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### Kiwi Saver scheme review

Being a Financial Advisor I have spoken to hundreds of people about Kiwi saver and the benefits to be gained for their retirement, while also helping them to get into their own first home.

This is a brilliant scheme and Michael Cullen is to be applauded for its introduction.

If I have any criticism or suggestions, they would be these.

1. The fees allowed for managers, by the scheme, are far too generous and should be reduced, there has been considerable media comment on this already.
2. With the scheme looking to provide a better retirement for its members I would like to see the scheme provide life cover of \$250k for each member as well, with an option to double this. The premiums would be taken out of their funds and would be considerably lower than if they bought their life insurance on market, as no profit margin or commission needs to be covered.
3. But my biggest gripe is the way “Risk” is explained. “High Risk” to the average investor means they could lose all their money, like what happened when the finance companies fell over. There is no commentary on what “High risk” means.

The updated illustration below is an improvement and better demonstrates the volatility of growth and aggressive funds, but also shows fund value going higher. The Risk indicator though does not allow for the high risk of poor performance and lost opportunity the defensive and conservative schemes expose investors to.

## KiwiSaver funds come in five basic types

We've grouped the hundreds of KiwiSaver funds into five types to make things easier. Once you find which is right for you, it's much simpler to find a fund of that type.

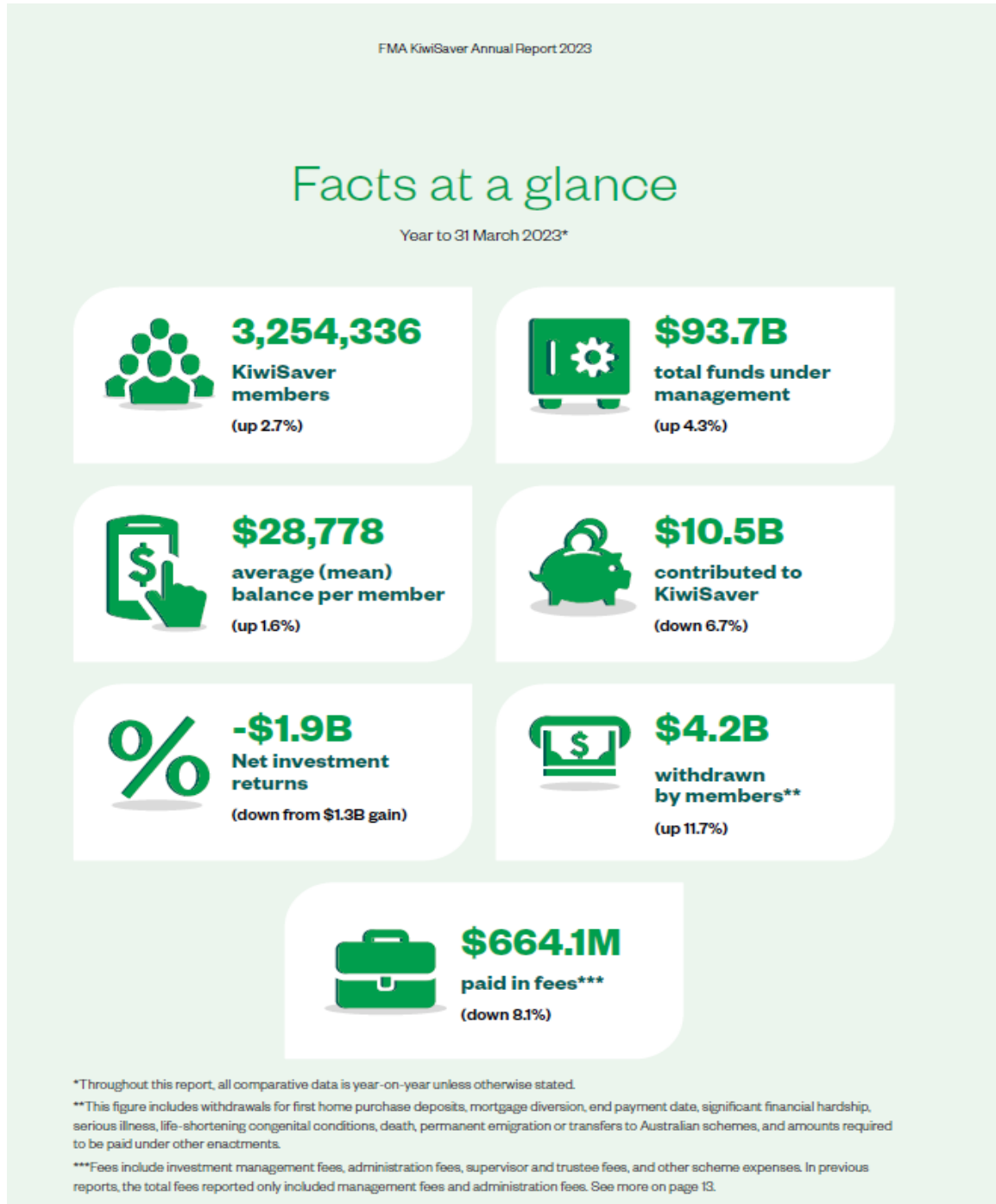
	Defensive	Conservative	Balanced	Growth	Aggressive
Your level of risk					
Likely ups and downs					
Potential results					
Invest for at least	<b>1-3</b> years	<b>2-6</b> years	<b>5-12</b> years	<b>10</b> years	<b>13</b> years

