Inland Revenue
Te Tari Taake

KiwiSaver evaluation

Annual report

July 2011 to June 2012

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Contents

Executive summary

This is the fifth annual report of the KiwiSaver evaluation. As in previous annual reports, it summarises the key trends and performance data for the year to June 2012 and the results of relevant research and analysis completed over the course of the year.

KiwiSaver at a glance as at 30 June 2012

	Key statistics as at 30 June 2012
Total membership	1.97 million
Enrolment	68% of members proactively opted-in to KiwiSaver
Members in the eligible population	49% of the eligible population are members Includes 29% of eligible children and 67% of people between 18 - 24
Individuals who opted-out and remained out of KiwiSaver	255,935
Contribution rates	59% of members contributing at the 2% default rate
Contributions holiday	83,370
Withdrawing for retirement	72,114 eligible to withdraw in the coming year
Employer contribution	$866 million Five years to date $2.7 billion
Crown contribution	$1,045 million Five years to date $4.7 billion
Total KiwiSaver managed funds	Five years to date $12.9 billion

Enrolment trends

This year KiwiSaver membership reached 1.97 million. Although the scheme has almost two million members, the rate of growth this year has been slower than previous years. On a monthly basis, membership grew on average by 17,500 individuals. This compares with, on average, 25,000 individuals a month last year. Over half of current members (62%) have pro-actively opted-in to KiwiSaver (as opposed to being auto-enrolled) and there has been continued growth of membership within all age groups in the eligible population. Approximately 29% of eligible children and nearly 67% of eligible people aged 18 to 24 years have enrolled.

Impact of KiwiSaver features and incentives

KiwiSaver has a range of features and incentives designed to encourage savings and asset accumulation among members. These include: the ability to opt-out, choose between schemes, choose the level of contribution, receive the kick-start payments and annual member tax credits, the ability to take a contributions holiday and use savings to buy a home.

As at 30 June 2012, 255,935 individuals opted-out of KiwiSaver and remained out of the scheme. Research this year indicated that there was a decreasing trend in the number of opt-outs from KiwiSaver from 2008 to 2011 and that people from a younger working age group with one job on lower to middle incomes were more likely to have opted-out.

Although many people have joined and remained with the default KiwiSaver scheme to which they were initially allocated, most people are choosing their own scheme. This year 65% of members have chosen their scheme while 35% were default allocated by Inland Revenue or allocated to an employer-nominated scheme. Although there were 103,441 standard scheme transfers this year, there were fewer than last year. There were also fewer transfers within the holding period this year compared to last year.

The default contribution rate of 2% for new members has been in place now for over three years and this appears to be influencing the level of members' contributions. Over half of KiwiSaver members (59%) are currently contributing 2% of their salary or wages to their accounts.

As at 30 June 2012, there were 83,370 members on a contributions holiday, of whom less than 1% were on a financial hardship holiday. Research this year indicated that there was an increasing number of members who took a contributions holiday since the scheme began, but most of those had made some contribution while on a holiday. Similar to those who opted-out, people from a younger working age group with one job on lower to middle incomes were more likely to have taken a contributions holiday.

In August 2012, the Building and Housing Group of the Ministry of Business, Innovation and Employment completed an evaluation of the use and experiences of the KiwiSaver home ownership package. The evaluation found there were 4,940 applications for the deposit subsidy to 16 March 2012. Just over half (55%) of applications were approved, 30% were not approved and 15% were in the pre-assessment stage at the time of the evaluation. The number of applications had steadily increased since June 2010, with nearly a quarter of all applications coming in the last quarter.

Impact of those members eligible to withdraw their savings for retirement

On 1 July 2012, the first KiwiSaver members who were 65 years of age and had been in the scheme for five years became eligible to withdraw their savings for retirement. Although reporting the number of members that withdrew their savings after 1 July 2012 is outside the time period covered by this report, it is estimated that 72,114 members will be eligible to withdraw their savings for retirement purposes in the next year to 30 June 2013. Over half of those members (53%) will be eligible to withdraw their savings from October 2012.

Among those eligible to withdraw their savings for retirement, of those who contributed at higher rates of 4% and 8% before 1 April 2009, most continued to contribute at these higher rates after 1 April 2009 despite the minimum contribution rate being reduced to 2% at that point. Of those eligible to withdraw their savings in July and August 2012, it is estimated over three quarters have total contribution funds (excluding any investment returns and interest or any other type of withdrawal) of at least between $5,000 and $20,000. Half of this group are estimated to have total contribution funds of between $10,000 and $15,000.

KiwiSaver costs

Employers and the Crown continue to make significant contributions to KiwiSaver. This year, employers contributed $866 million. Over the five years to date, employers have contributed $2.7 billion to KiwiSaver accounts. Also this year, $1,045 million were transferred by the Crown to KiwiSaver providers and complying funds, mainly in member tax credits. As a proportion of the total value of funds passed to providers for investment in members' accounts, the contribution from the Crown is declining over time.

Impact on retirement savings

KiwiSaver continues to be a growing part of the overall managed funds market, worth $12.9 billion at 30 June 2012; an estimated 17% of the market. Over the five years of the KiwiSaver scheme, assets have increased each year, more than doubling on each previous year until 2010. This reflects both the increasing number of members and the accumulation of their contributions. However, between 2010 and 2012 the growth in the value of assets slowed reflecting the downturn in the global economy in recent years.

Further work

Although some work will be undertaken after June 2013, next year is the last planned year of the KiwiSaver evaluation. Further work will be undertaken next year to evaluate the initial impact of the scheme on individuals' saving and net worth. This work is based on providing a comprehensive basis for assessing changes in individual or household saving behaviour over time from the longitudinal survey, Survey of Family Income and Employment (SoFIE), a longitudinal survey that was run by Statistics New Zealand from 2002 to 2010, which is now matched with KiwiSaver administrative data from Inland Revenue in one anonymised linked dataset.

In the coming year, the KiwiSaver evaluation team will analyse this linked dataset to understand the different characteristics of KiwiSaver members and non-members, the differences in savings rates and net worth between members and non-members and their implications for net worth at the point of retirement, along with estimates of the adequacy of expected retirement income. Also, in the coming year, the KiwiSaver evaluation will also monitor retirement withdrawals to understand the characteristics of individuals eligible to withdraw their funds. Other work planned includes further analysis by the Ministry of Business, Innovation and Employment into the effect of the home ownership package on supporting home ownership and financial preparedness for retirement, and an update on the KiwiSaver Supply Side evaluation. Although next year is the last planned year of the KiwiSaver evaluation, evaluation work on value for money will be undertaken as a broader evaluation summary exercise following the completion of the SoFIE analysis after June 2013.

Given KiwiSaver represents an integral part of New Zealand's retirement income policies, it will be important to continue ongoing evaluation of the performance of the scheme as it matures, particularly in this period of early retirement withdrawals. Understanding issues associated with people's savings and investment behaviour while in the scheme and how they intend to use their retirement savings when they withdraw from the scheme will be essential to inform future policy development. As indicated last year, this will require access to relevant and reliable sources of information and data that can track saving and investment behaviour over time. It will also require ongoing cross-government leadership and coordination.

1. Introduction

Report purpose

KiwiSaver has been in operation for five years. This report presents the key trends and performance of KiwiSaver for the year to June 2012 and the results of relevant research and analysis completed over the course of the year.

KiwiSaver background and context

KiwiSaver is primarily a work-based savings scheme designed to help people prepare for their retirement. The objective of KiwiSaver is to *encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement*[1].

Changes to the scheme intended to reduce the cost of Government subsidies and encourage higher individual contributions were announced as part of Budget 2011. These changes were:

- The Member Tax Credit (MTC) was halved from the MTC year starting 1 July 2011. The Government now contributes 50c for each $1 contributed by individual KiwiSaver members, up to a maximum of $521.43 per year.
- All employer contributions to an employees' KiwiSaver account (and complying superannuation funds) are subject to employer superannuation contribution tax (ESCT) from 1 April 2012. ESCT is applied at a rate equivalent to an employee's marginal tax rate.

These changes are expected to reduce the public cost of KiwiSaver subsidies by some $2.6 billion over the next four years (2011/12 to 2014/15).

Changes to employee and employer contribution rates were also announced, the legislation for which was included in the Taxation (Annual Rates, Returns Filing and Remedial Matters) Bill introduced in September 2011. These changes were:

- The minimum employee contribution rate will rise from 2% to 3% for all members, new and existing, from 1 April 2013. The default contribution rate for new employees who do not select a rate will also be 3% from that date.
- Compulsory employer contributions will rise from 2% to 3% from 1 April 2013.

Budget 2012 announced new disclosure rules (from 1 April 2013) requiring KiwiSaver fund managers to report their performance and returns, fees and costs, assets and portfolio holdings, liquidity and liabilities, and key personnel, along with any conflicts of interest in a standardised format on their websites.

Budget 2012 also announced a review of the current default provider arrangements which will include examining the investment mandate of the default fund and the appropriate number of default providers in the market. The six current KiwiSaver default providers were appointed for a seven year term which is due to expire on 30 June 2014. The Economic Development Group of the Ministry of Business, Innovation and Employment is leading the review of the current arrangements and is preparing a

[1] Section 3 (1), KiwiSaver Act 2006.

discussion document for public consultation from mid to late 2012, before final decisions are made in December 2012.

KiwiSaver evaluation background

The KiwiSaver evaluation is a joint project between Inland Revenue and now the Ministry of Business, Innovation and Employment[2]. The Treasury also participates. The Department of Building and Housing replaced Housing New Zealand on the project last year. Although some work will be undertaken after June 2013, next year is the last planned year of the KiwiSaver evaluation.

