

However, there appears to be some relationship between membership and the life stage people are in; for example, whether they have children and partners to support, what other financial commitments they may have, and their age and career status.

Three derived variables were also considered: attitude to risk, knowledge of KiwiSaver and engagement with KiwiSaver. These are discussed below.

Attitude to financial risk

Survey respondents in general do not appear willing to take financial risk:

- 47% said they were an average risk taker with regard to financial risk and a further 43% were low risk takers.
- Only 9% said they were willing to take high or very high risks.
- There was no difference between KiwiSaver members and non-members with regard to attitudes towards risk.

This finding has salience when one considers the choices members make with regard to providers (these tend to be banks) and investment funds (mostly conservative and low risk). It also has salience given reports that many people apparently perceive KiwiSaver as a 'safe' option through an erroneous belief that it is Government guaranteed[1]. This belief in the security of their investments may have encouraged enrolment with regard to KiwiSaver.

Also to note is that this survey was undertaken at a time when confidence in investment funds was low and when people had been hurt by the recession and the global financial crisis. This must have coloured the response, of at least some, to this question. Furthermore, people's willingness to take risk may reflect their level of financial literacy and lack of understanding of financial planning.

Knowledge of KiwiSaver

Knowledge of the features of KiwiSaver was high. Note that this does not necessarily equate to financial literacy or even to an understanding of KiwiSaver and how it operates. It may imply no more than a superficial level of knowledge that is closer to awareness than understanding.

- 71% of respondents said they knew at least 9 of the 16 features of the scheme they were shown.
- KiwiSaver members were more aware than non-members with 85% having heard of at least 9 features compared to 64% of non-members.
- This was even more marked when considering those who were aware of at least 13 features (53% of members compared with 31% of non-members).

Both members and non-members were also asked whether they had enough information to help them decide about membership. 80% of KiwiSaver members and 64% of non-members felt they did have enough information. The increased levels of information for KiwiSaver members may be due to the information received when they are auto-enrolled.

[1] A UMR national survey showed that 48% of KiwiSaver members surveyed thought their scheme had a government guarantee. This survey was undertaken between 4th and 7th March 2010 and reported in The Press on the 15th March.

Engagement with KiwiSaver

The level of engagement with KiwiSaver was determined by considering how often people made an active decision with regard to their KiwiSaver account. It should be noted that in some instances an apparent lack of engagement may have been an active decision, or appropriate to their circumstances.

- 15% of members had a score of 0 meaning they were not engaged at all; having been auto-enrolled and then remained with a default provider with no consideration of other providers.
- 21% of members had a score of 6 meaning they had actively considered what other providers offered and also considered the benefits of different types of investment funds.
- Just over half (57%) had a score of less than 3, which could be seen as moderately engaged or less.

This lack of engagement is worth considering further with regard to the future of KiwiSaver. The low levels of engagement reported above could be seen as an unintended consequence of the design features of KiwiSaver; which make disengagement easy. Whether this is an issue needs to be balanced against the success of KiwiSaver as an easy way to save.

It may be that levels of engagement will increase as people have more money invested. If this is the case, involvement in KiwiSaver may lead to increased levels of financial literacy as people receive documentation about their investments. It could be that KiwiSaver becomes a way to increase financial literacy in an authentic learning situation. Alternatively, people may be happy to just watch their retirement savings grow.

Why are people joining KiwiSaver?

KiwiSaver members were asked why they had joined KiwiSaver. They could provide more than one reason but were also asked to indicate what the *most important* reason was. They were provided with a list of prompts for this question but could offer reasons not listed.

- The most commonly reported *most important* reason was that KiwiSaver is a way to save for retirement (46% cited this reason). This was one of the reasons given by 76% of KiwiSaver members.
- The contributions and incentives from employers and government were the *most important* reason for joining for 24% of KiwiSaver members and were one of the reasons for 77%. Within this category government contributions were the *most important* reason for 19% and a reason for 67%.
- Another commonly mentioned reason was that KiwiSaver is an easy way to save. This was one of the reasons offered by 72% of KiwiSaver members and the *most important* reason for 12%.