Each fund holds a mix of investments, and which type they fit into is based on how much of the more risky stuff, like shares and commercial property, is in the mix. The more risk you take on, the more potential you have for better results, but your balance will have more ups and downs along the way.

## Current situation

The FMA recently released its report on Kiwi saver as of March 2023.

Total funds under management increased 4.3% to \$93.7 billion, compared to 2022 when total assets grew by 8.7%. Meanwhile, total membership increased 2.7% to 3.254 million, slowing considerably from 2022 year numbers.



Many KiwiSaver funds dipped after world markets experienced a sharp decline in the beginning of March 2020 but soon recovered and have dipped again from late 2023. Over the year, KiwiSaver investment returns grew 14% or \$12.1 billion.

## Risk

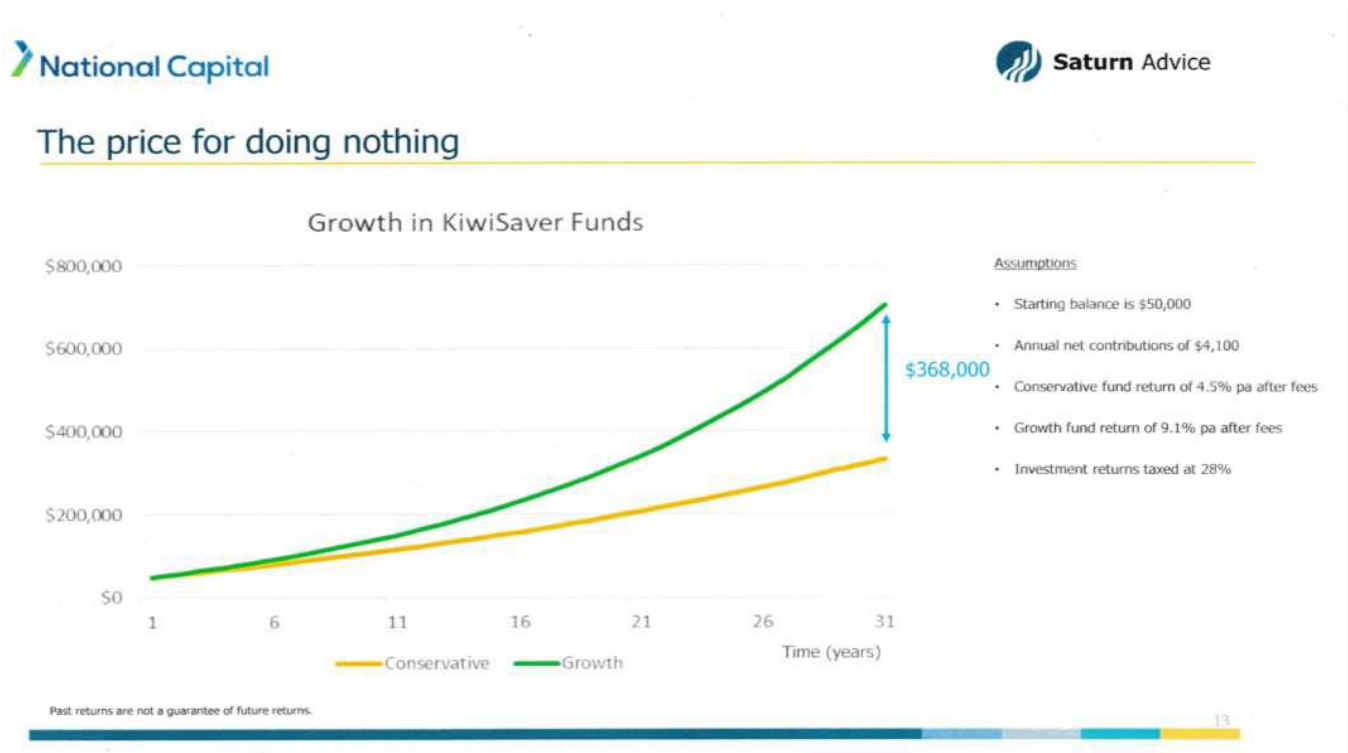
What is Risk and why do they use this term? **Risk** is the potential for uncontrolled loss of something of value. Their focus is on capital risk, but completely ignore the risk of lost opportunity, the loss of what it could have been, compared to what it is.