The evaluation seeks to assess KiwiSaver against its primary legislative objective as outlined above. But the scheme also has significant impacts on other outcomes that are of policy and public interest. These impacts include fiscal effects, effects on levels and forms of savings and investment and on the financial sector, and redistributive effects that arise because the benefits and costs do not fall equally on the same individuals. The evaluation seeks to identify and assess these too. The specific objectives of the evaluation are to:

- Assess the implementation and delivery of KiwiSaver in order to inform ongoing development and service delivery;
- Assess whether the key features of KiwiSaver are generating the expected outcomes;
- Monitor KiwiSaver usage to understand the scale and pattern of take-up;
- Determine the impact of KiwiSaver on individuals' saving habits and asset accumulation; and
- Determine the impact of KiwiSaver on superannuation markets and the financial sector.

The focus of the remaining evaluation work programme is on:

- Measuring the impact on individuals' savings and net worth; and
- Assessing value for money and overall effectiveness of the initial impact of KiwiSaver.

KiwiSaver represents a significant investment by Government and evaluation plays an important role in determining whether it has had the intended impacts and desired outcomes on savings and asset accumulation behaviours. Evaluation is also important to help determine whether KiwiSaver has provided a cost effective way of achieving these overall objectives. Evaluation is an essential part of the policy process, assessing the effectiveness of existing policies and providing feedback on areas for improvement.

[2] On 1 July 2012, the functions of the Department of Building and Housing and the Ministry of Economic Development (another evaluation partner) along with the former Department of Labour and Ministry of Science and Innovation were integrated into the Ministry of Business, Innovation and Employment.

2. KiwiSaver membership

Enrolment trends

There continues to be growth in KiwiSaver enrolments and new monthly membership, but the rate of growth this year has been slower than previous years.

At 30 June 2012, membership had reached 1.97 million, 12% higher than the previous year (see table 1 below). This compares with 1.76 million last year, 12% higher than 2011. Membership continues to grow on average by 17,500 individuals per month (see figure 1 below). This compares with, on average, 25,000 individuals a month last year.

The number of individuals opting-in to KiwiSaver continues to grow, but at a lower rate of growth compared with the previous year. However, the proportion of individuals opting-in out of all enrolments has remained relatively stable compared with the previous year. Over half (62%) of current KiwiSaver members have opted-in compared with 38% who had been automatically enrolled. Enrolments directly through a scheme provider have grown by approximately 99,000 members or 47% of all new members and opting-in through employers (other than being automatically enrolled) have grown by approximately 16,000 members or 8% of all new members this year.

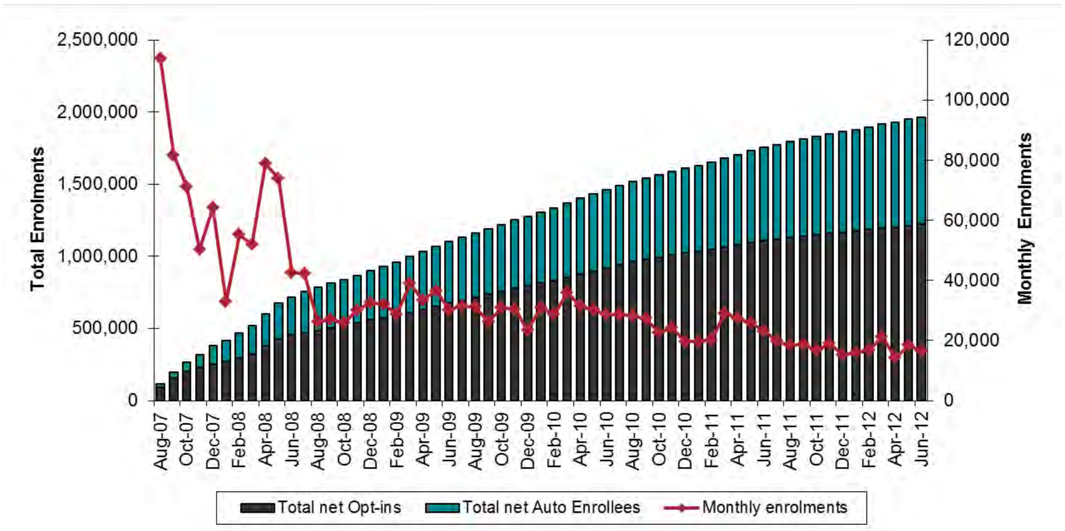
As at 30 June 2012, 255,935 individuals opted-out of KiwiSaver and remained out of the scheme. A further 32,227 individuals had had their accounts closed.

Table 1: Total enrolments (cumulative status as at 30 June)

Enrolment status	2008	2009	2010	2011	2012
Opt-in via provider	273,948	477,971	706,290	877,076	975,743
Opt-in via employer	169,410	195,940	211,883	232,131	247,950
Auto-enrolled	273,279	426,629	541,769	646,725	742,751
Total net enrolments	**716,637**	**1,100,540**	**1,459,942**	**1,755,932**	**1,966,444**
Change on previous year %	**n/a**	**54%**	**33%**	**20%**	**12%**
Opt-out	137,762	221,045	245,898	249,549	255,935
Closed	1,044	8,240	13,656	25,559	32,227
Total gross enrolments	**855,443**	**1,329,825**	**1,719,496**	**2,031,040**	**2,254,606**
Change on previous year %	**n/a**	**55%**	**29%**	**18%**	**12%**

Base: All enrolments (gross) 1 July 2007 to 30 June 2012. Note that the approach to reporting enrolment method has changed and figures for 30 June 2008 have been revised. The figure for total enrolments for year one is unaffected but the revised approach has led to reclassifications across enrolment groups.
Source: Inland Revenue administrative data.

Figure 1: Total and month enrolments

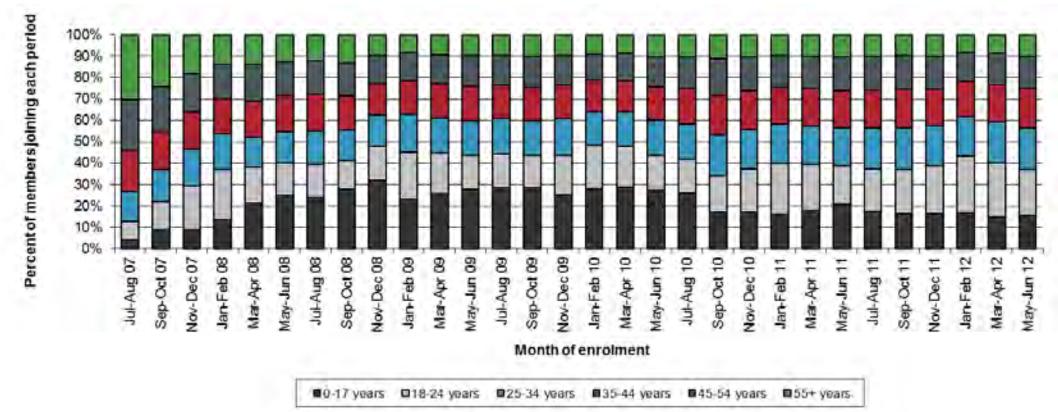


Base: All enrolments (net) 1 July 2007 to 30 June 2012. Note: enrolments for July and August 2007 are combined.
Source: Inland Revenue administrative data.

Member and household characteristics

The gender distribution of KiwiSaver members has remained constant over the years with approximately 52% female and 48% male. Since 2009, the proportion of individuals from 25 to 44 years of age has remained relatively constant (see figure 2 below).

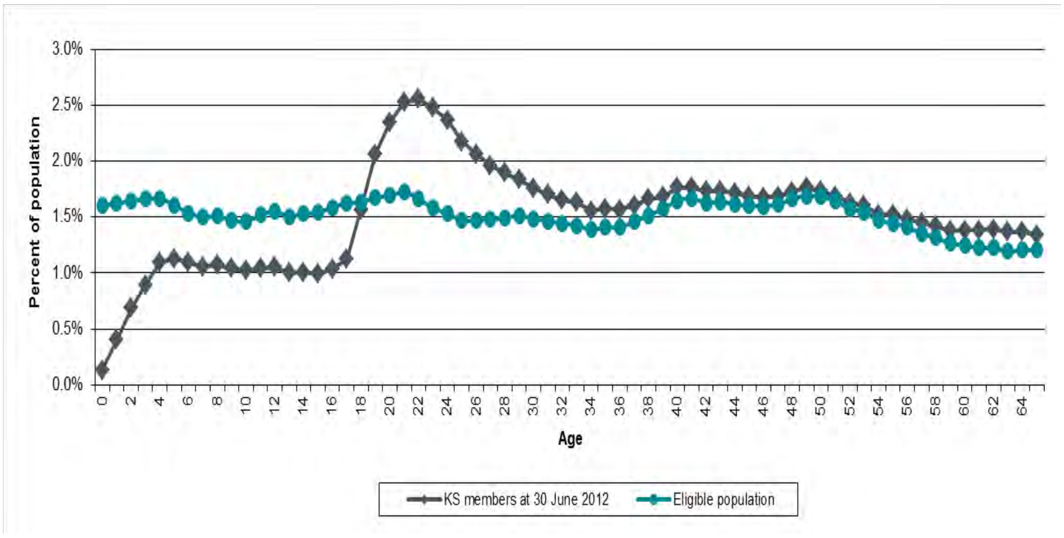
Figure 2: Member age at join date



Base: All members at 30 June 2012.
Source: Inland Revenue administrative data.

51% of the eligible KiwiSaver population are not KiwiSaver members, but membership is not evenly distributed across age groups. When compared to the eligible population, the age distribution of KiwiSaver member's exhibit one significant peak from 18 years to the mid-20s (see figure 3 below). This may reflect those in their 20s entering the job market and being automatically enrolled.

