This issue contains an occasional feature that provides a more in-depth look at changes to pension systems abroad. This month, the focus is on pension reform in New Zealand.

Focus on New Zealand

KiwiSaver After 5 Years

KiwiSaver, a type of subsidized retirement savings plan, was introduced 5 years ago on July 1, 2007, to supplement the country’s flat-rate universal public pension known as New Zealand Superannuation. Since July 1, 2012, the first group of KiwiSaver members—those aged 65 or older and enrolled in a KiwiSaver plan for at least 5 years—is permitted to withdraw all the funds from their accounts.

New entrants to the labor force are automatically enrolled in a KiwiSaver plan but may opt out between the second and eighth week of their employment. Anyone younger than age 65 may opt in with the KiwiSaver provider of their choice. After the first 12 months of membership (or earlier in the event of a serious illness or financial hardship), account holders may take a “contribution holiday” for a period of 3 months to 5 years at a time. Workers who are automatically enrolled are assigned to a KiwiSaver plan in one of the following three ways:

• They can choose a provider.
• If they do not make a choice, they are assigned to their employer’s preferred plan.
• If their employer does not have a preferred plan, workers are randomly assigned to one of the six default plans.

KiwiSaver members may select from a number of different types of investment portfolios with varying degrees of risk. Those enrolled in a default plan are assigned to a conservative investment portfolio. Members may switch portfolios and providers at any time; investment risks are borne by the members because the government does not provide any guarantees.

Upon reaching age 65 with at least 5 years of membership, eligible members can choose to withdraw either the entire account balance or a portion of the balance. The only option for withdrawals is a lump-sum payment. Members may also choose not to withdraw any of the funds. For those who continue working after age 65, employer contributions to KiwiSaver plans are voluntary, and there are no government matching funds (discussed later).

Original Design of KiwiSaver

The provisions of the 2006 law include the following:

• Contributions. All workers could select a monthly contribution rate of either 4 percent (the required minimum and the default rate) or 8 percent of gross earnings and make additional voluntary contributions. An employer could make part or all of an employee’s contributions (up to 4 percent of the employee’s gross earnings was tax exempt).

• Government subsidies. The government provided subsidies in the form of a one-time, tax-free payment of NZ$1,000 (US$797) to each KiwiSaver account (called a “kickstart”); NZ$40 (US$32) per year for administrative fees; and from NZ$1,000 to NZ$5,000 (US$4,005) per year per person to eligible first-time home buyers.

• Contribution diversions. Account holders with at least 12 months of membership were permitted to divert up to half of their contributions to make mortgage payments. In addition, as of 2010, those with 3 years of KiwiSaver membership (and contributions) were permitted to withdraw a portion or all of their funds (except for the kickstart and any other government subsidies—discussed later) to purchase their first home (up to certain income and housing-cost limits).
Changes to KiwiSaver

Subsequent changes to KiwiSaver include the following:

- **2007.** Introduced government matching contributions for employees of up to NZ$1,046 (US$838) a year. Phased in an increase in mandatory employer contributions from 1 percent of an employee’s gross earnings to 4 percent by 2011.

- **2008.** Abolished the NZ$40 annual subsidy for administrative fees and the employer tax credit. Lowered the mandatory employer contribution to 2 percent.

- **2009.** Abolished the mortgage diversion except for the 600 members already enrolled.

- **2011.** Began taxing employer contributions. Decreased the government matching contribution to employees by half, up to a ceiling of NZ$521 (US$417) per year.

- **2013.** The minimum required contribution for both employees and employers will increase to 3 percent each. Also, new disclosure rules for providers will require a timetable and standardized format for reporting (such as rate of return, fees, and portfolio).

Program Statistics

This section provides statistics related to account holders, the government, and providers.

