



Pension Fund Governance in New Zealand: New Zealand Superannuation Fund and KiwiSaver

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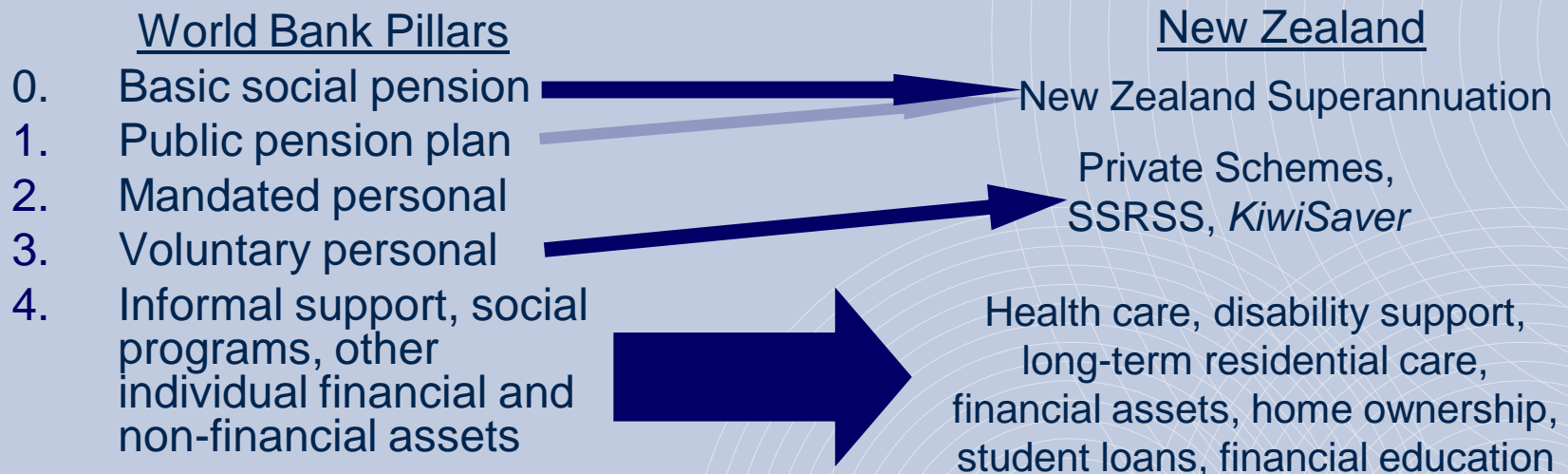
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Pension Fund Governance in New Zealand: New Zealand Superannuation Fund and KiwiSaver

- New Zealand retirement income framework
- New Zealand Superannuation Fund
 - New Zealand Superannuation
 - Policy Rationale for NZS Fund
 - Governance of the NZS Fund
- KiwiSaver
 - Policy Context
 - KiwiSaver – what it is and how it works
 - Regulation and governance
 - Progress so far

New Zealand has a multi-pillared retirement income framework.

- simple and efficient
- fits World Bank prescription
- has room to evolve

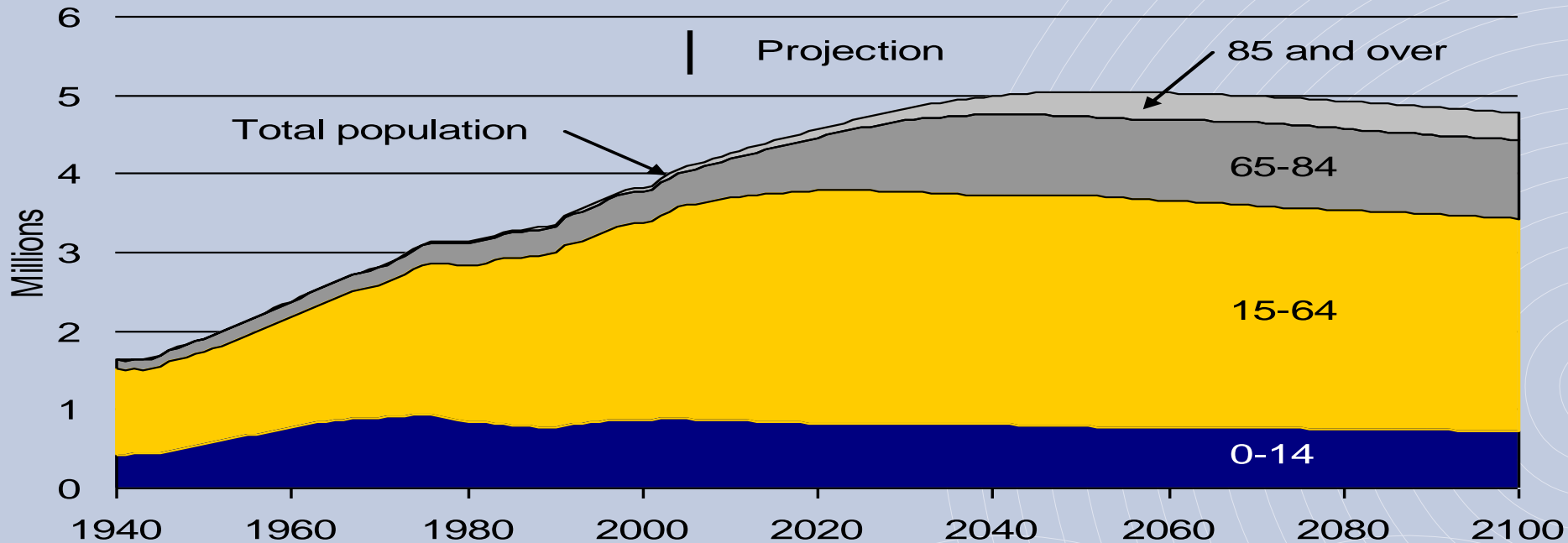


New Zealand Superannuation: a basic public pension, with no strings

- Universal benefit
- Paid to all residents over age 65
- A married couple receives 65% of the national average wage (32.5% each)
- Indexed annually
- No income test or means test
- Not related to past earnings history
- Not a contributory scheme