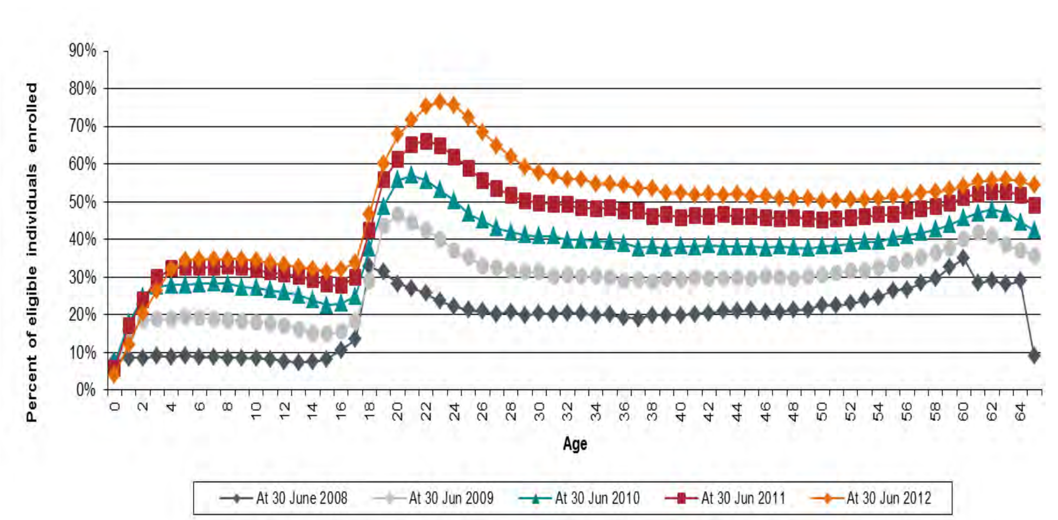
Figure 3: Age distribution of KiwiSaver members and KiwiSaver eligible population



Base: All members at 30 June 2012. Eligible population are those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2011/12.

There is continued growth in KiwiSaver enrolments across all age groups. Approximately 29% of eligible children (17 years of age and under), and nearly 67% of eligible people aged 18 to 24, have enrolled (see figure 4 below). For those in the middle age groups (mid 20s to mid 50s) over half of eligible individuals have enrolled in KiwiSaver.

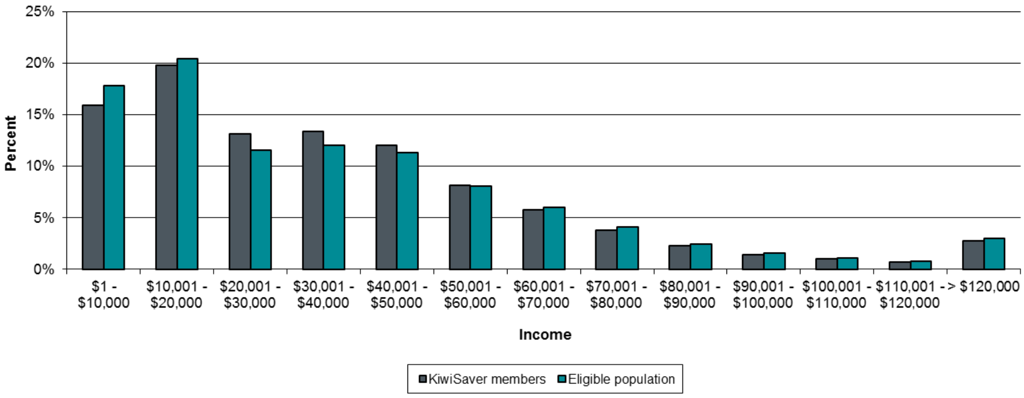
Figure 4: KiwiSaver reach into eligible population



Base: All members at 30 June 2012. Eligible population are those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined.
Source: Inland Revenue administrative data and Treasury long-term fiscal model for eligible population 2011/12.

The income distributions of KiwiSaver members and the eligible population continue to be similar. There are slightly lower proportions of KiwiSaver members in low income levels (up to $20,000) than in the eligible population, but slightly higher in income levels between $20,000 and $50,000 (see figure 5).

Figure 5: Income distribution for KiwiSaver members and KiwiSaver eligible population



Base: All members at 30 June 2012 with income for the 2011 tax year. Eligible population are those eligible to join KiwiSaver (i.e. those who are New Zealand citizens or residents and under the age of 65 years), whether or not they have joined, with income for the 2011 tax year. Income relates to the 2011 tax year and includes income from salary and wages (including benefit payments) and IR3 returns (including income from self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Those members with no income for 2011 are excluded.
Source: Inland Revenue administrative data.

Over half of KiwiSaver members (55%) earned solely salary and/or wage income in 2011 (see table 2 below). Approximately 23% of members received benefit payments as all or a part of their salary and/or wage income in 2011.

Almost one quarter (23%) had no income source for the 2011 year and the remainder earned salary and/or wage plus other income, and other income only. Children (17 years of age and under) represented a significant percentage of members that had no income source (67%).

Table 2: Member income sources

Income source	Members	Percentage
Salary and/or wage income only	1,080,977	55%
Salary and/or wage plus other income	353,940	18%
Other income only	83,893	4%
No income source	447,634	23%
Total	**1,966,444**	**100%**

Base: All members at 30 June 2012. Source of income relates to the 2011 tax year. Salary and wage income includes benefit payments and other income refers to income sources on IR3 returns (including income from self-employment, overseas income, rental income, estate, partnership or trust income and royalties and other income without PAYE deducted). Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Research into KiwiSaver membership

Research into KiwiSaver membership this year was conducted on behalf of the Financial Services Council and the Commission for Financial Literacy and Retirement Income.

A survey conducted for the Financial Services Council suggested that there was at least one KiwiSaver member in two-thirds of the households surveyed[3]. The survey of 2,558 respondents conducted in December 2011 found half (50.1%) of respondents said they were KiwiSaver members. Of those that were KiwiSaver members 76% were in full-time or part-time employment. Where the respondent was not a member, (49.9%) there was said to be a KiwiSaver member in the household in 36.1% of cases.

[3] Horizon Research Limited for the Financial Services Council (2011), *Savings Survey December 2011*.

A study into gender neutrality in retirement savings commissioned by the Commission for Financial Literacy and Retirement Income noted that KiwiSaver had significantly changed the superannuation landscape toward one that was gender neutral. It was found that it had done this through KiwiSaver schemes and policy influence on other workplace superannuation opening up membership to part-time and casual staff, and enabling employer contributions to be offset against the mandatory condition and to gain taxation advantages[4].

[4] Marie Dwyer (2012) *To what extend do individual superannuation schemes in New Zealand address needs for retirement income in a gender-neutral manner?* A report to the Commission for Financial Literacy and Retirement Income.

3. KiwiSaver features and incentives

Automatic enrolment

When people start a new job, if they are eligible and are not already a member, their employer is required to automatically enrol them in KiwiSaver. As outlined in section two, as at 30 June 2012 742,751 (more than one third) of current KiwiSaver members have been automatically enrolled. This is similar to the proportion of members that had been automatically enrolled at 30 June 2011.

Opting-out

After being automatically enrolled into KiwiSaver, a new employee can then choose to opt-out within an eight week period. As outlined in section two, 255,935 individuals opted-out and remained out of the scheme as at 30 June 2012.

In May 2012, the KiwiSaver evaluation reported on the key trends and characteristics of those people who have opted-out of KiwiSaver or taken a contributions holiday from the scheme over the past four years[5]. As at 30 June 2011, 371,204 individuals had opted-out of KiwiSaver, and most had opted-out one time since the scheme began.

Overall, there was a decreasing trend in the number of opt-outs from the scheme each year since it began from 166,721 in 2008 to 72,816 in 2011. This included a noticeable decrease in the number of opt-outs between 2009 and 2010. The report found people in a younger working age group (18 to 44 years) with one job on lower to middle incomes (between less than $10,000 and $40,000 with many earning less than $10,000) were more likely to have opted-out. Further analysis found that 41% of those who re-joined KiwiSaver were 30 years of age or younger with an average annual income of $30,000 or less.

Choosing a provider and fund

Members can choose their own KiwiSaver scheme, be nominated for one by their employer or be allocated to a default scheme, by Inland Revenue. At 30 June 2012, 65% of KiwiSaver members have chosen their scheme and 35% have been default allocated by Inland Revenue or allocated to an employer-nominated scheme (see table 3 below).

[5] Inland Revenue National Research and Evaluation Unit (May, 2012) *KiwiSaver Evaluation: Opting-out and taking contributions holidays*.

Table 3: Current members' scheme entry method (years ended 30 June)

Scheme entry method	2008 Members	2008 Percent	2009 Members	2009 Percent	2010 Members*	2010 Percent*	2011 Members	2011 Percent	2012 Members	2012 Percent
Default allocated	268,868	38%	369,577	34%	419,250	29%	458,013	26%	503,826	26%
Employer nominated	94,895	13%	129,963	12%	150,157	10%	165,500	9%	183,097	9%
Active choice	352,483	49%	600,709	55%	890,356	61%	1,132,193	64%	1,279,256	65%
Unspecified at year end	391	<1%	291	<1%	179	<1%	226	<1%	265	<1%
Total	**716,637**	**100%**	**1,100,540**	**100%**	**1,459,942**	**100%**	**1,755,932**	**100%**	**1,966,444**	**100%**

Base: All members at 30 June 2008, 2009, 2010, 2011 and 2012. Totals may not add to 100% due to rounding. Figures for 2010 have been revised as more information become available.
Source: Inland Revenue administrative data.