What is important to note here is that most people are joining KiwiSaver because it is perceived as a good way to save. The incentives play a part but are not the *most important* reason for many people. Further, government contributions are not a reason for 33% of members. Worth considering further may be whether there are any differences in reasons by enrolment type or other factors such as the extent to which they have other retirement income sources or their net worth.

Why have people decided not to join?

A number of reasons were offered for not joining with no single reason being mentioned by more than a third of non-members. Most non-members had never been members (84%) with very few having opted-out (12%).

Three key reason categories were:

- 32% said that they could not afford to join KiwiSaver.
- 30% said there were better investments or ways to provide for financial security.
- 28% had not got around to joining.

Links between this notion of not being able to afford to join KiwiSaver and the comments above regarding the life stage respondents are in and the resultant demands on, and level of, their income are worth considering. It may be there are two groups of people who are not members of KiwiSaver: those who do not believe they can 'afford' the decrease in disposable income and those who already have other retirement savings (possibly those on higher incomes).

That 28% have not got around to joining suggests that they may have joined if they had changed jobs recently. This is worth investigating further.

Child membership

An interesting outcome for KiwiSaver has been the number of children who are members.

- Of the 45% of respondents who have dependent children, 22% reported that at least one child was a member of KiwiSaver.
- The most common reason given for joining their children was the $1000 kick-start from the Government. This was one of the reasons for 83% of those who had done so and the *most important* reason for 34%.
- Saving for retirement (59%), saving for a future home (54%) and teaching children good savings habits (52%) were also mentioned as reasons for joining their children.
- While they have enrolled their children 50% said no further contributions had been made.

Is membership being encouraged?

A number of findings suggest KiwiSaver membership is being encouraged and that many of the features designed to ensure this (as discussed subsequently) are working. Evidence includes:

- 72% of members report that one of their reasons for joining is that KiwiSaver is an easy way to save.
- 45% of those who were auto-enrolled would not have joined KiwiSaver otherwise.
- Only 12% of non-members had been auto-enrolled but chose to opt-out.
- The government contributions are a reason for joining for 67% of members.
- 32% of members were not saving for retirement when they joined and this was a reason for joining.

Also to consider with regard to encouraging membership is whether people know enough about KiwiSaver to make informed decisions and whether they know about the relevant design features. As discussed above it appears that most people are at least aware of the key features of KiwiSaver. This suggests that KiwiSaver has been effectively promoted.

Objective 2: Use of the Features of KiwiSaver

The design features of KiwiSaver can be grouped into three categories as listed below.

1. Those that make it easy to join:
   - Being administered by employers.
   - Automatic enrolment when changing employers.
   - Deductions at source.
   - Default contribution rate.
   - Default KiwiSaver scheme.
2. Those that make it hard to get savings out of KiwiSaver before the age of 65 years:
   - Limited opportunity to opt-out.
   - Locked in savings.
3. The incentives that make it attractive:
   - Kick-start payment.
   - Member tax credit.
   - Ability to put savings towards a first home mortgage.
   - Contributions holidays.

The use of each of these is discussed separately before consideration is given to how longer term use might develop, whether the features are operating as intended and how the use of the features might influence savings options.

Making it easy to join

Data from the survey suggests that those features designed to make it easy to join KiwiSaver are working as intended. As discussed above, a commonly cited reason for joining was that KiwiSaver was an easy way to save for retirement. Further, many members are not actively engaged in managing their KiwiSaver fund and once they have joined, KiwiSaver seems to have become an automatic part of their lives. Evidence of this can be found in the following findings:

Administered by employers and deductions from source

Evidence suggesting the success of the work-based scheme features, including the deductions at source, are:

- 68% of members have either been auto-enrolled or enrolled through their employer.
- 92% of KiwiSaver members contribute directly from salary or wages.
- Only 15% have changed their contribution rate despite life changes for 57% and a decrease in the default rate. This suggests they are not 'missing' the deducted money or are no longer aware that it is coming out or that they have reduced other savings.