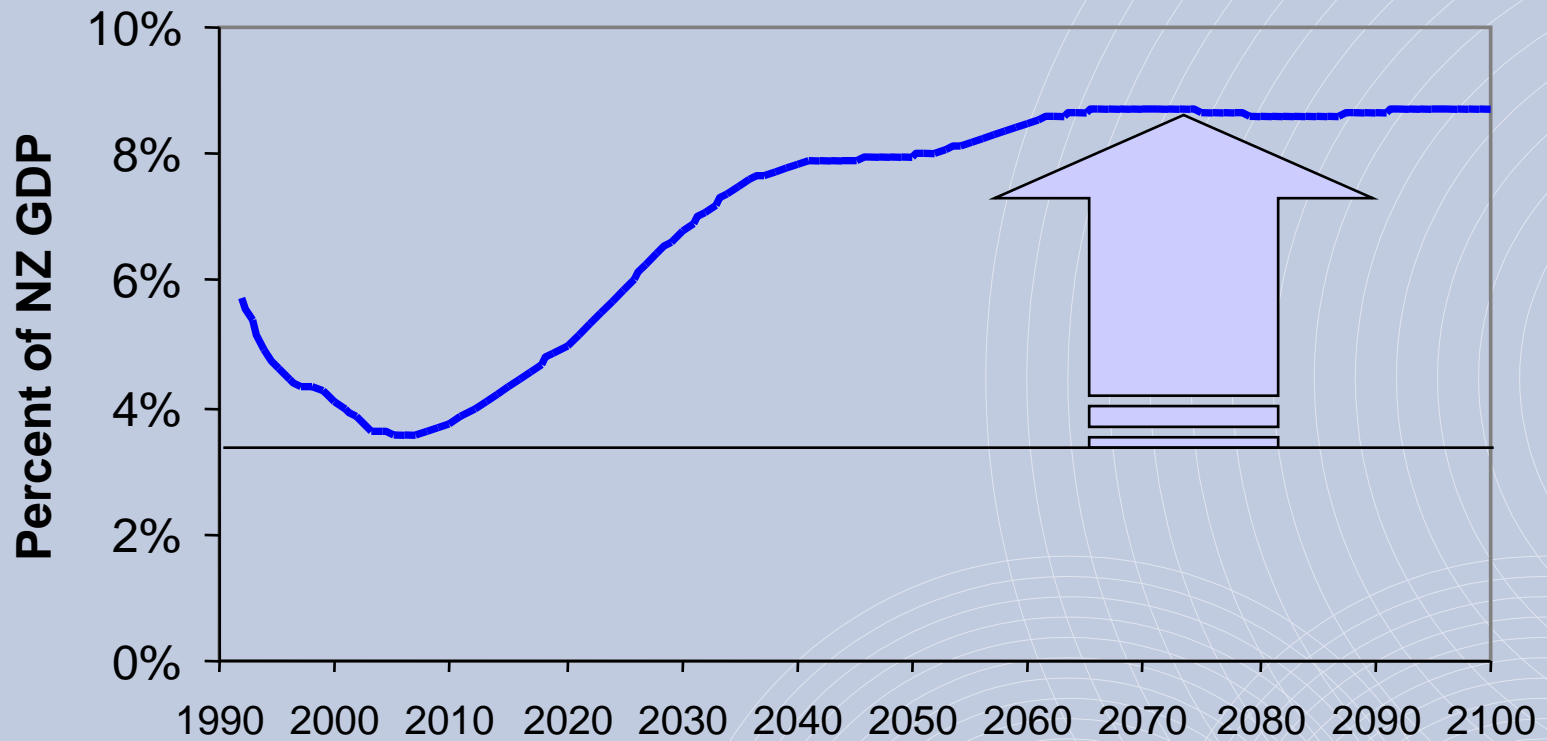
Fortnightly payments (as at 1 April 2007)	Before tax	After tax
Single, living alone	\$673	\$554
Single, living with others	\$619	\$511
Married or civil union couple (when both partners qualify)	\$511 each	\$426 each
Married or civil union couple (when only 1 partner qualifies)	\$486	\$407

Demographics: population level and structure changes markedly



- A larger proportion of “elderly”, especially “older elderly”.
- Some “unexpected longevity” – people underestimating how long they live.
- People available for work for longer and/or longer in retirement/semi-retirement.
- There will be changing demands on Crown finances.

Cost of New Zealand Superannuation



New Zealand Superannuation Fund: Policy Rationale

- Stronger Crown Balance Sheet cushions the impact on Crown finances ...
- ... Public Debt is already at relatively low levels, so ...
- ... build up a fund of Crown-owned financial assets to...
- ...partially pre-fund the extra fiscal costs (tax smoothing) with...
- ...a diversification benefit of broadening the Crown financial portfolio across capital markets but...
- ...good governance arrangements vital to avoid repeating the international record of poor financial performance of public funds.

Design of Governance Arrangements

“A clearly defined portfolio of Crown financial resources ...

... managed by an independent governing body ...

... with explicit commercial objectives ...

... and clear accountability.”

“A clearly defined portfolio of Crown resources ...”