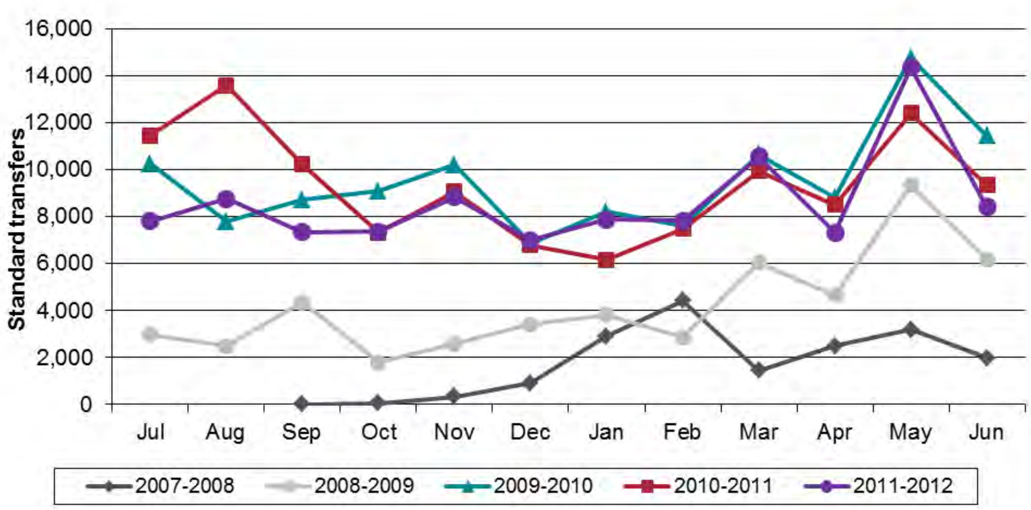
Members who have been automatically enrolled can transfer schemes within the funds holding period (of three months) when they initially join KiwiSaver and members can elect to change schemes at any point during their membership. The total volume of scheme transfers for the year to 30 June 2012 decreased by 10% from last year (see table 4 below). Although there were 103,441 standard transfers this year, there were fewer than last year (112,234) and there were also fewer transfers within the holding period this year (6,609) compared with last year (9,533). In the last five years, scheme transfers have continued to peak in March and May each year (see figure 6 below).

Table 4: Scheme transfers

Transfer type	2008	2009	2010	2011	2012
Standard	17,757	50,457	113,555	112,234	103,441
Holding period	53,355	12,262	9,753	9,533	6,609
Total transfers	**71,112**	**62,719**	**123,308**	**121,767**	**110,050**

Base: All scheme transfers for the period 1 July 2007 to 30 June 2012. Transfers due to mergers of scheme providers have been excluded.
Source: Inland Revenue administrative data.

Figure 6: Monthly scheme transfers



Base: All scheme transfers for the period 1 July 2007 to 30 June 2012. Transfers due to mergers of scheme providers have been excluded.
Source: Inland Revenue administrative data.

Choosing a contribution rate

Members contributing to KiwiSaver through deductions from their salary or wages can choose to contribute 2%, 4% or 8% of their gross salary or wage. Over half of KiwiSaver members (59%) are currently contributing 2% of their salary or wages to their accounts; 36% of members are contributing 4% and 4% are contributing 8% (see table 5 below). This is a slight increase in the proportion of members contributing 2% (53%) and a decrease in the proportion of members contributing 4% (43%) from last year. The default contribution rate of 2% for new members which has been in place now for over three years (since 1 April 2009) appears to be continuing to influence members' behaviour.

Table 5: Current member contribution rates

Contribution rate	Proportion of members 2010	Proportion of members 2011	Proportion of members 2012
2%	41%	53%	59%
4%	55%	43%	36%
8%	4%	4%	4%
Other %	<1%	<1%	<1%
Total	100%	100%	100%

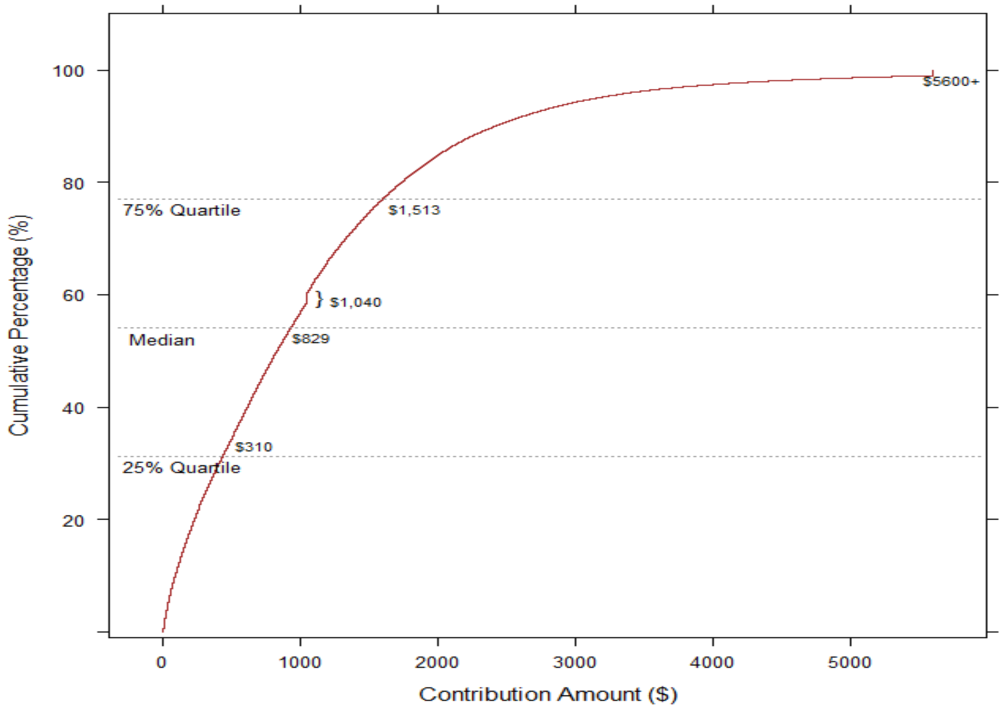
Base: All members at 30 June 2010, 2011 and 2012 with EMS deductions, excluding those on contributions holiday and those who contribute directly to providers or make ad-hoc contributions to Inland Revenue not through the EMS process. In order to calculate a member's contribution rate at year end, individuals must have made two or more consistent contributions over the April to June period. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Value of annual contributions

The distribution of the value of contributions made by members varies when the source of member's incomes is considered as shown in figures 7 to 9 below.

Currently, over half of members earn solely salary or wage income. The median annual contribution value made by these members contributing from all sources was $829. There is no obvious prevalent value, resulting in a smooth cumulative distribution as set out in figure 7 below.

Figure 7: Annual contribution for salary and wage earners (excluding beneficiaries)

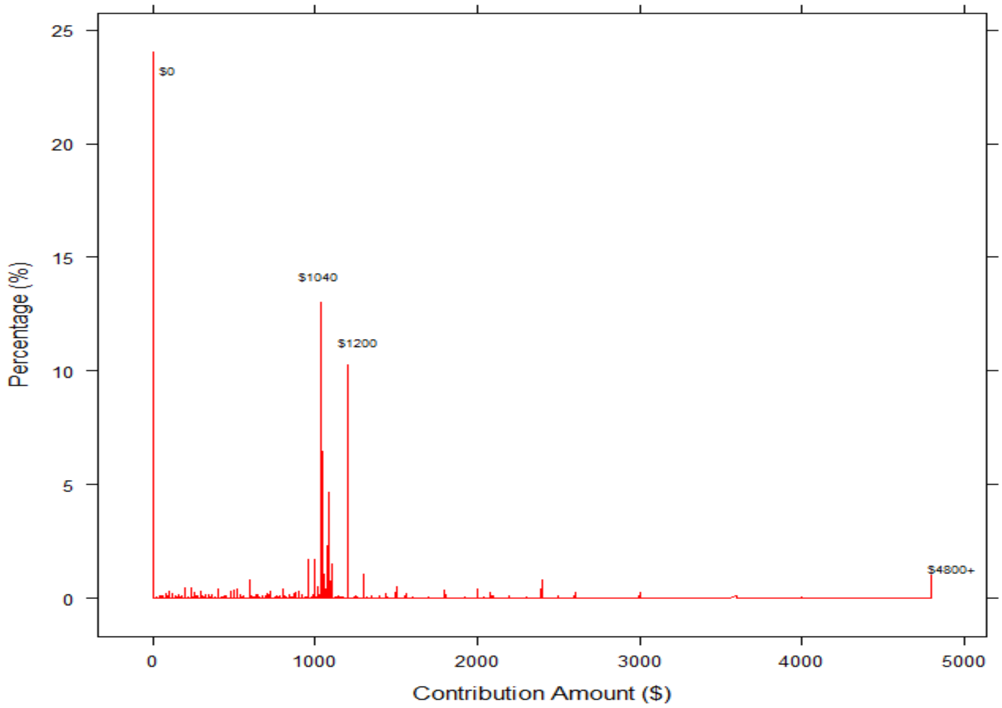


Base: Contributing members as at 30 June 2011 with a MTC claim submitted for the 2010/2011 year and with salary and wage income only for the 2011 tax year. Contributions include employee deductions through the EMS, voluntary contributions directly to providers and ad-hoc contributions to Inland Revenue not through the EMS process. These do not include employer contributions and crown contributions, such as MTC. Note: Only members aged 18 or over are eligible to make MTC claims.
Source: Inland Revenue administrative data.

Members not earning a salary or wage who choose to opt in to KiwiSaver through scheme providers are not required to make contributions via salary or wage deductions. However, they can choose to make voluntary contributions directly to their providers.