Automatic enrolment

Automatic enrolment is an important design feature in terms of encouraging people to join KiwiSaver. For those starting a new job it is easier to join than to not join. Key findings related to auto-enrolment include:

- Over a third (37%) of members were auto-enrolled. Of these 45% report they would not have joined KiwiSaver otherwise.
- Only 12% of those auto-enrolled subsequently opted-out.
- 78% of auto-enrolled members report they would have stayed in KiwiSaver even if they had been allowed to opt-out before the two week period.
- 42% of those who were auto-enrolled are in the 18 to 29 age group. They are also the largest single age group amongst those who opted-out. This is the group likely to benefit most from longer-term savings and also most likely to be auto-enrolled.

The default features

The default features of KiwiSaver remove the pressure of needing to make decisions about what provider to choose, what kind of fund to invest in and how much to invest. That these seem to be working can be seen in the relatively low overall levels of engagement with KiwiSaver discussed earlier. Other data related to each of these features are listed below:

- Default providers are not as dominant as might have been expected; given the number of people who are auto-enrolled (37%).
  - 17% of members have been allocated by Inland Revenue to their current provider.
  - 27% report going with their employer's chosen provider.
  - 50% report having chosen their current provider.
  - Of the top five providers, in terms of overall market share, only two are default providers with banks dominating. However, it should be noted that 15% of members did not know who their provider was (20% of those who were allocated by Inland Revenue). This means that the numbers with default providers are likely to be much higher.

Note that both going with their employer's chosen provider and choosing their current provider could, in reality, mean that they are with an Inland Revenue default provider. The extent to which people have made an active choice to be with a default provider cannot be immediately determined from these data; although it appears some may have.

- The default fund type, which is Conservative, can be said to match the reported risk profile of New Zealanders.
  - 40% of members did not know what their fund type was. This is a key finding for this feature suggesting that many people do not make decisions beyond their provider.
  - For those with an Inland Revenue default provider the proportion who did not know was 52%. These members are likely to also be with a Conservative default fund type. This means a total of 72% with Conservative funds from this group.
  - Amongst those who did know what their fund type was 45% have low to medium risk funds. This figure is likely to be substantially larger, as suggested above, given that most default funds are Conservative.
- The default employee contribution rate changed from 4% to 2% in April 2009. These are the dominant contribution rates.
  - 33% are contributing 2% and 43% are contributing 4%.
  - 6% contribute 8% of their salary, while a further 8% do not contribute directly from salary or wages.
  - Only 15% report having changed their contribution rate; of these 12% have decreased it.

The extent to which people changed their contribution rate post April 2009 is worth considering in subsequent analyses. If most people stayed on the 4% rate it could be argued that deduction at source has automated KiwiSaver for many people; to the extent where they do not consider changing.

Those not in KiwiSaver

Despite the apparent success of these features there is still large group (84% of non-members) who have never been part of the KiwiSaver scheme; they are not currently members and have not opted-out. This group is worth considering further, particularly if they are part of the target group for KiwiSaver; people whose standard of living in retirement is likely to be lower than that before retirement. Key demographics of this group include:

- 76% are New Zealand European.
- 49% are male and 51% are female.
- They are evenly spread across the four age groups (18-29, 24%; 30-39, 22%; 40-49, 26%; and 50-65, 28%).
- 72% have a partner and 50% have no children.
- 56% currently own a home.

- They are spread across different income groups with 50% reporting a combined annual income of $80,000 (regardless of whether for a couple or an individual).
- 47% are employed full time and 14% are employed part time.

There are inherent dangers in attempting to draw any conclusions from these demographics without more sophisticated analyses. What is apparent is that there are likely to be a number of demographic factors working together, which help explain membership decisions and status. For example, a number of these may be those who have not got around to joining; they may also include those who have other retirement savings options.

Worth considering is the state of the employment market in recent years and the fact that few people were changing jobs. For those who have not done so there is a need to make an active decision to join. As the employment market recovers and more jobs become available the number of automatic enrolments may increase again. There remains the potential to 'capture' the 28% who have not 'got around to joining'.