Number of funds and their average return over 1 to 10 years as extracted from [KiwiSaver survey-2022Q1.pdf \(morningstar.com.au\)](#)

### Snapshot

		Assets NZ\$M	Total Returns % p.a					Dollar Based Member Fees. \$/year	Asset Based Fees %/year	NZ Domiciled	
			3-months	1-year	3-year	5-Year	10-Year			Assets %	Growth Assets %
<b>Default Options</b>	BNZ KiwiSaver Default	443.3	-5.9	--	--	--	--	0.35	31.8	58.6	
	Kiwi Wealth KiwiSaver Scheme Default	436.4	-5.7	--	--	--	--	0.37	14.3	59.7	
	Simplicity KiwiSaver Default	362.4	-5.8	--	--	--	--	0.31	33.6	56.0	
	SuperLife KiwiSaver Default	372.4	-5.3	--	--	--	--	0.20	66.8	55.1	
	Westpac KiwiSaver Default Balanced	517.8	-5.1	--	--	--	--	0.4	44.2	52.3	
<b>Peer Group Averages</b>	Default Options	2132.3	-5.5	--	--	--	--	0.00**	38.17	56.34	
	Conservative (Including Default Options)	9969.2	-3.9	-1.4	2.9	3.6	5.1	0.66	49.05	22.4	
	Moderate	13383.4	-4.2	-1.0	3.8	4.6	5.8	0.90	46.94	34.7	
	Balanced	20841.3	-5.1	1.4	6.5	6.6	8.0	0.93	34.84	57.7	
	Growth	30446.0	-5.7	2.8	8.6	8.6	9.9	1.16	30.65	76.9	
	Aggressive	7492.6	-6.5	3.8	9.5	9.3	10.1	1.24	27.28	90.6	

Based on this, then surely the Risk profile used is upside down and the Defensive scheme has a higher risk of underperformance. The graph below highlights this lost opportunity gap.



The Kiwi saver scheme has been running for almost 17 years now (start date 2<sup>nd</sup> July 2007) and there have been no reports of a fund collapses or members losing their money. Not like Finance company debentures then!

The facts of the matter are the funds are held by Trustees, so the fund managers do not have direct access to the funds, nor does the Government, for those who remember the Muldoon Government plundering a scheme running at that time, nor can creditors access it.

Every fund manager is competing and being compared to other fund managers and are quite possibly on performance bonuses, so they cannot afford to make poor decisions. The funds are also spread within asset classes as well as a wide variety of products, thus minimising any risk of capital loss.

These asset classes are Shares/equities, Bonds, Cash, Property, Commodities with at least one I know of who invests in Crypto currencies) **Note:** I consider Crypto currencies nothing more than pyramid schemes.

Many will remember Financial planners placing their client’s funds with finance companies, that was like placing a bet on 22 black on the roulette wheel. Many will attest that this high-risk investment was neither understood by the Financial Planners giving advice, nor explained to the investor. The Governments knee jerk reaction was to legislate, creating compliance and cost on the industry and then casting the net wide and included Insurance brokers and Mortgage brokers, forcing the latter two to comply with regulations that are targeted at Financial Planners.

Perhaps a fairer table for Kiwisaver presentation of performance could look like this:

Type of fund	Risk profile - Volatility	Risk profile – Poor performance	10-Year average return
<b>Defensive</b>	Low risk	High risk	5.1%
<b>Conservative</b>	Low to medium risk	Medium to high risk	5.8%
<b>Balanced</b>	Medium risk	Medium risk	8.0%
<b>Growth</b>	Medium to high risk	Low to medium risk	9.9%
<b>Aggressive</b>	High risk	Low risk	10.1%

Merely attaching a “High Risk” label to Growth or Aggressive, is disingenuous with the suggestion that they are likely to see you lose all your money. The schemes are all arranged to be diversified in their investments, so the risk is spread.

The other industry accepted norm is the older you get the less risk you should have and thus the less return you get. The logic of this is lost on me and doesn’t stand up to scrutiny. Many of the older clients I have are financially secure already and can tolerate volatility from time to time and are looking for their investments to work for them.

While some clients as they near aged 65 will be hanging out for access to their funds and volatility right on access point could be disappointing to them. It could be argued that if they can wait, their funds will recover, and they can enjoy the rewards for waiting.

In any event it is encouraged that you seek financial advice before investing and deciding on what scheme you are comfortable with.

While our default recommendation is Growth, we realise it is not for everyone, comes with no guarantee and you the client need to be able to sleep at night without worrying about your Kiwi saver performance.

**Prepared and written by:**

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## **Financial Service Providers NZ Ltd**

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