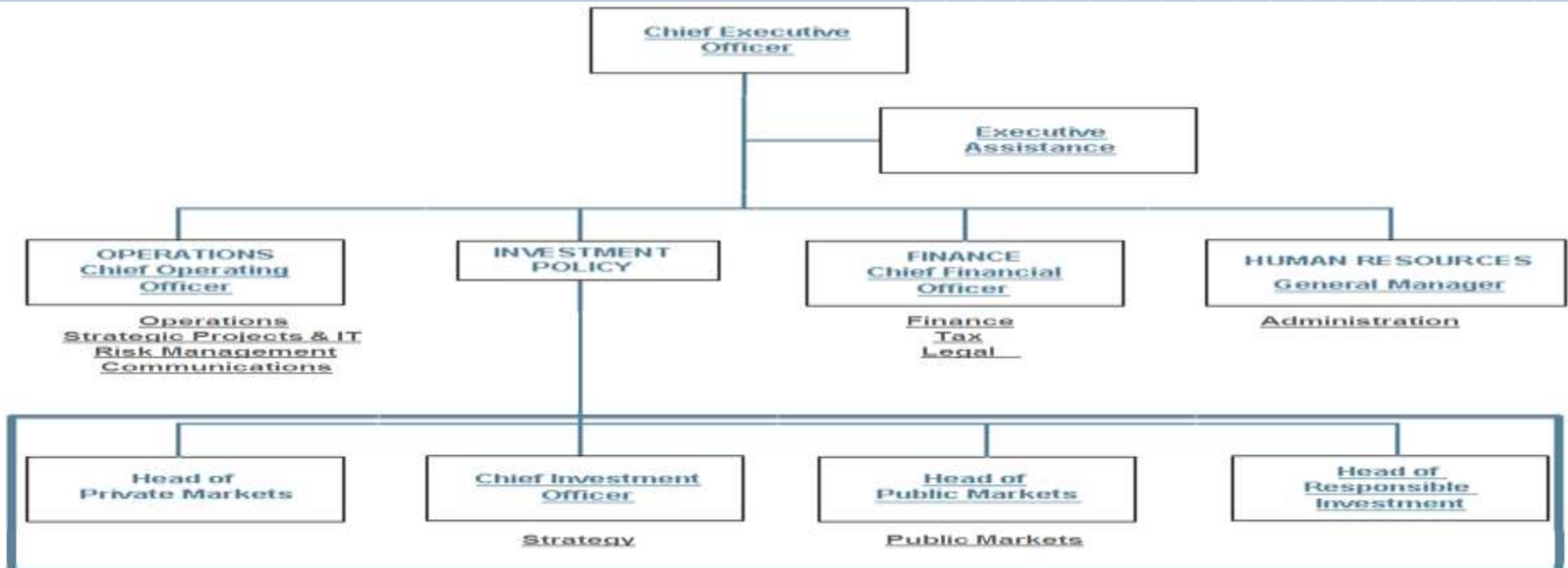
- Property of the Fund
 - Part of the Crown ...
 - ... but clearly defined in legislation
- Capital contributions
 - Transparent funding process
- Capital withdrawals
 - According to legislated algorithm
 - Late 2020s
- Policy credibility and commitment
 - Formal legislation reduces risk of policy reversal from myopic political pressures

“... managed by an independent governing body ...”

- Separate Crown entity
 - with full fund management powers
- Nominating committee
- Expertise
 - “... substantial experience, training and expertise in the management of financial investments.”
- Ministerial directions
- Conflicts of interest
- Board remuneration
- Dismissal

The Board is supported by a small team of investment professionals.

- Asset management is outsourced to external investment managers.
- A specialist team is employed to research best-practice portfolio management, manage relationships with external investment managers and other service providers, and to measure the Fund's performance.
- The management team is fully accountable to the Board for all aspects of the Fund's investment and business performance, and for compliance and control.



The board comprises 5 to 7 members selected through an independent Nominating Committee.



- Board members are chosen for their experience, training, and expertise in the management of financial investments, as well as their mix of complementary skills and commitment to the Fund's goals.
- The sole function of the board is to invest the fund, so the full board acts as the Investment Committee.
- Detailed information and terms of reference for each committee is posted on the Fund's website.

Code of Conduct

- Professional conduct
- Compliance with the law
- Confidential information
- Conflicts of interest
- Corporate opportunities
- Disclosure of interests
- Political participation
- Use of board systems and property
- Whistleblowing protection
- Board members and employees
- Additional to legislation

“... with explicit commercial objectives ...”

“The Guardians must invest the Fund on a prudent, commercial basis and, in doing so, must manage and administer the Fund in a manner consistent with –

- Best-practice portfolio management*
- Maximising return without undue risk to the Fund as a whole*
- Avoiding prejudice to New Zealand’s reputation as a responsible member of the world community.”*

Few Constraints

- Subject to tax
- No controlling interests
- Approval required for borrowing
- No constraint on domestic investment
- No constraint on government stock

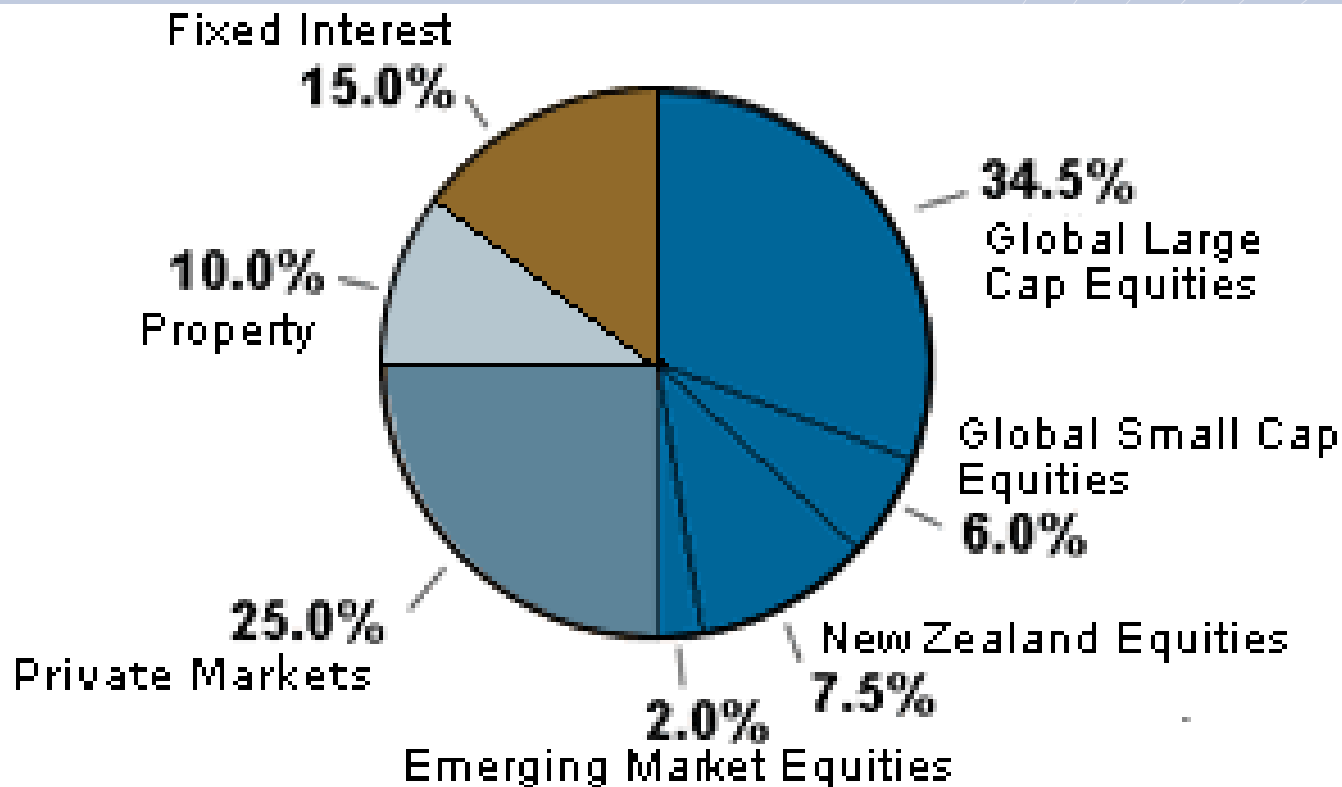
“... and clear accountability.”