Locked-in features of KiwiSaver

Two design features were aimed at locking in members' savings once they had joined KiwiSaver. These were a limited opportunity to opt-out and locked-in savings. People can only opt-out between two and eight weeks from joining. They can also not withdraw their funds before they turn 65 except in extreme hardship cases or to buy a first-home. In both instances an application process is required.

Opting-out of KiwiSaver

Only 12% of non-members have opted-out of KiwiSaver. This suggests that making it harder to opt-out has been successful in deterring people from doing so.

- Of those who had opted-out 58% reported they had done so during the two week stand-down period. It is likely that they informed their employer they wished to opt-out and that this was actioned at the appropriate time.
- A further 15% report doing so around the two week period.

These figures suggest that many of those who wish to opt-out have already decided to do so; either before being auto-enrolled or very soon afterwards. It appears that if people have not opted-out early they are unlikely to do so.

Locking in savings

The lock-in feature was a reason for joining for 32% of members and a deterrent for 16% of non-members.

The incentives

A number of incentives have been included in the design of KiwiSaver, which aim to make it attractive to join. These are the kick-start payment, the member tax credit, the first home-ownership features and the contributions holidays.

The kick-start payment and member-tax credit

- 67% said the government contributions were a reason for joining KiwiSaver; conversely 33% did not see them as a reason.
- 19% said they were the *most important* reason.
- Beyond this 19% the extent to which these features influenced people's membership decisions cannot be determined.

The first home-ownership features

- The first home-ownership features were a reason for joining for 24% of members and the *most important* reason for 10%.
- Of those who were aware of the features 56% report they are quite likely or very likely to apply to withdraw funds.
- 72% of those who knew about the first-home deposit subsidy are quite likely or very likely to apply.

Contributions holidays

It should be noted that there is a requirement that someone be a member for one year before they are eligible for a holiday. Over time the numbers on holidays may increase. Subsequent analyses will control for this in order to determine more accurately the proportion of eligible members who have taken a holiday. These data suggest contributions holidays are yet to have a major impact.

- Contributions holidays were a reason for joining for 12% of members.
- Only 9% of KiwiSaver members reported ever having taken a contributions holiday.
- 6% of members were on one when they completed the survey.

Awareness of the features

Awareness of these different features is variable and important when considering their impact on behaviour. The kick-start is the most well-known of the incentives. It is the one that all members are eligible for on joining with no further eligibility criteria. As such it is likely to be the most powerful incentive. The findings above suggest this is likely to be the case.

- 92% of respondents knew of the kick-start and 58% of the members tax credit.
- 56% of respondents knew of the contributions holidays (67% of those who have not taken one).
- 64% of potential first-home buyers knew of the first home withdrawl option and 34% of the first-home subsidy.

How might longer term use of KiwiSaver develop?

It is difficult to gauge from these findings how longer term use of KiwiSaver might develop. The survey was undertaken after KiwiSaver had been in operation for three years. This means that the first group of members would be eligible for the first home-ownership features approximately six months after the survey was completed. It also means that some of the members would not be eligible to take contributions holidays (need to be a member for one year except in extreme cases). There are also contextual factors to consider, in particular the extent of the economic recovery and its impact on the employment market.

The importance of the 18 to 29 age group when considering the future of KiwiSaver needs to be emphasised.

- They are those most likely to be starting a new job given their age and, therefore, to be auto enrolled.
- They are the group for whom longer-term savings behaviour is most likely to be established given the length of time before they retire.
- They are the group who are mostly likely to benefit from the incentives as they are more likely to use the first-home features and to gain the most from the member tax credits.
- They are also the group which, as may be expected, is least likely to be concerned about retirement given their age; as such the design features which make retirement saving easy could have the most impact.

That 84% of non-members have never been 'captured' needs to be considered looking forward. Some of these are unemployed or self-employed (40%) but the majority are in employment (60%) suggesting they have not changed jobs in the last three years. A more active employment market could ensure that at least some of these do change jobs in the future and as such become part of the group affected by auto-enrolment.