Currently, 4% of members (of all ages) earn only non-salary or wage income. The median annual contribution value for members over 18 years of age with only non-salary or wage income was $1,040 with the distribution of the value of the contributions shown in figure 8 below. The two peaks at $1,040 and $1,200 suggest that those who do not make contributions through salary or wage deductions are contributing in order to maximise the value of the member tax credit that they receive. The high proportion of individuals who did not make contribution to their accounts in the 2010/2011 year suggests they have opportunities to take a break from contributing, subject to any terms and conditions they have with their chosen provider.

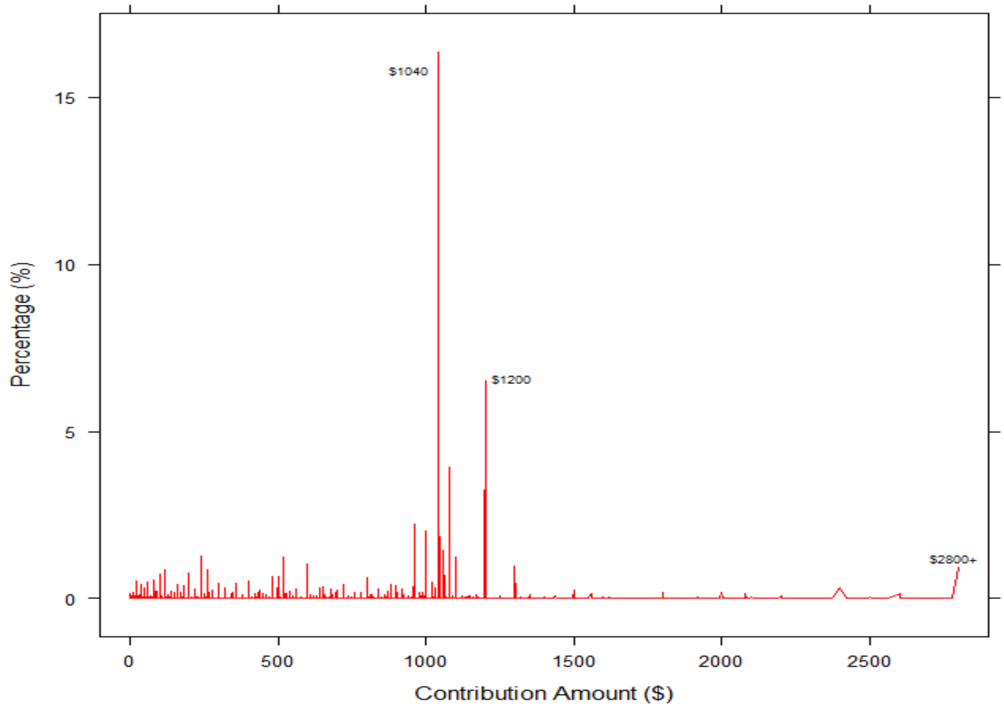
Figure 8: Annual contribution for IR3 filers without salary and wages



Base: All members as at 30 June 2011who with a MTC claim submitted for the year 2010/2011 year and filed an IR3 without any salary or wage income for the 2011 tax year.
Source: Inland Revenue administrative data.

Currently, 23% of members (of all ages) earn no income at all and the majority of these members are aged 17 or younger. The two peaks at $1,040 and $1,200 in the distribution of contributions made by members over 18 years of age with no income and who had made contributions in 2011 are set out in figure 9 below. These peaks are similar to those members with only non-salary or wage income.

Figure 9: Annual contribution for no income group



Base: Contributing members as at 30 June 2011 with a MTC claim submitted for the 2010/2011 year with no income earned for the 2011 year.
Source: Inland Revenue administrative data.

Member tax credits

An annual Member Tax Credit (MTC) is paid to members 18 years or older until they are eligible to withdraw their savings. The maximum annual MTC payment was $1,042.86 for periods up to and including 30 June 2011, and reduced to $521.43 from 1 July 2011 onwards. In order to receive a maximum payment, a member must have been a member for a full 12-month period (July – June) and contributed at least $1,042.86 to their account. Employer contributions and government contributions, such as the kick-start, do not count towards eligibility for this credit. Any contributions made by members aged 17 or younger are also not eligible for MTC payments.

In the current year, $800 million in MTC payments were made to 1,123,779 members for contributions in the 2010/11 year (including payments made to complying superannuation funds). For those members who received a MTC payment, 477,698 (or 43%) received the maximum MTC payment and 646,081 (or 57%) received less than a maximum payment (see table 6 below). The relatively low number of members who received a maximum payment in the 2007/08 year is a function of the length of their membership, not the value of their contributions.

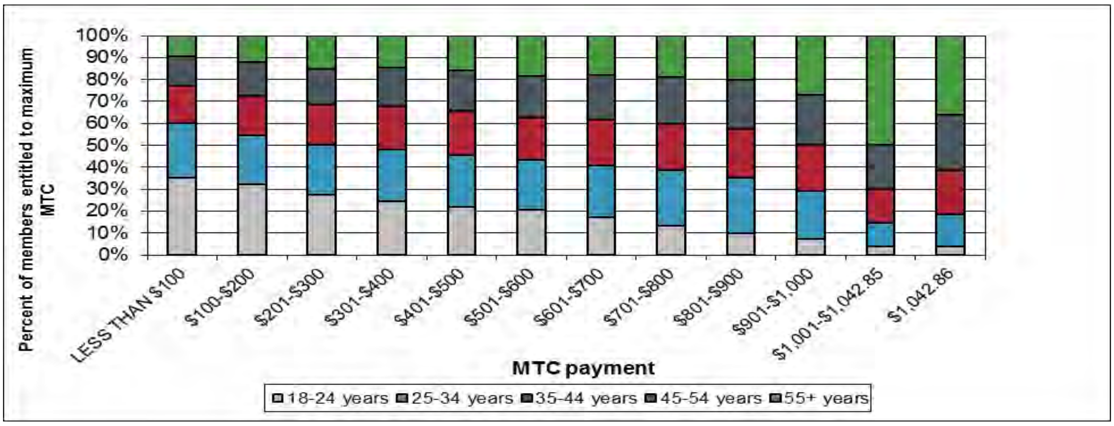
Table 6: Member tax credit paid

Member Tax Credit payment	2008		2009		2010		2011	
	Members	Percent	Members	Percent	Members	Percent	Members	Percent
Maximum payment*	82,763	14%	363,069	46%	421,095	45%	477,515	43%
Less than maximum payment*	519,177	86%	425,601	54%	525,707	55%	645,754	57%
Total	**601,940**	**100%**	**788,670**	**100%**	**946,802**	**100%**	**1,123,269**	**100%**

Base: All individuals with non-zero MTC payments for contributions made in the 2010/2011 year, including MTC payments to Complying Funds
The maximum annual MTC members are entitled to was $1,042.86 for 2008/2009, 2009/2010 and 2010/2011 years, while the maximum MTC for 2007/2008 year was $1,045.72 due to a leap year. Figures for 2008, 2009 and 2010 have been revised as more information has become available.
Source: Inland Revenue administrative data.

For those eligible for the maximum MTC payment for 2010/11 year, figure 10 below illustrates the MTC payments distribution by age of members. For those members between mid-50s to 65 years of age the MTC payment distribution is more skewed toward the mid to higher levels, while the middle age group shows a declining trend from higher to lower MTC payment levels. The results for those under 25 years of age reflect their lower income earning and hence lower contributions resulting in lower MTC values.

Figure 10: Member tax credit by age



Base: All members at 30 June 2011 who have submitted a MTC claim and are eligible for the maximum MTC.
The maximum annual MTC members are entitled to is $1042.86 per annum up to and including 30 June 2011
Source: Inland Revenue administrative data.

Contributions holiday

Members who have been making KiwiSaver contributions for 12 months or more can take a contributions holiday of between three months and five years. Early contributions holiday within the first 12 months of becoming a member are considered for members experiencing, or likely to experience, financial hardship.

Currently, contributions holiday numbers are at a given date. As at 30 June 2012, there were 83,370 members on a contributions holiday, including less than 1% on a financial hardship holiday (see table 7 below).

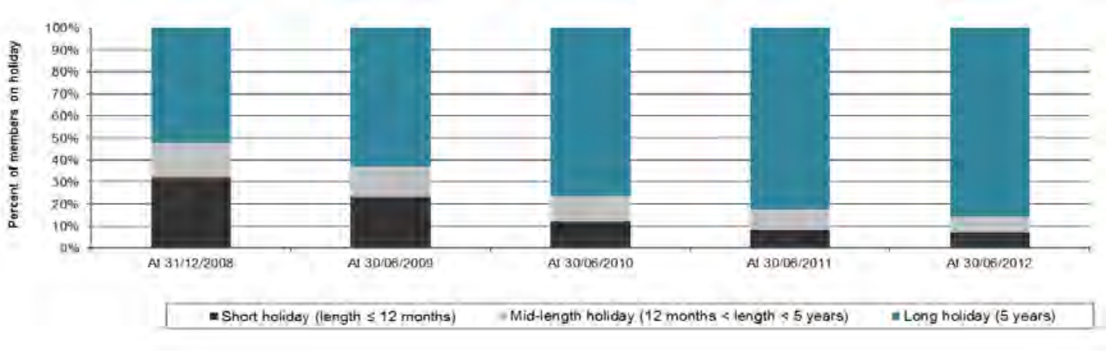
Table 7: Members on contributions holiday (years ended 30 June)

Holiday type	2008	2009	2010	2011	2012
Ordinary holiday	-	25,122	45,069	63,324	83,151
Financial hardship holiday	3,280	813	494	383	219
Total active holiday	**3,280**	**25,935**	**45,563**	**63,707**	**83,370**

Base: All members at 30 June 2008 to 2012 who on contributions holidays as at 30 June.
Source: inland Revenue administrative data.