- Statement of investment policies, standards and procedures
- Personal liability of board members
- Statement of Intent
 - Performance expectations
 - Key risks and priorities
 - Forecast financial statements
- Annual Report
 - Audited financial statements
 - Management discussion and analysis
- Performance Review
 - Independent reviewer
 - Appropriateness of policies, standards & procedures
 - Compliance with policies, standards & procedures
 - Performance
- Official information
- Website
 - www.nzsuperfund.co.nz

Investment Standards, Policies and Procedures

- Asset classes and selection criteria
- Benchmarks for performance measurement
- Reporting standards
- Responsible investment
- Risk and return
- Fund management structure
- Derivatives
- Risk management
- Voting rights
- Valuation of Illiquid assets
- Investment constraints

Long-Term Strategic Asset Allocation



External Investment Managers

ADAMS STREET
PARTNERS

AB
ALLIANCE
Growth Equities

AMP capital
INVESTORS

Apax
PARTNERS

AWA Rosenberg

BARCLAYS GLOBAL INVESTORS

AB
BERNSTEIN
Value Equities

black

BRIDGEWATER

CAPITAL
ADDRESS

Coller Capital

DIRECT CAPITAL

FISHER FUNDS

GMO

North America | Europe | Asia-Pacific



GMO Renewable Resources Ltd

an Equal Opportunity and Affirmative Action Employer

Goldman Sachs

Asset
Management

Hanock
Timber
Resource
Group

An EPC Global Investment Management Company

HARBOURVEST

ING

LEGG MASON
International
Equities

KKR

LSV
Asset Management

MORRISON & CO

numeric investors
Leading Financial Services

OVERLAY
Asset Management

PENCARROW
BY FIRST STREET CAPITAL

smartshares

STERLING JOHNSON CAPITAL MANAGEMENT, LP

TS&W
Thompson, Siegel & Waudley, Inc.
WEALTH MANAGERS

Vanguard INVESTMENTS



– an overview

- Policy context
- KiwiSaver design and operation
- Regulation and governance
- Progress so far



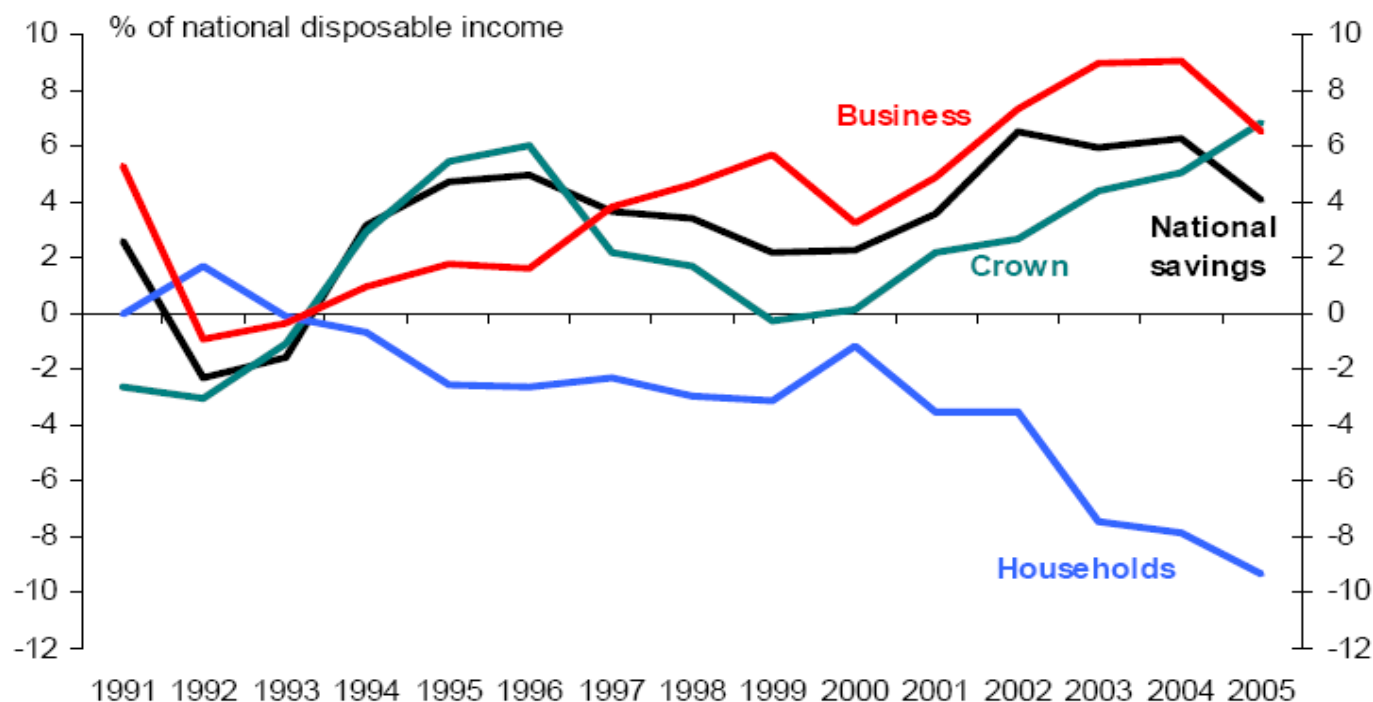
KiwiSaver is...