Determining which of the respondents are eligible to take a contributions holiday, and then recalculating the percentage that are actually on a holiday as a proportion of that group would enable a more accurate determination of the proportion of members likely to take contributions holidays. These data suggest that life style changes are not driving the use of contributions holidays but we are unaware, currently, of how many of the 57% experiencing life style changes were also eligible for a holiday.

What will be interesting to consider in the future is whether people become more actively engaged in KiwiSaver over time; as their investment and membership time increases. There may be less reliance on default products over time and more awareness of how much they have invested. Also the attitude of members to risk could change if there is an economic recovery meaning people become less concerned about financial security per se.

Are the features operating as intended?

The findings above suggest that the features are operating as intended. Relatively few people are opting-out of KiwiSaver, they find it an easy way to save and there is some evidence to suggest that once the money is deducted at source people do not “miss it” as such.

The incentives are a reason for joining for many members. However, we do not know if people would have joined anyway from these data. For the 19% for whom they are the main reason this is arguably unlikely but beyond that the extent to which the incentives have influenced decision making is unknown.

How might the use of these features influence savings outcomes?

There is some evidence to suggest that the use of these features is increasing savings outcomes for some people. The success of auto-enrolment means that it is likely more people have longer-term savings then may otherwise have been the case. Even if they were now to take a contributions holiday there is money invested, which cannot be readily accessed. Further, one could argue that the group for whom it is most important to establish longer-term savings (those who are younger) are also those most readily ‘captured’ by auto-enrolment given they are likely to be entering the workforce.

The findings discussed subsequently, with regard to additionality and substitution, also suggest that some people are now saving more. Further, given the lock-in feature even substitution (where funds are shifted to KiwiSaver from another retirement scheme or mortgage) could mean more money at retirement than people would otherwise have had; it is easier for them to use these other potential sources of retirement income prior to retirement.

However, as was noted at the start of this report there are limitations to the data analyses that have been undertaken with regard to the depth of information they provide. Without more sophisticated analyses and without longitudinal data the conclusions above should be seen as indicative only.

Objective 3: Attitudes and approaches to Retirement Savings

Only those who were aged 25 or over were asked questions with regard to their retirement. Retirement was defined in the survey as being when they stopped working or decreased their working hours to less than ten per week.

They were asked a number of questions with regard to retirement including:

- The extent of financial planning for retirement.
- Their knowledge of their expected retirement savings.
- The amount they expected to have for retirement.
- The amount they thought they needed.
- Their satisfaction with their expected standard of living in retirement.

Data related to these questions are summarised below with regard to attitudes towards retirement. In the following section their approaches to retirement are discussed through a summary of the sources of income people expect to have in retirement and the relative importance of these. Finally, whether longer term savings habits are being established is briefly considered.

What are people's attitudes towards saving for retirement?

Throughout this section a key finding is the lack of knowledge many people have of their expected income in retirement. As reported subsequently, 41% did not know what their expected income was and/or had not thought about financial planning. As such they were excluded from many of the analyses undertaken with regard to retirement income. The extent to which a bias has been created by this exclusion needs to be considered when discussing these results.

Financial planning

The extent of financial planning varies across the respondents. However, most people have planned for their retirement at least 'a little'. The extent to which this planning is well-informed cannot be determined from the survey.

- 62% of people have planned for their retirement either a little (32%) or a fair amount (30%).
- 20% have thought about it a lot.
- 17% have not thought about it at all.

Despite this, for many respondents there was a lack of knowledge of what their expected retirement income was likely to be and/or a lack of financial planning:

- 41% did not know what their expected retirement income was likely to be and a further 23% had only a vague idea.
- 8% had a good idea and 28% had a reasonable idea.

These data suggest that even amongst those who have planned 'a lot' for their retirement there are those for whom this does not include a detailed consideration of how much they are likely to have.

Standard of living in retirement

Respondents were asked how they thought their standard of living would change after retirement.

- 18% thought it would increase to some extent.
- 53% thought it would stay about the same.
- 27% thought it would decrease at least somewhat.

Those who thought their standard of living would decrease (arguably the target market for KiwiSaver) are:

- Predominantly employed full time (71%).
- Predominantly home-owners (74%).
- 50 to 65 years old (50%).

