

***New Zealand's KiwiSaver seems to be delivering, which must be good news for NEST***

(Dr Frank Eich, Pension Corporation)

- **The British Government intends to launch NEST (formerly Personal Accounts) in 2012. The New Zealand *KiwiSaver* scheme provided much of the inspiration for NEST and also a blueprint for many of the design features.**
- **There are early signs that the *KiwiSaver's* features such as auto enrolment are working more or less as intended. This must be good news not only for the New Zealand but also for the British Government.**

The new Government is still contemplating the exact scope of the National Employment Savings Trust (NEST) but remains committed to launching the scheme in 2012. The previous government developed NEST with the objective of helping millions of people without any employment-based pension start saving for retirement.

Much of the inspiration for NEST (Personal Accounts) came from New Zealand where the so-called *KiwiSaver* scheme was set up in 2007. Similarly to the UK, New Zealand has a low savings culture, including for retirement. New Zealand also has the reputation for innovative policy making, with policy makers there taking advantage of the latest insights from behavioural economics when designing *KiwiSaver*. New Zealanders thus get automatically enrolled into the scheme when they enter new employment but keep the option to opt out for whatever reason they might have. NEST will have these features too, with the previous and new governments hoping that this will encourage as many people as possible to start saving for retirement.

With all these similarities, it is interesting to see how the *KiwiSaver* scheme has actually fared since its launch. Perhaps it might even tell us something about the future prospects for NEST?

Earlier this month the New Zealand Inland Revenue published a study assessing the early impact of *KiwiSaver*,<sup>1</sup> which provides some interesting insights. With respect to why people joined the scheme, the study found that the most commonly reported important reason was that it was a way to save for retirement, followed by the contributions and incentives offered by employers and government, and then that it was an easy way to save. With respect to why individuals had not joined the scheme, for 9 out of 10 respondents the reason was either that they could not afford to, that they had better investment options or that they had not "got round" doing so. As auto enrolment only happens when someone starts a new job, all those who had not moved jobs or were unemployed or self employed over the last few years would have had to enrol actively themselves, which will at least partly explain the responses. Positively, only 12 per cent of those who are not in the *KiwiSaver* had at some point been enrolled but decided to opt out.

This and other evidence suggest that the scheme's features designed to make it easy to join are functioning as intended. More than two thirds of members were either automatically enrolled or enrolled by their employers, taking the hassle out of the process. Meanwhile an overwhelming majority (92 per cent) of members contribute directly from salaries or wages, making membership a normal part of life. The fact that individuals can take contribution holidays when needed can make the decision to stay in only easier. A potential downside of making everything as easy as possible is a reported lack of engagement. The researchers speculate that this might increase over time as the value of an individual's investment increases and as individuals are members for longer. Moreover, it is not clear yet how much of the money saved in the *KiwiSaver* represents genuine additional savings rather than a substitute for other types of savings.

After only three years in existence, it is clearly too early to judge whether the *KiwiSaver* scheme has been a success; after all it is meant to generate income for future pensioners in the decades to come. Early findings suggest though that the scheme's key features are working more or less as intended. While one should not automatically assume that everything that works in New Zealand

will automatically work in the UK, that is still good to hear as the British Government is embarking on a similar project not too far in the future.

<sup>1</sup> *KiwiSaver Evaluation Survey of Individuals*, New Zealand Inland Revenue, August 2010.