- A voluntary work-based savings scheme
- Announced in Budget 2005
- Enhanced in Budget 2007
- Started on 1 July 2007
- Complements other initiatives to increase individual savings and support New Zealanders in retirement

Policy context – economic overview

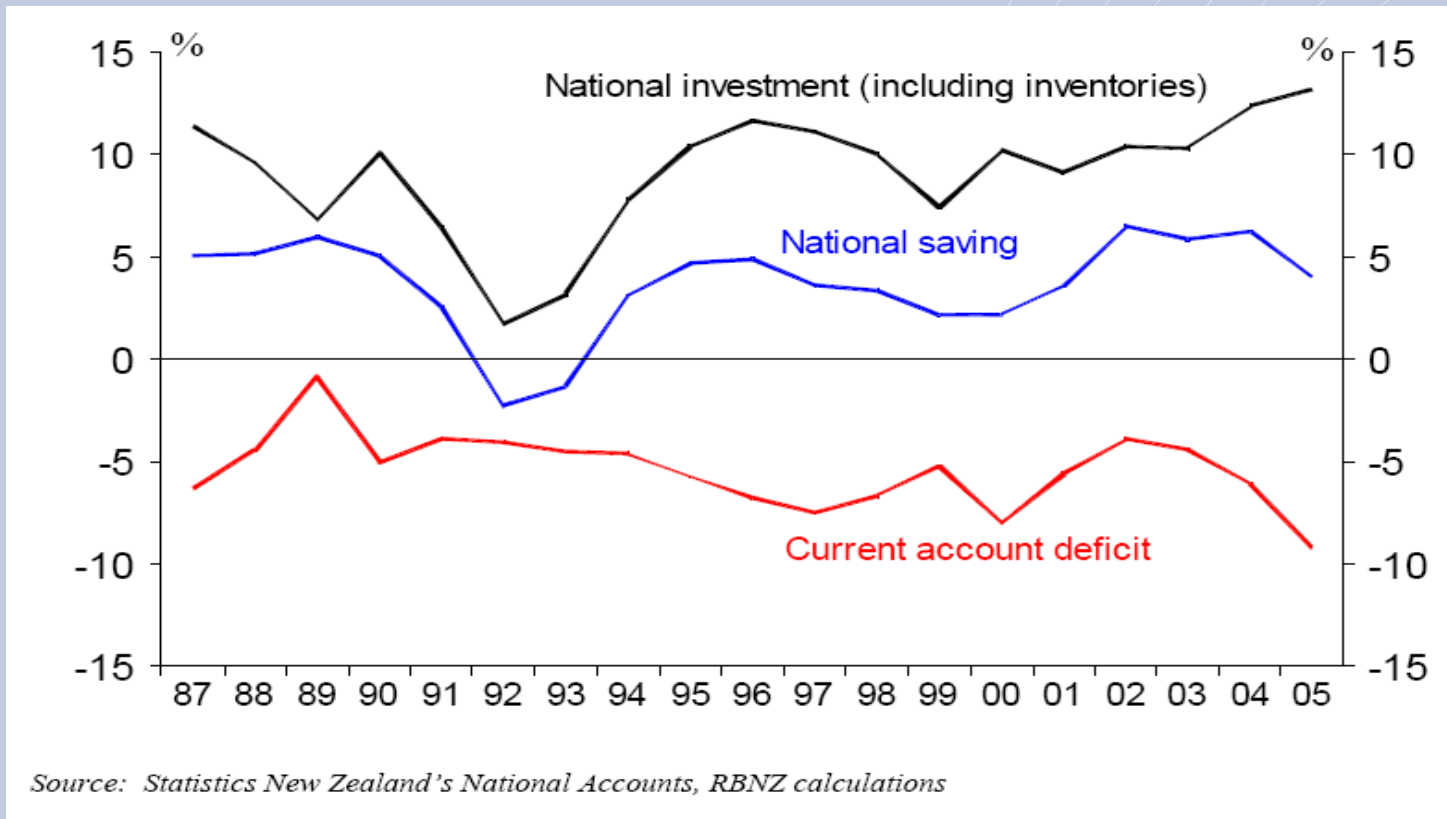
- Strong and sustained growth for a decade
- Labour market participation at record levels
- Lowest unemployment for a generation
- Fuelling strong domestic demand
- Inflation at or above mandated limit
- Upward pressures on interest rates, NZ\$
- Strong fiscal position – sustained surpluses, sovereign debt around 20% of GDP

Government saving rising, at the expense of private saving?