These are very similar to the group who report having a reasonable or good knowledge of their retirement income (home owners, higher combined annual income and older) suggesting that those reporting a decrease are likely to be more informed.

Standards of living vary as people grow older, start to earn higher incomes and gain assets. Responses to this question, therefore, are dependent on how and when people are estimating their standard of living prior to retirement. Also to be considered is the lack of knowledge of many about what their retirement income would be.

Amounts needed and expected in retirement

Respondents were asked how much income they realistically expected to have in retirement and how much they thought they would need to 'just get by' and to 'live comfortably'. Again a key finding is the proportion that did not know how much they expected to have or needed and/or had not thought about financial planning.

- 46% did not know how much income they expected to have.
- 22% did not know how much they needed to just live.
- 21% did not know how much they needed to live comfortably.

The median values for those who could give an amount are:

- $45,000 for the amount expected.
- $39,000 for the amount required to have just enough to get by.
- $55,000 for the amount required to be comfortable.

The median amounts given are not adjusted for household size; that is they could be for either a couple or an individual. Further, they are based on perceptions of the value of money in 2010.

Further analyses were undertaken to determine the size of the retirement gap; that is the difference between the amount needed and the amount people expect to have. Given the lack of knowledge of many people with regard to both required and expected amounts this could be done for 53% of respondents only. For this group the following results were obtained:

- 22% thought they would fall short of the amount needed to get by and 50% to live comfortably.
- 25% thought they would have enough to get by and 29% to live comfortably.
- 53% thought they would have more than enough to get by and 21% to live comfortably.

Considering the data reported in this section the clearest finding would seem to be there is a reasonably large proportion of the population who have limited knowledge of their expected income in retirement and who have not undertaken any in-depth financial planning.

It may be that retirement is seen as something in the future and thus not as important as immediate concerns. This would explain why those who are older are more likely to have knowledge of their income and to have planned for retirement. It also highlights a possible 'success' for KiwiSaver in terms of the number of younger New Zealanders being auto-enrolled in that they are the least likely to be saving for retirement.

How do people approach saving for retirement?

With regard to their approach to retirement respondents were asked when they expected to retire and what age they expected to live to providing a sense of how long they expected their retirement to last. They were also asked about their income sources in retirement. Responses to these questions are discussed in this section.

Age and length of retirement

The age people expect to retire varied with the largest group being those who expect to retire at 65 (43%). Nearly equal proportions expected to retire after 65 (18%) and before 65 (20%).

Amongst those who expect to retire before 65 nearly half (48%) had a good or reasonable knowledge of their expected retirement income. They also tended to have sources of retirement income beyond New Zealand Superannuation or KiwiSaver. It may be that this is a group of people who are planning for retirement and who have clear goals with regard to the amount of retirement income and know how they are going to achieve these.

As well as the expected age of retirement, information was also gathered with regard to how long they expect their retirement to last. Just over half expect to be retired for more than 20 years (58%). These data suggest that some people may be overestimating their life expectancy and hence their required savings. According to Statistics New Zealand's estimates in 2008 the life expectancy at birth of females was 82.4 years and that of males 78.4 years.

Further analyses would be needed to determine the extent to which the expected length of retirement correlates with expected income needs.

Sources of income in retirement

People were asked both what sources of income they expected to use in retirement and also what their main source of income was likely to be. Responses to these questions do need to be considered bearing in mind the apparent lack of detailed knowledge of their retirement income displayed by many.

The main sources of income for KiwiSaver households (where at least one adult is a member of KiwiSaver are[2]):

- New Zealand superannuation – 44%.
- KiwiSaver – 25%.
- Income from the sale or rental of property – 12%.
- Stocks, shares or other savings accounts – 11%.
- Superannuation or other work-based schemes – 11%.
- Paid work – 9% (likely to be less than 10 hours work or undertaken by a non-retired partner).

[2] Where respondents had a partner they could give two most important reasons. Hence the percentages do not add up to 100%.