Account Holders

Since 2008, the number of account holders has increased from more than 700,000 to nearly 2 million at the end of May 2012. At the same time, the breakdown by sex has remained the same: more women (51 percent) have accounts than men (48 percent). Currently, about 25 percent of account holders are in default plans, and some 17,500 members (over age 65 with 5 years of contributions) are eligible to withdraw their savings (the average account balance is NZ$15,000 (US$12,014) for this group). Next year 75,000 members will be eligible.

Table 1 provides the breakdown of how individuals have enrolled in KiwiSaver. Comparing those figures after the first year of operation with the latest figures available, the percentage of members who were automatically enrolled has increased slightly, and significantly more account holders opted in by provider than via employer. The portion that opted out declined from 19 percent to 13 percent.

<table>
<thead>
<tr>
<th>Method</th>
<th>June 2008</th>
<th>May 2012</th>
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</thead>
<tbody>
<tr>
<td>Opt in via provider</td>
<td>47</td>
<td>50</td>
</tr>
<tr>
<td>Opt in via employer</td>
<td>17</td>
<td>13</td>
</tr>
<tr>
<td>Automatic enrollment</td>
<td>36</td>
<td>38</td>
</tr>
</tbody>
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Table 2 shows that the percentage of younger members is increasing. The proportion of individuals aged 0 to 34 has increased from 44 percent to 49 percent since 2008, while the proportion for those aged 35 to 54 has decreased from 35 percent to 32 percent.

<table>
<thead>
<tr>
<th>Age group</th>
<th>June 2008</th>
<th>May 2012</th>
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<tbody>
<tr>
<td>0–17</td>
<td>13</td>
<td>16</td>
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<tr>
<td>18–24</td>
<td>16</td>
<td>15</td>
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<tr>
<td>25–34</td>
<td>15</td>
<td>18</td>
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<tr>
<td>35–44</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>45–54</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>55 or older</td>
<td>19</td>
<td>18</td>
</tr>
</tbody>
</table>

Government Contribution

The take-up rate has exceeded government projections. When the KiwiSaver law was passed, the government estimated that 50 percent of the eligible population would have a KiwiSaver account by 2017; currently about 55 percent are account holders. The larger than expected enrollment significantly increased the financial burden on the government. During the first 4 years, government subsidies represented almost 40 percent of all contributions. That figure is expected to decrease as a result of the 2011 changes.
Providers
The Ministry of Development approves all KiwiSaver providers including a limited number of default providers selected through a tender process. (Six default providers were chosen but fewer exist today because of takeovers, mergers, and sales.) As the total number of providers remains much the same at more than 50, some providers have left and others have entered the market. However, the six default plans combined hold some NZ$8.8 billion (US$7 billion) assets under management compared with NZ$11.8 billion (US$9.4 billion) in total. Contracts with the default providers expire in June 2014.

Survey Results
The results of a 2010 survey to evaluate KiwiSaver include the following:

- **Knowledge of KiwiSaver.** Eighty percent of members and 64 percent of nonmembers thought that they had sufficient information to help them make decisions regarding membership. Close to 75 percent were familiar with more than half of the features.

- **Autoenrollment.** More than a third of members were automatically enrolled. Of those members, 45 percent reported that they would not have joined KiwiSaver on their own, 12 percent opted out, and 42 percent were aged 18 to 29.

- **Default feature.** Of the members automatically enrolled, 17 percent were assigned by Inland Revenue (the government’s taxing authority and administrator of some social programs), 27 percent were assigned by their employer, and 50 percent chose their current provider; 15 percent could not identify their provider and 40 percent could not identify their fund type.

- **Financial planning.** Twenty percent of those surveyed have spent considerable time planning for their retirement, 30 percent spent a fair amount of time, 32 percent spent a little time, and 17 percent have not thought about retirement at all. Regarding income in retirement, 41 percent had no idea what their retirement income was likely to be, 22 percent did not know how much they needed to meet their basic needs, and 21 percent did not know how much they needed to live comfortably.

- **Reasons for joining KiwiSaver.** Close to half of members indicated the most important reason for joining KiwiSaver was to save for retirement; for nearly a quarter of members, contributions and incentives from government and employers was the most important reason. Twelve percent of members noted that the most important reason for joining was that KiwiSaver is an easy way to save.