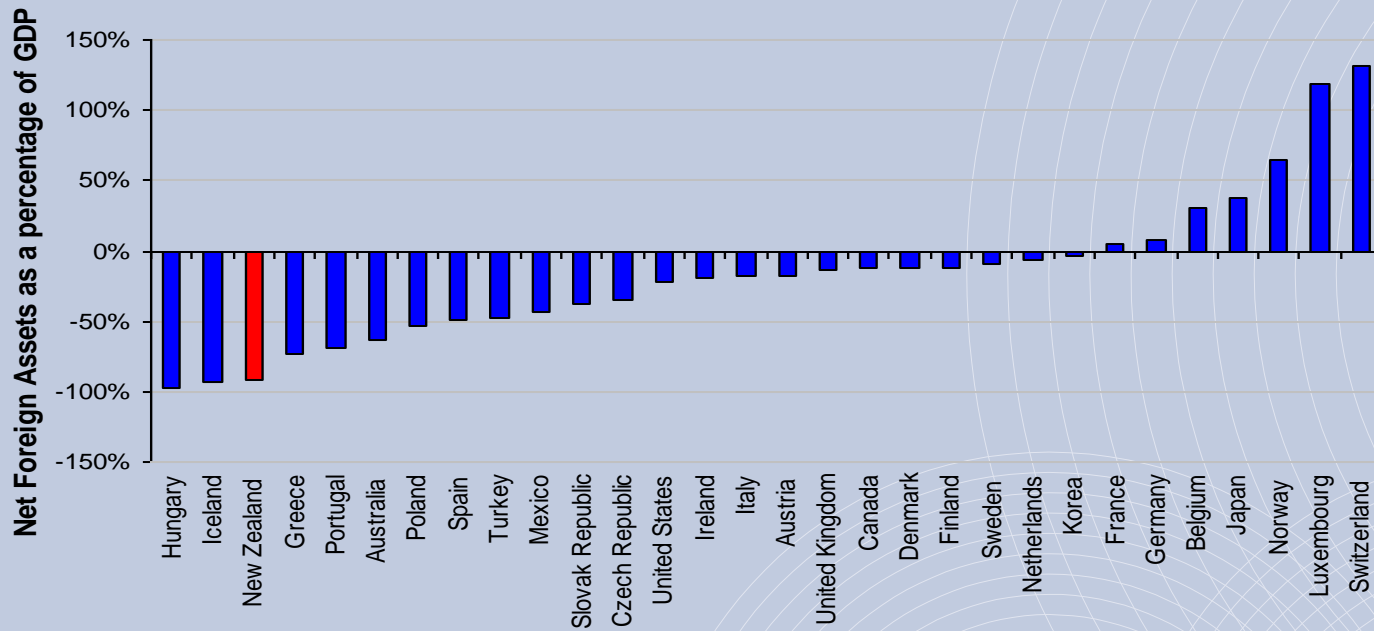


Source: Statistics New Zealand's National Accounts, RBNZ calculations

Current Account (saving minus investment) in sustained deficit



High net external indebtedness – vulnerable to changing sentiment?



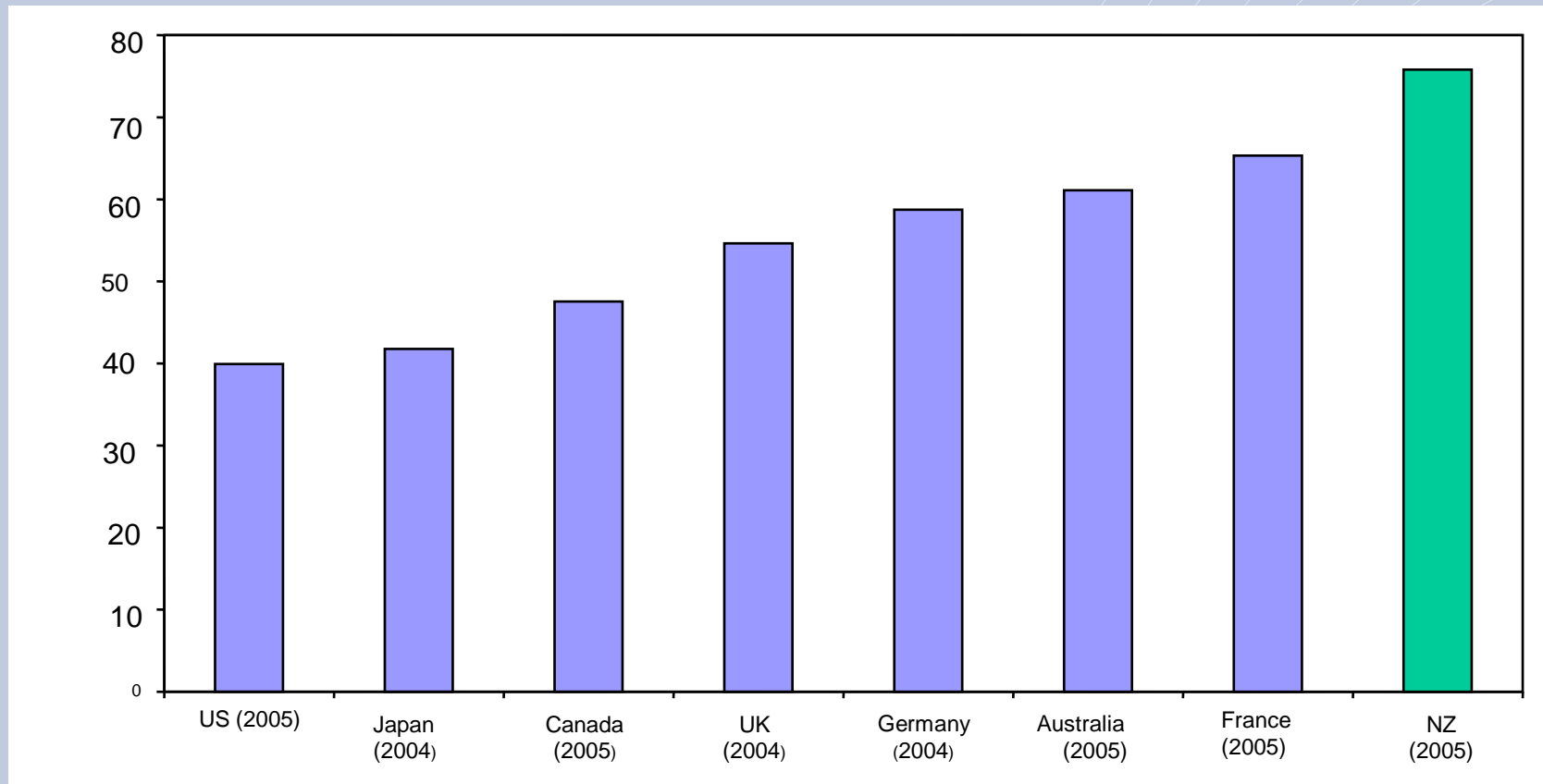
Household saving lower than peers?