For those members who are on a contributions holiday at 30 June 2012, the proportion of members who are on long contributions holiday (5 years) continues to increase and conversely the proportion who have taken short holidays (up to 12 months) has continued to decline in recent years (see figure 11 below).

Figure 11: Active contribution holiday duration



Base: All members at 30 June 2008, 2009, 2010, 2011 and 2012 on ordinary contribution holidays.
Source: Inland Revenue administrative data.

As at 30 June 2012, 104,584 members had taken a contributions holiday since the scheme began and most had taken a holiday once (see table 8 below).

Table 8: Frequency of contributions holiday taken by members as at 30 June

Frequency of contributions holiday	Members	Percentage
1	91,526	88%
2	8,649	8%
3	3,022	3%
4+	1,387	1%
Total	**104,584**	**100%**

Base: All members as at 30 June 2012 who had taken a contribution holiday at least once since KiwiSaver began.
Source: Inland Revenue administrative data.

As outlined above, in May 2012 the KiwiSaver evaluation reported on the key trends and characteristics of those people who have opted-out of KiwiSaver or taken a contributions holiday from the scheme over the past four years. As at 30 June 2011, 82,778 KiwiSaver members had taken a contributions holiday since the scheme began and most had taken a holiday once.

Overall, there was an increasing trend in the number of members taking contributions holiday from 27,445 in 2009 to 32,446 in 2011. However, there was a decreasing trend in the number of members taking contributions holiday in their first year of membership for reasons of financial hardship, from 3,513 in 2008 to 86 in 2011.

Although an increasing number of KiwiSaver members have taken contributions holiday since the scheme began, most have made contributions while on a contributions holiday. The level of annual voluntary contributions made by those on a contributions holiday was relatively consistent from 2008 to 2011 for those making contributions of more than $200 to $1,000. However, there was an increasing trend in those making annual contributions at lower (from less than $100 to $200) and higher levels (over $1,000) since the scheme began.

People in a younger working age group (18 to 44 years) with one job on lower to middle incomes (between less than $10,000 and $40,000, with many earning between $10,000 and $20,000) were more likely to have taken a contributions holiday.

Purchasing a home

The home ownership features of KiwiSaver – first home withdrawal and the first home deposit subsidy – became operational in July 2010. The objective of these features is to assist members to enter home ownership by helping them overcome the barrier of not having sufficient funds to purchase a house.

After three years of membership, members may withdraw their KiwiSaver savings (excluding Government contributions) to put toward buying a first home, or a second home if a member's circumstances are the same as a first home buyer. They may also be eligible, after three years of contributing, for a one-off subsidy payment toward buying a home of $1,000 for each year of contribution up to a maximum $5,000.

The Building and Housing Group of the Ministry of Business, Innovation and Employment completed an evaluation of the use and experiences of the KiwiSaver home ownership package in August 2012. This followed Housing New Zealand's baseline development work in 2010 and process evaluation work in 2011. The 2012 evaluation was focussed primarily on the deposit subsidy and involved an analysis of the available data and a survey of 402 people who used the subsidy.

The evaluation found there were 4,940 applications to 16 March 2012 and just over half (55%) were approved, 30% were not approved and 15% were in the pre-assessment stage at the time of the evaluation. The number of applications had steadily increased since June 2010, with nearly a quarter of applications coming in the last quarter.

Most applications were from two or more people, almost all used the subsidy to purchase a first home, three quarters sought the minimum subsidy of $3,000 and half of applications were for houses under $300,000. In accessing and applying for home ownership support most survey respondents said that they had found out about the home ownership package from providers and found the information they need easily and were able to get the assistance they required. However, some had difficulties getting clear or consistent information and for some there was confusion from the outset about their entitlement.

Of the applicants, almost three quarters were New Zealand European, most had an annual income of between $30,000 and $60,000 and the highest proportion of approvals were from the Auckland region. Prior to applying, most applicants were already saving for a home deposit and most applied because they needed extra funds. Over half of those who received a deposit subsidy said this was essential to them being able to purchase a home. The Ministry of Business, Innovation and Employment is now planning evaluation work on the outcomes of the home ownership features of KiwiSaver for 2013.

Withdrawing savings for retirement

Members who have been in KiwiSaver for five years and are 65 years of age are eligible to withdraw all or part of their savings for retirement. On 1 July 2012, the first KiwiSaver members who were 65 years of age and had been in the scheme for five years became eligible to withdraw their savings.

Although reporting the number of members who withdrew their savings for retirement after 1 July 2012 is outside the time period covered by this report, it is estimated that 72,114 members (on the basis of their date of enrolment in the scheme) will be eligible to withdraw their savings for retirement purposes from 1 July 2012 to 30 June 2013. Over half (53%) of these members will be eligible to withdraw their savings from October 2012 onwards (see table 9 below) reflecting the high initial uptake of the scheme at its inception by older people.

Table 9: Members eligible to withdraw savings for retirement by month to 30 June 2013

Month	Number of members who eligible to withdraw	Percentage
July 2012	14,350	20%
August 2012	11,122	15%
September 2012	6,323	9%
October 2012	6,819	9%
November 2012	5,170	7%
December 2012	4,066	6%
January 2013	2,791	4%
February 2013	3,292	5%
March 2013	4,910	7%
April 2013	5,821	8%
May 2013	3,955	5%
June 2013	3,495	5%
Total	**72,114**	**100%**

Base: All members as at 30 June 2012 who are eligible for retirement withdrawal. Members can make a Retirement Withdrawal if they have reached age 65 or they have been a member of KiwiSaver for a minimum of 5 years, whichever comes later. Membership start date is calculated by the 15th day of month in which member's contribution was first deducted from salary or wages. If members joined directly with a scheme provider, then their membership start date is the date on which providers notified Inland Revenue that a new member had joined.
Source: Inland Revenue administrative data.

As outlined above, the default contribution rate of 2% for new members, which has been in place now for over two years (since 1 April 2009) appears to be continuing to influence members' behaviour. However, for eligible members who contributed at higher rates of 4% and 8% before 1 April 2009, most continued to contribute at these rates after 1 April 2009 (see table 10 below).

Table 10: Comparison between members who are eligible to withdraw and all members joining before1 April 2009 on contribution rate changes

Contribution rate pre - 1 April 09	Contribution rate post - 1 April 09									
	2%		4%		8%		Other rate		Total	
	Eligible members	All members	Eligible members	All members	Eligible members	All members	Eligible members	All members	Eligible members	All members
2%	87%	83%	10%	15%	1%	1%	1%	2%	100%	100%
4%	10%	32%	86%	66%	3%	1%	1%	1%	100%	100%
8%	5%	13%	7%	13%	87%	73%	1%	1%	100%	100%
Other %	19%	46%	38%	41%	17%	4%	25%	9%	100%	100%

Base: All members at 31 March 2009 with EMS deductions. Those who made contributions directly to providers or ad-hoc contribution to Inland Revenue no through the EMS process are excluded. A contribution rate is calculated using the individual's contribution and income from their employer's monthly schedule and taking the most frequent contribution rate during the comparison periods. Totals may not add to 100% due to rounding. Note: Prior to the reduction in the minimum contribution rate, a transitional contribution rate arrangement existed to enable a member to start contributing at a lower rate of 2% if their employer agreed to match it. However, this group of members is relatively small compared with other members contributing at the minimum contribution rate of 4% or higher.
Source: Inland Revenue administrative data.

Of the accounts which are eligible to be withdrawn in July and August 2012 it is estimated that over three quarters (77%) have had at least between $5,000 and $20,000 contributed with half of those having between $10,000 to $15,000. It is also estimated that there is a small proportion of members who have only ever had the kick start of around $1,000 in them and a few have over $35,000 (see table 11 below). It is important to note that these estimates exclude any investment returns and interest or any other type of withdrawal.

Table 11: Estimated total contribution funds as at 30 June 2012 of those members eligible to withdraw in July and August 2012

Estimated savings	Number of members	Percentage
$1,000	117	<1%
$1,001 to $5,000	1,507	6%
$5,001 to $10,000	3,694	15%
$10,001 to $15,000	11,359	45%
$15,001 to $20,000	4,278	17%
$20,001 to $25,000	2,102	8%
$25,001 to $30,000	1,021	4%
$30,001 to $35,000	551	2%
$35,000+	843	3%
Total	**25,472**	**100%**

Base: All members eligible to withdraw in July and August 2012. Total estimated savings consists of member contributions and Crown contributions for the period July 2007 to June 2012. Member contribution include employee deductions and employer contributions through the EMS, voluntary contributions directly to providers and ad-hoc contributions to Inland Revenue not through the EMS process when crown contributions contain Member Tax Credit and Kick-start, but does not include interest earned during the three months holding period if automatically enrolled.
Source: Inland Revenue administrative data.

4. The cost of KiwiSaver

Employer contributions

As KiwiSaver is a primarily work-based savings scheme, employers play a significant role in its delivery. They are responsible for automatically enrolling new staff, facilitating opt-outs and making deductions from members' salary or wages. Employers are also required to make contributions equivalent to 2% of each member's salary or wages.

Over the year to 30 June 2012, Inland Revenue passed $866 million in employer contributions to KiwiSaver providers for investment in their employees' accounts. Over the five years to date, employers have contributed $2.7 billion to KiwiSaver accounts. Most employers contribute the minimum 2% of the salary or wages of their employees (see table 12 below). Four percent of employers are contributing 4% and less than one percent are contributing 8%. Eight percent either do not contribute (as they may contribute to another workplace superannuation scheme) or contribute at another rate.