The main sources of income for non-KiwiSaver households (where there are no adult KiwiSaver members) are:

- New Zealand superannuation – 38%.
- Income from the sale or rental of property – 22%.
- Stocks, shares or other savings accounts – 14%.
- Superannuation or other work-based schemes – 10%.
- Paid work – 9% (likely to be less than 10 hours work or undertaken by a non-retired partner).
- Selling a business – 7%

For non-KiwiSaver households there is a greater reliance on income from the sale or rental of property and selling a business. The implication is KiwiSaver is either appealing to those who do not have other options such as these, or it is replacing the reliance on these options. There is only a slight drop in New Zealand superannuation as the main source of income for non-KiwiSaver households and reliance on other sources of income is consistent.

Are longer-term savings behaviours being established?

This is a difficult question to answer from a point-in-time survey, without baseline data to consider trends from and early in the implementation of the scheme. It is closely linked to the notion of additionality; whether KiwiSaver is instead of other retirement savings or in addition to.

Key to consider here is the lock-in feature of KiwiSaver. Even if KiwiSaver is substituting for other forms of saving they may not be longer-term savings and people could access such funds prior to retirement. With KiwiSaver, although members may stop contributing they will retain some investment within KiwiSaver for use in their retirement (with the possible exception of those allowed to close their accounts due to extreme hardship and those who use their funds for a first-home). It will be interesting to see if people stop contributing once their funds reach a certain level. However, this would suggest a level of engagement and financial knowledge that has not been widely displayed in this survey.

The data in the previous section suggest that many people are not overly concerned about their retirement, or at least that it is not an immediate priority. This is evidenced in the low levels of knowledge of their retirement income and the apparent lack of financial planning. This would suggest that longer-term savings behaviours are still not the norm for many and as such the design features of KiwiSaver could remain critical for ensuring that the desired behaviours are established.

Supporting this view are the data reported in earlier sections around the reasons for joining KiwiSaver. These suggest that KiwiSaver has prompted some members to establish longer-term savings that they may not have had previously or even considered. The apparent lack of contributions holidays to date and the consistent contribution rates also suggest that for many their KiwiSaver contributions are now potentially habitualised as part of their regular finances and as such longer-term savings may become the norm by default.

KiwiSaver households and non-KiwiSaver households display very similar responses in terms of whether they had other superannuation plans, were currently saving and/or were currently paying off debt at the time of the survey.

Key data related to these other behaviours are:

- Across all households 25% had a non-KiwiSaver superannuation plan.
- 53% of households were saving money outside of superannuation.
  - Of those who are saving outside of superannuation; 63% of KiwiSaver households and 60% of non-KiwiSaver households were saving for possible expenses in the future including "rainy days" and poor health.
  - Other savings mentioned included for a holiday (45% and 35%); to purchase property (26% and 27%) and to pay off debt (24% and 23%)
- 68% of households were paying off debt; that is a mortgage and/or non-mortgage debt
- 37% of households were paying off a mortgage.

It is hoped that further analyses and the use of longitudinal SoFIE data will provide clearer indications with regard to this question. They may help unravel the complex demographic patterns that have been foreshadowed in the survey data including the impact of income on behaviours and the extent to which other financial priorities compete with the need for longer-term savings. They may also provide a deeper understanding of the extent to which KiwiSaver is additional retirement savings; the impact it has had on other savings, on debt repayment and on consumption.

The initial indications are that KiwiSaver is likely to be additional longer-term savings behaviour for at least some members given there were few differences between those in KiwiSaver and those who are not.

Objective 4: The impact of KiwiSaver on retirement savings

This final objective for the survey, as with the question of longer-term savings behaviour, is difficult to answer with any certainty from a point-in-time survey and without complex analyses. However, there are some indications of the impact of KiwiSaver on retirement savings.

The target group for KiwiSaver, as defined in the statement of the legislative purpose of KiwiSaver is "individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement". There is no differentiation between those who had relatively low standards of living prior to retirement and those who had higher standards of living. Nor is there any clarity around the stage of life against which this should be judged.