Selected country household saving rates (period averages as a % of household disposable income)

	1970s	1980s	1990s	2000-2004	2005
Australia	14.2	11.1	5.4	-0.5	-2.6
United States	9.6	9.1	5.2	2.1	-0.4
Canada	12.0	15.3	9.1	3.4	-0.2
Germany	13.1	12.8	11.4	9.9	10.7
France	13.2	9.5	11.6	12.2	11.6
Netherlands	4.1	14.3	14.1	8.4	5.7
Japan	23.7	16.3	12.4	5.0	2.4
New Zealand	3.6	2.8	-1.6	-7.2	-14.8

Data for Japan for 1970s are for period 1972-1979. Source: OECD

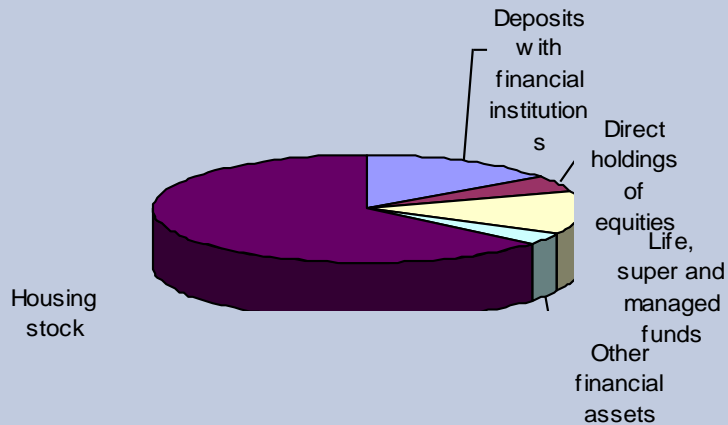
Wealth concentrated in housing?



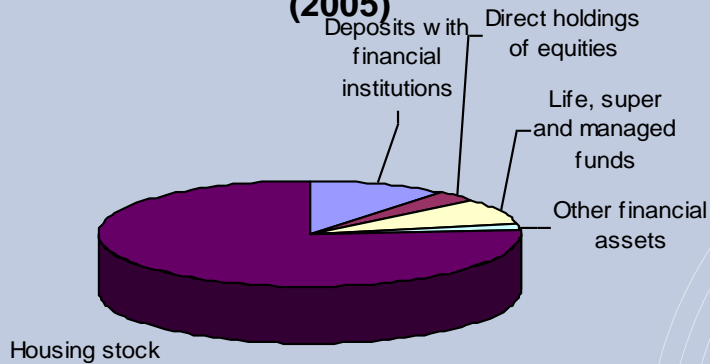
Non-financial assets (mainly housing) as a % of total household assets

A worsening trend?

Nz household asset composition (1990)



NZ household asset composition (2005)

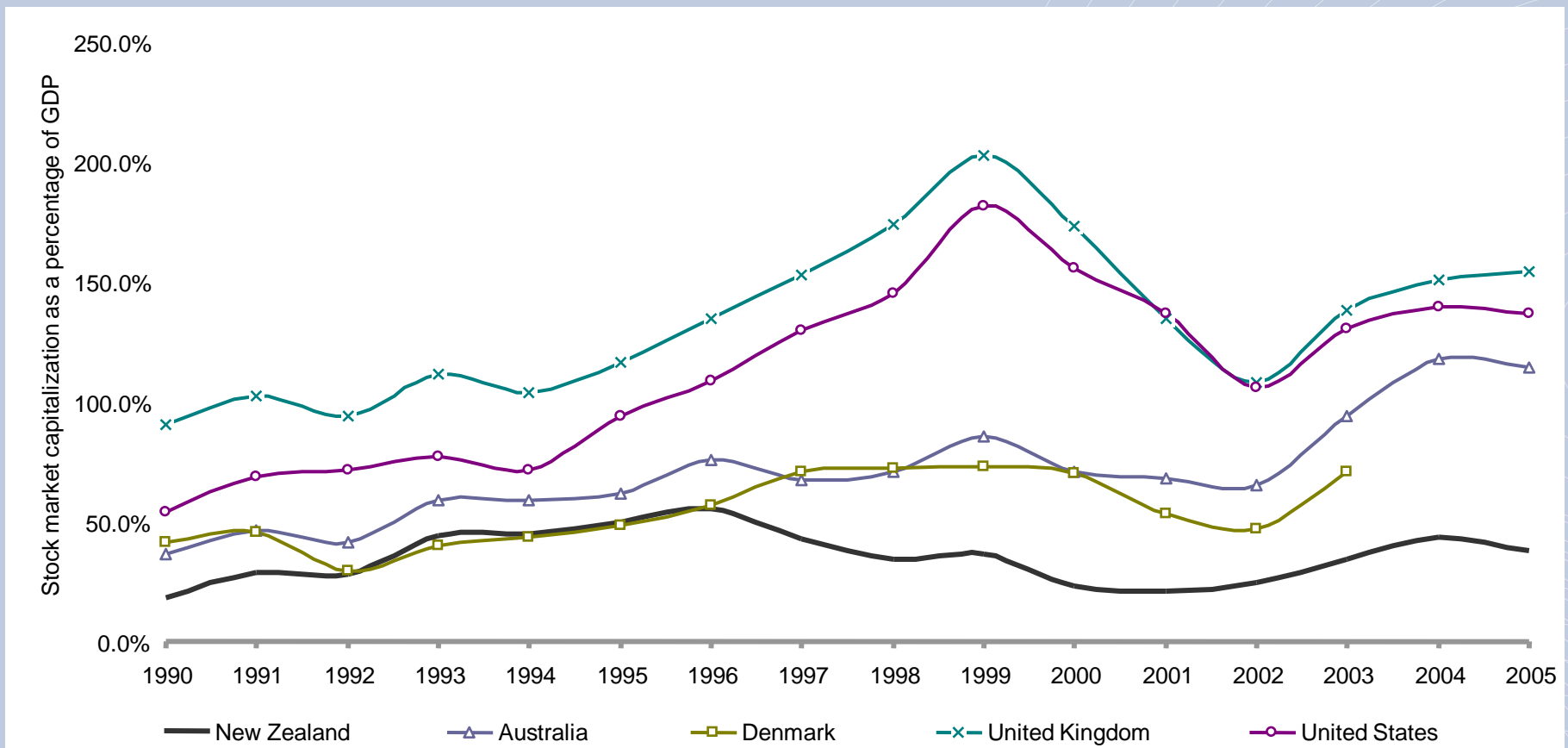


Financial assets share of total household assets



Constraining market development?