Europe
Poland
On June 1, President Komorowski signed a bill into law that increases the normal retirement age under Poland’s public pension system. Starting in 2013, the retirement age will gradually increase from age 65 to 67 for men (by 2020) and from age 60 to 67 for women (by 2040). According to the government, the change is necessary to ease the fiscal pressure caused by rapid population aging and to encourage workers to stay in the labor force longer. A recent report by the European Commission projects that Poland’s old-age dependency ratio—the population aged 65 or older as a percentage of the population aged 15 to 64—will increase from 19 percent in 2010 to around 54 percent in 2050.

The new law will also allow for early retirement with a partial pension—equal to 50 percent of the pension the worker would have received if he or she retired at the normal retirement age—at age 65 with 40 years of coverage for men and age 62 with 35 years of coverage for women. (Other details of the partial pension, including when it will go into effect, are not yet available.) Currently, early retirement with a partial pension is not possible.
In 1998, Poland adopted pension reform legislation introducing a new three-pillar system, including a mandatory notional defined contribution (NDC) program, second-pillar mandatory individual accounts, and third-pillar voluntary retirement savings accounts. Participation in the system is mandatory for all economically active persons born after December 31, 1968, and voluntary for those born from January 1, 1949, to December 31, 1968. Workers participating in the NDC and mandatory individual account system contribute 7.46 percent of covered earnings to the NDC program (for old-age benefits) and 2.3 percent to individual accounts; employers contribute an additional 9.76 percent to the NDC program only (for old-age benefits).


The report indicates that virtually all OECD countries have changed their retirement systems since the beginning of the recent financial crisis. Common reforms include measures addressing financial sustainability (indexation and automatic adjustment mechanisms), work incentives, greater diversification (investment choice in DC plans), and improved security (stronger participant protections and longer recovery times for funding defined benefit (DB) plans). Efforts to enhance the adequacy of retirement incomes (primarily safety nets) and improve coverage and administrative efficiency received less attention.

Several countries have introduced automatic adjustment mechanisms, linking demographic, economic, and financial developments with public pensions. While those arrangements aim to improve system sustainability, their complexity may confuse workers about future benefits. The OECD recommends a gradual and transparent implementation process to help workers adjust to these new pension system designs.

Some Central and Eastern European countries have reversed earlier pension reforms, which had replaced a portion of PAYG benefits with mandatory DC pensions managed by the private sector. OECD analyses indicate that the impact from reversals on public finances is likely to be an initial improvement from increased contribution revenues, but a long-term cost in the form of lower retirement benefits for future retirees.

The report points out that privately funded pensions are assuming a growing role in many OECD countries as reforms shrink public pension benefits. Private pension coverage (measured by enrollment rates) varies across countries, especially for voluntary systems. Some countries have made private pensions compulsory or quasi-mandatory, while other countries have introduced financial incentives to encourage participation.

The economic and financial crisis highlights the uncertainty of retirement income in retirement savings plans. Two policies mentioned in the report to alleviate market risk in DC plans are default life-cycle investment strategies and minimum return guarantees. Guarantees, which reduce market risk on DC pension plans by setting a floor on the value of accumulated savings at retirement, complement the risk-reducing properties of life-cycle investment strategies.
Pensions Outlook favors mandatory private pensions to help ensure benefit adequacy or “soft compulsion” using automatic enrollment with the ability to opt out (in New Zealand’s KiwiSaver and soon to be introduced in the United Kingdom).

The report discusses several policy options for improving plan design that include the following:

• Ensuring DC plan designs are consistent both internally (between the accumulation and payout phases) and externally with respect to the overall (multitier) pension system.

• Establishing effective communication strategies and financial education programs for plan members.

• Improving the design of incentives to save for retirement.

• Promoting low-cost retirement savings instruments.

• Encouraging annuitization to protect against longevity risk.