Table 12: Employer contribution rates

Contribution rate	Percentage
2%	89%
4%	4%
8%	<1%
Other %	7%
Total	100%

Base: All members at 30 June 2012 with employer contributions through an EMS. Contribution rate is calculated based on gross contribution amount (i.e. before ESCT been applied) for the period April to June. Those on contributions holiday are excluded. In order to calculate an employer's contribution rate that an employee received at year end, employers must have made two or more consistent contributions over the April to June period into their employees' account. Totals may not add to 100% due to rounding.
Source: Inland Revenue administrative data.

Crown contributions

Costs to the Crown of KiwiSaver come from the $1,000 kick start to new members joining and the annual member tax credit. In the year to 30 June 2012, KiwiSaver cost the Crown $1,045 million in contribution payments to members of KiwiSaver schemes and complying funds. Overall, in the five years to date, payments to members and employers have cost the Crown $4.7 billion (see table 13 below).

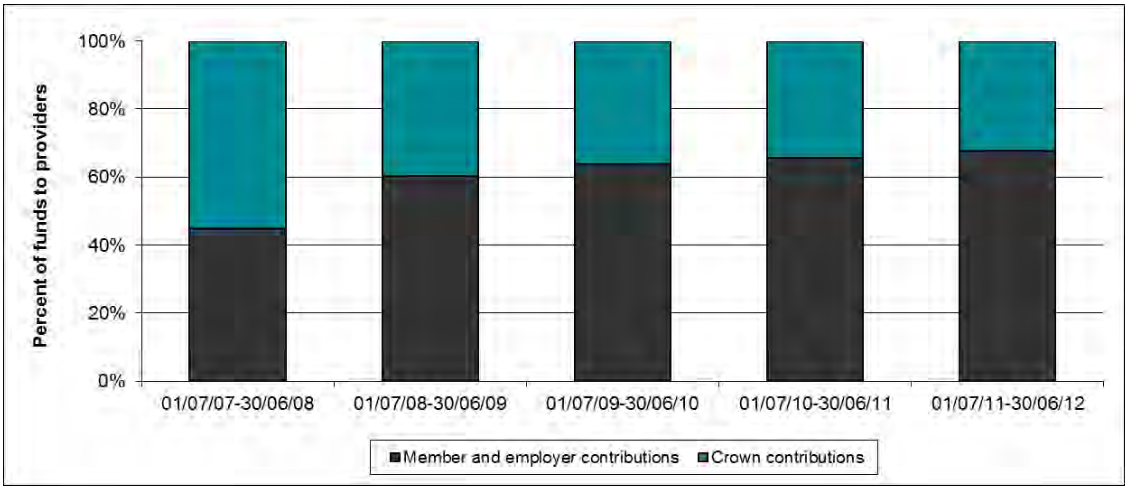
Table 13: Crown costs (years ended 30 June) ($m)

Cost	2008	2009	2010	2011	2012	Total
Payments to members	572	842	970	998	1,045	4,427
Employer tax credit	38	206	n/a	n/a	n/a	244
Total	**610**	**1,048**	**970**	**998**	**1,045**	**4,671**

Base: All Crown contributions to members passed from Inland Revenue to providers for the period October 2007 to June 2012 (cash basis). All ETC payments for the years ended 30 June 2008 and 2009 (cash basis).
Source: Inland Revenue administrative data.

As a proportion of the total value of funds passed to providers for investment in members accounts, the contribution from the Crown is declining over time (see figure 12 below). The Crown has contributed 32% of the value of funds saved over the first five years.

Figure 12: Crown contribution as proportion of total funds passed to providers



Base: Crown contributions passed from Inland Revenue to providers for October 2007 to June 2012 (cash basis).
Source: Inland Revenue administrative data.

5. Impact on retirement saving

Superannuation and managed funds market

KiwiSaver continues to see significant inflows of members and significant investment has flowed into individuals' accounts. As at 31 March 2012, KiwiSaver providers hold $12.7 billion in KiwiSaver schemes consisting of member contributions, employer contributions, Crown payments mainly of member tax credits and the kick start payment. As at 30 June 2012, there were three schemes with assets of over $1 billion, representing 38% of all KiwiSaver assets (see table 14 below). KiwiSaver performance information this year[6] continues to highlight the concentrated nature of KiwiSaver assets under management. By focusing on funds managed, rather than by scheme, the information takes into account providers with multiple KiwiSaver schemes and those that manage KiwiSaver schemes on the behalf of others.

Table 14: KiwiSaver scheme numbers and size ($m), March years

	Number of schemes					Total assets $m				
Scheme Size	**2008**	**2009**	**2010**	**2011**	**2012**	**2008**	**2009**	**2010**	**2011**	**2012**
< $1m	17	14	10	10	9	5	9	2	2	3
$1m to < $2.5m	5	6	8	5	4	9	8	14	8	8
$2.5m to <$10m	9	10	5	5	5	45	51	27	20	26
$10m to < $25m	6	6	6	7	5	89	87	101	122	84
$25m to < $50m	3	6	4	4	4	130	210	132	140	152
$50m to < $100m	5	3	5	2	5	322	221	399	110	346
$100m to < $200m	1	4	3	7	4	101	659	364	1,049	679
$200m to < $1,000m	0	5	11	12	11	0	1,415	4,812	7,736	6,633
$1,000 and over	0	0	0	0	3	0	0	0	0	4,804
Total	**46**	**54**	**52**	**52**	**50**	**701**	**2,660**	**5,851**	**9,187**	**12,735**

Base: Scheme size summary for all KiwiSaver schemes that provided statistical returns as required under section 125 of the KiwiSaver Act 2006 as at 31 March each year.
Source: Financial Markets Authority.

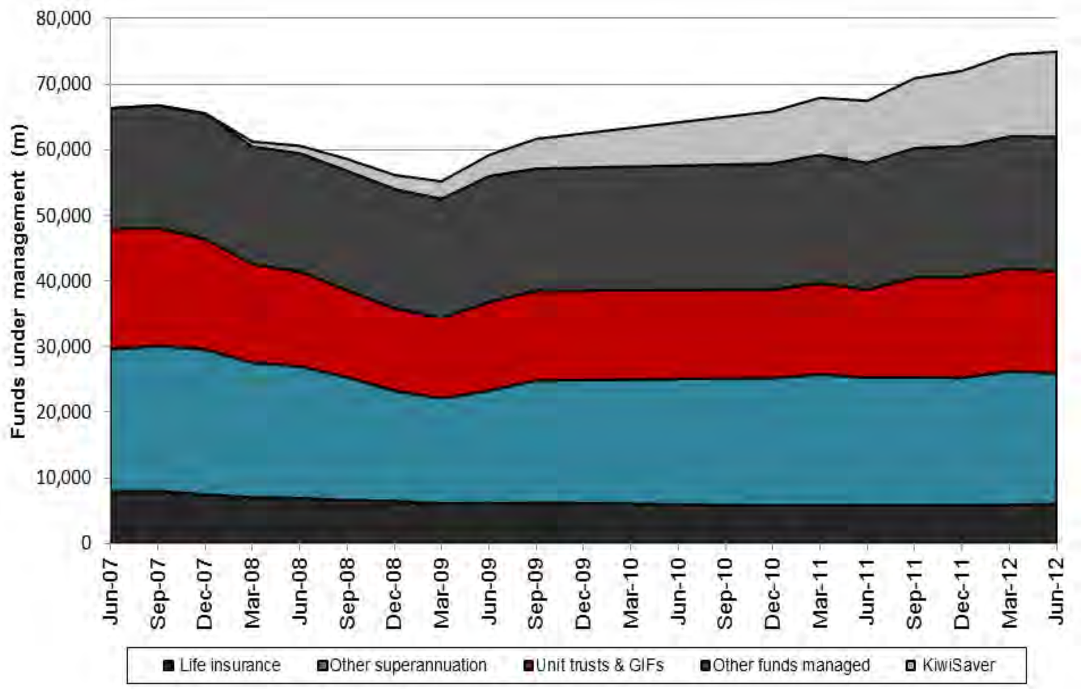
Over the five years of the KiwiSaver scheme, assets have increased each year, more than doubling on each previous year until 2010. This reflects both the increasing number of members and the accumulation of their contributions. However, between 2010 and 2012 the growth in the value of assets slowed reflecting the downturn in the global economy in recent years.

KiwiSaver continues to be a growing part of the overall managed funds market, with a value of $12.9 billion at 30 June 2012; an estimated 17% of the market (see figure 13 below). In terms of investment into New Zealand, KiwiSavers schemes continue to have a higher proportion invested locally compared to other forms of superannuation[7].

[6] Morningstar (July, 2012) *KiwiSaver Performance Survey June Quarter 2012*.

[7] Reserve Bank of New Zealand, *Managed Funds Survey*.

Figure 13: Managed funds assets by product category



Source: Reserve Bank of New Zealand, Managed Funds Survey.

Research into the impact on retirement saving

There has been limited research this year into the impact of KiwiSaver on retirement saving.

For respondents to the savings survey conducted in December 2011 for the Financial Services Council outlined in section 2, planned or current retirement income was generally from a mix of three sources, the most important being New Zealand Superannuation, KiwiSaver and other private savings (other than superannuation schemes). Neither New Zealand Superannuation nor KiwiSaver were seen by respondents as sufficient on their own.