The findings discussed earlier, with regard to retirement savings, suggest that only about a quarter of people (27%) think their standard of living will decrease; placing them in the target group. Again this needs to be tempered with the apparently low numbers of people with detailed knowledge of their incomes in retirement. It should also be noted that 53% thought it would stay about the same. At least some of these are likely to be in the target group; that is their standard of living could be slightly lower in reality. Further analyses on these two groups, in particular, are warranted.

Additionality or Substitution?

In the absence of KiwiSaver, 38% of KiwiSaver households said they were unlikely to have saved for retirement. KiwiSaver would appear to be additional savings for this group. KiwiSaver may also be additional savings for those who would have saved anyway; if they are making contributions to KiwiSaver over and above their other savings.

Data with regard to the distribution of KiwiSaver contributions in the absence of KiwiSaver suggest this is the case in some instances. Without KiwiSaver the total amount of contributions would have been 'spent' in the following ways:

- 36% on daily activities and outgoings.
- 13% on savings or investments other than for retirement.
- 24% on paying off mortgages or other debt.
- 27% on other savings or investments for retirement.

These data highlight the complexity of the question of additionality and substitution. It could be argued that 73% of KiwiSaver contributions would have been used for purposes not directly related to retirement. Certainly only 27% are directly substituting retirement savings and 36% are clearly additional retirement savings. However, 37% would also have been used for purposes which may or may not have impacted on their standard of living in retirement including mortgage repayments.

The survey also specifically considered the impact of KiwiSaver on other superannuation schemes, other saving and debt repayment.

- 21% of those who had a superannuation scheme when joining KiwiSaver decreased or stopped their payments to that scheme.
- 15% of KiwiSaver households reported they have decreased or stopped other general savings.
- 10% reported they had decreased or stopped paying debt.

The implication is that for at least some their KiwiSaver contributions are coming out of general spending rather than any targeted purposes; that because they are deducted at source they are largely seen as never having existed and not impacting on other financial commitments.

It is hoped that both the intended further analyses and SoFIE data will provide more evidence with regard to the amount of retirement saving occurring and changes over time. These initial indications are that KiwiSaver is additional specific retirement savings in some instances at least.

Greater financial independence for the target group?

The current analyses of the survey data cannot answer this question with any certainty. Again this is largely due to the nature and timing of the survey.

There are indications that KiwiSaver may be additional savings for some and that it may have established some form of longer-term savings for some households and individuals who would not have done so otherwise. Further analyses are required to determine whether these are the target group. These analyses may also allow for closer consideration of the extent of additionality and substitution.

Any increase in retirement income is going to allow for greater financial independence. The lock-in feature of KiwiSaver means that at 65 a large number of New Zealand households are likely to have access to funds they may not have had otherwise. What these funds are used for and the extent to which they are necessary to maintain a certain standard of living are currently unknown. Future research as KiwiSaver matures and funds begin to become available will be required to answer these questions.

Implications for future research and KiwiSaver

There remain a number of questions for KiwiSaver some of which may be answered by further analyses of the current data and through the use of SoFIE data. Others will only be answered over time as KiwiSaver matures as a scheme.

There is an apparent issue of financial literacy. KiwiSaver was designed to be easy for people. It has achieved this purpose but an unintended consequence may be a lack of engagement with KiwiSaver and a resultant lack of knowledge about both where and how KiwiSaver contributions are invested and the income households are likely to have in retirement. Arguably as investments grow members may become more involved and their financial literacy increase as a result but this is currently unknown.

Further work is needed to determine the extent to which KiwiSaver is additional savings for retirement and whether longer-term savings behaviours are being established. The data summarised here suggest that it is likely there has been some additional retirement saving and that new behaviours are being established for some. The extent, sustainability and impact of each cannot be determined from this survey and will require subsequent work as KiwiSaver matures.

A further consideration is the relative affordability of KiwiSaver for some families. For those on low salaries or wages the 2% deduction may be impacting negatively on their current standard of living; if that money is required for basic essentials. It could be argued they would be better utilising the 2% now and relying on New Zealand superannuation (which could be worth more than their current incomes) in retirement.