In assessing the experience of KiwiSaver, to date the Retirement Policy and Research Centre at the University of Auckland notes that analysis has lacked evidence as to KiwiSaver's actual improvement in national saving and if it does assist, whether it necessarily influences the growth of the economy through higher and better investment[8]. The Retirement Policy and Research Centre consider that unless there is attention to decumulation issues and some integration with the universal pension, KiwiSaver may simply facilitate extra consumption by the wealthier cohort of a larger retired population. Another crucial lesson from the New Zealand experience from the perspective of the Retirement Policy and Research Centre is that competition among providers, and a system of default providers, may not improve consumer outcomes.

Further work

Further work is required to evaluate the initial impact of the scheme on individuals' saving and net worth. This work is to be based on providing a comprehensive basis for assessing changes in individual or

[8] Retirement Policy and Research Centre (The University of Auckland Business School) (December, 2011) *Working Paper 2011-2 - KiwiSaver: Four Years On*.

household saving behaviour over time from the longitudinal survey, Survey of Family Income and Employment (SoFIE), a longitudinal survey that was run by Statistics New Zealand from 2002 to 2010. SoFIE collected information on individual and family income, as well as the factors that influence changes to income, such as involvement in the labour force and family composition as well as detailed information on assets and liabilities. In every second year (or wave) of the survey, respondents were asked questions about their assets and liabilities and in the final year (wave 8) this included specific questions about KiwiSaver.

Recently, the KiwiSaver evaluation team has matched KiwiSaver administrative data from Inland Revenue with SoFIE data in one linked dataset held by Statistics New Zealand. The matching will enable the evaluation to address key questions of KiwiSaver's impact and effectiveness. In the coming year, the KiwiSaver evaluation team will analyse this linked dataset to investigate:

- the different characteristics of KiwiSaver members and non-members;
- the differences in savings rates and net worth between members and non-members; and
- their implications for net worth at the point of retirement, along with estimates of the adequacy of expected retirement income.

Also in the coming year, the KiwiSaver evaluation will monitor retirement withdrawals to understand the characteristics of individuals eligible to withdraw their funds. The work on value for money will be undertaken as a broader evaluation summary exercise following the completion of the SoFIE analysis after July 2013. Other work planned in the coming year includes further analysis by the Ministry of Business, Innovation and Employment into the effect of the home ownership package on supporting home ownership and financial preparedness for retirement, and an update on the KiwiSaver Supply Side evaluation.

Although the evaluation summary exercise will not be completed by July 2013, next year is the last planned year of the KiwiSaver evaluation. To date the evaluation has provided a detailed assessment of the early implementation and uptake of the scheme and will in the next year consider the initial impact of the scheme on individual and national savings through the SoFIE analysis.

Given KiwiSaver represents an integral part of New Zealand's retirement income policies, it is important to continue ongoing evaluation of the performance of the scheme as it matures, particularly in this period of early retirement withdrawals. Understanding issues associated with people's savings and investment behaviour and how they intend to use their retirement savings when they withdraw from KiwiSaver will be essential to inform future policy development. As indicated last year, this will require access to relevant and reliable sources of information and data that can track saving and investment behaviour over time. It will also require ongoing cross-government leadership and coordination

Conclusions

KiwiSaver membership continues to grow but the rate of growth has slowed this year from previous years

There continues to be growth in KiwiSaver enrolments, but the rate of growth this year has been slower than previous years. This year membership reached 1.97 million. On a monthly basis, membership grew on average by 17,500 individuals. This compares with, on average, 25,000 individuals a month last year.

Over half of members (62%) have pro-actively opted-in to KiwiSaver and there has been continued growth of KiwiSaver membership within all age groups in the eligible population. Approximately 29% of eligible children, nearly 67% of eligible people aged 18 to 24 and over half of eligible individuals in the middle age groups (mid-20s to mid-50s) have enrolled in the scheme.

Although membership continues to grow steadily, 51% of the eligible KiwiSaver population are not members. When compared to the eligible population, the age distribution of KiwiSaver member's exhibit one significant peak from 18 years to the mid-20s, which may reflect those in their 20s entering the job market and being automatically enrolled.

KiwiSaver members are continuing to use its key features and incentives

As at 30 June 2012, 255,935 individuals opted-out of KiwiSaver and remained out of the scheme. Research this year indicated that there was a decreasing trend in the number of opt-outs from KiwiSaver from 2008 to 2011 and that people from a younger working age group with one job on lower to middle incomes were more likely to have opted-out.

Although many people have joined and remained with the default KiwiSaver scheme to which they were initially allocated, most people are choosing their own scheme. This year 65% of members have chosen their scheme and 35% were default allocated by Inland Revenue or allocated to an employer-nominated scheme. Although there were 103,441 standard scheme transfers this year, there were fewer than last year. There were also fewer transfers within the holding period this year compared to last year.

The default contribution rate of 2% for new members has been in place now for over four years and this appears to be influencing the level of members' contributions. Over half of KiwiSaver members (59%) are currently contributing 2% of their salary or wages to their accounts.

As at 30 June 2012, there were 83,370 members on a contributions holiday, of whom less than 1% were on financial hardship holidays. Research this year indicated that an increasing number of members took contributions holiday since the scheme began but most of those had made some contribution while on a holiday. Similar to those who opted-out, people from a younger working age group with one job on lower to middle incomes were more likely to have taken a contributions holiday.

KiwiSaver home ownership features are continuing to be taken up by some members

This year the Building and Housing Group of the Ministry of Business, Innovation and Employment completed an evaluation of the use and experiences of the KiwiSaver home ownership package in August 2012. The evaluation found there were 4,940 applications for the deposit subsidy to 16 March 2012. Just over half (55%) of applications were approved, 30% were not approved and 15% were in the pre-assessment stage at the time of the evaluation. The number of applications had steadily increased since June 2010, with nearly a quarter of applications coming in the last quarter.

Most applications were for parties of two or more, almost all used the subsidy to purchase a first home, three quarters sought the minimum subsidy of $3,000 and half of applications were for houses under $300,000. In accessing and applying for home ownership support most people found out about the home ownership package from providers and found the information they need easily and were able to get the assistance they required. However, some had difficulties getting clear or consistent information and for some there was confusion from the outset on their entitlement.

Of the applicants, almost three quarters were New Zealand European, most had an annual income of between $30,000 and $60,000 and the highest proportion of approvals were from the Auckland region. Prior to applying most applicants were already saving for a home deposit and most applied because they needed extra funds. Over half of those who received a deposit subsidy said this was essential to them being able to purchase a home. The Ministry of Business, Innovation and Employment is now planning evaluation work on the outcomes of the home ownership features of KiwiSaver for 2013.

Some members became eligible to withdraw their savings for retirement early next year

On 1 July 2012, the first KiwiSaver members who were 65 years of age and had been in the scheme for five years became eligible to withdraw their savings for retirement. Although reporting the number of members that withdrew their savings for retirement after 1 July 2012 is outside the time period covered by this report, it is estimated that 72,114 members will be eligible to withdraw their savings for retirement purposes in the next year to 30 June 2013. Over half of these members (53%) will be eligible to withdraw their savings from October 2012 onwards.

Among those eligible to withdraw their savings for retirement, of those who contributed at higher rates of 4% and 8% before 1 April 2009, most continued to contribute at these higher rates after 1 April 2009 despite the minimum contribution rate being reduced to 2% at that point. Of those eligible to withdraw their savings in July and August 2012, it is estimated over three quarters have total contribution funds (excluding any investment returns and interest or any other type of withdrawal) of at least between $5,000 and $20,000. Half of this group are estimated to have total contribution funds of between $10,000 and $15,000.

The KiwiSaver market continues to grow but growth in the value of assets has slowed in recent years

KiwiSaver continues to be a growing part of the overall managed funds market, with a value of $12.9 billion at 30 June 2012; an estimated 17% of the market. Over the five years of the KiwiSaver scheme, assets have increased each year, more than doubling on each previous year until 2010. This reflects both the increasing number of members and the accumulation of their contributions. However, between

2010 and 2012 the growth in the value of assets slowed reflecting the downturn in the global economy in recent years.

Further work will examine the initial impact of KiwiSaver on savings and net worth

Further work is required to evaluate the initial impact of the scheme on individuals' savings and net worth. This work is based on providing a comprehensive basis for assessing changes in individual or household saving behaviour over time from the longitudinal survey, Survey of Family Income and Employment (SoFIE), a longitudinal survey that was run by Statistics New Zealand from 2002 to 2010, which is now matched to KiwiSaver administrative data in one anaymoised linked dataset.

In the coming year, the KiwiSaver evaluation team will analyse this linked dataset to understand the different characteristics of KiwiSaver members and non-members, the differences in savings rates and net worth between members and non-members and their implications for net worth at the point of retirement, along with estimates of the adequacy of expected retirement income.

Also in the coming year, the KiwiSaver evaluation will monitor retirement withdrawals to understand the characteristics of individuals eligible to withdraw their funds. Other work planned includes further analysis by the Ministry of Business, Innovation and Employment into the effect of the home ownership package on supporting home ownership and financial preparedness for retirement, and an update on the KiwiSaver Supply Side evaluation.

Although next year is the last planned year of the KiwiSaver evaluation, evaluation work on value for money will be undertaken as a broader evaluation summary exercise following the completion of the SoFIE analysis after June 2013. This will be the last piece of work completed for the KiwiSaver evaluation.

Next year is the last year of the KiwiSaver evaluation but ongoing evaluation is required

Given KiwiSaver represents an integral part of New Zealand's retirement income policies, it is important to continue ongoing evaluation of the performance of the scheme as it matures, particularly in this period of early retirement withdrawals. Understanding issues associated with people's savings and investment behaviour while in the scheme and how they intend to use their retirement savings when they withdraw from the scheme will be essential to inform future policy development. As indicated last year, this will require access to relevant and reliable sources of information and data that can track saving and investment behaviour over time. It will also require ongoing cross-government leadership and coordination.

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