Figure 3 – Stock market capitalisation: selected countries



Source: World Federation of Stock Exchanges, OECD Factbook 2007

Private super - rare and modest in value

Table: Holdings of super schemes - by types of scheme

	Percent of population who hold a scheme (%)	Mean value of scheme (\$)	Median value of scheme (\$)
Workplace superannuation scheme	8.2	72,800	26,200
Personal superannuation scheme	12.0	40,500	15,600
Any superannuation scheme	19.3	56,200	20,000

Policy objectives – high level

- Increase national saving...
- ..by encouraging a long-term savings habit and asset accumulation...
- ...to improve financial well-being, particularly for retirement
- Focus on household saving, in financial assets
- Bias towards low-to-middle income households
- Maintain government saving levels
- Support fiscal aims – prudent debt, long-run sustainability
- Contain “fiscal impulse”

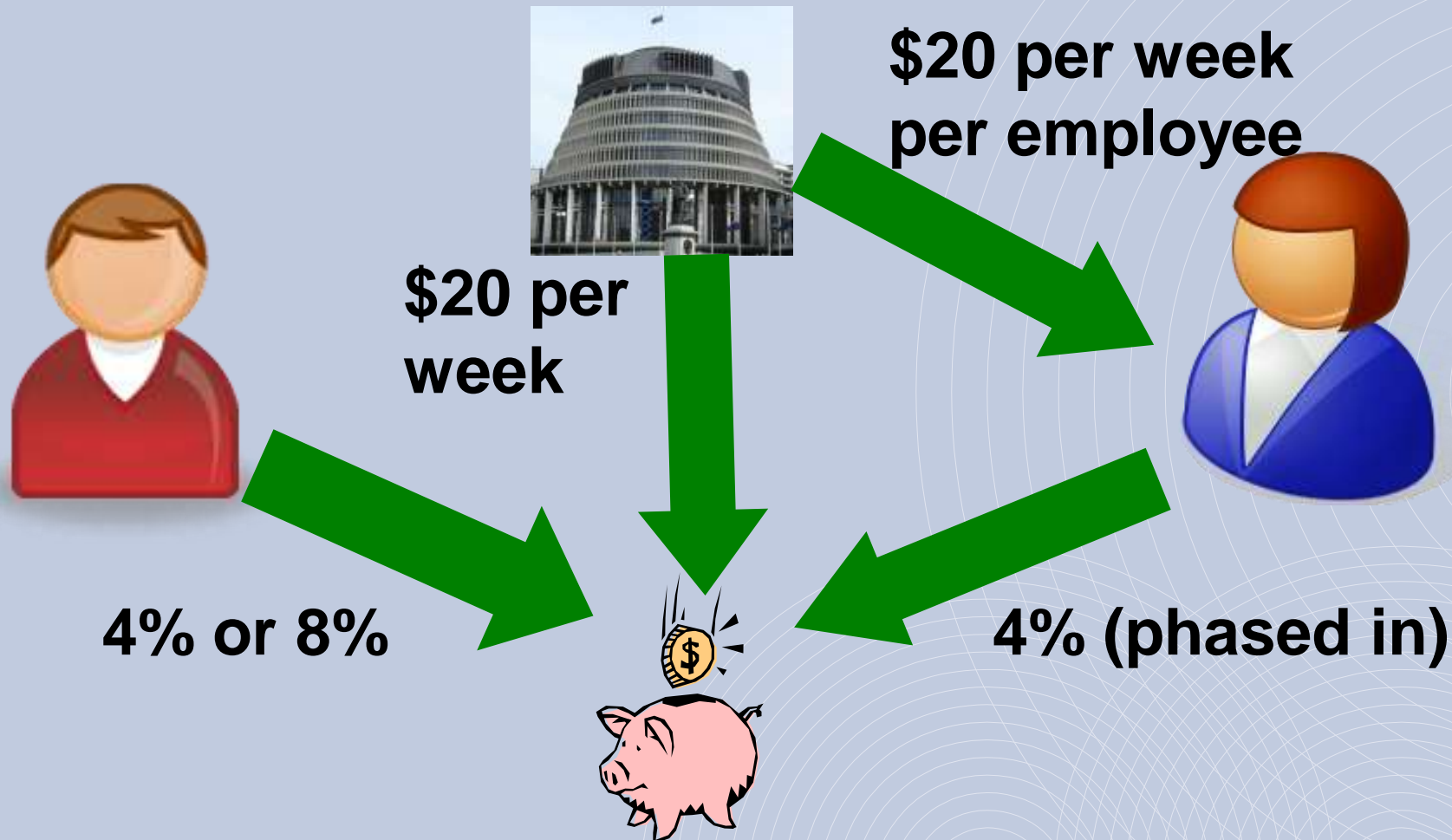
Design objectives

- Exploit “behavioural” economics through auto-enrolment
- Provide flexibility and choice
 - Voluntary
 - Contributions holidays
 - Home ownership features
- Make it simple, easy and safe:
 - Easy to join
 - Low compliance costs
 - Portability
 - Effective oversight
 - Default providers
 - Contributions deducted at source

Key Features of KiwiSaver

- Voluntary, open to all
- Auto-enrolled on joining workforce or changing job
- Kick-start payment (\$1,000) and fee subsidy
- Contribution rate 4% (or 8%) of gross salary or wages
- One account per person
- Funds under private management
- Funds locked-in till superannuation age
- Portability across employers
- Member election, default allocation otherwise
- Default provider tender process
- Contribution holidays, “hardship” withdrawal
- Mortgage diversion and first home subsidy

Enhancements - tax credits, employer contribution



Assumptions and projections

- Take up assumptions:
 - 50% of eligible workforce after 10 years (1 million members)
 - Some frontloading – 350,000 members at end of Year 1
- Higher membership among higher paid (not liquidity constrained, able to switch)
- Consumption effect (ie net increase or decrease in household saving) – from -10% to +25%
- Modelled impact on Financial Market (current dollars):
 - After 10 years, NZ\$30 billion (17% of GDP)
 - After 20 years, NZ\$70 billion (39%)
 - After 30 years, NZ\$138 billion (68%)

Progress so far

Legislation

- For member tax credit, passed in May
- For employer compulsion and tax credits, by end-2007

Take-up

- 266,000 members by end-October
- Well ahead of forecast, closing fast on Year 1 target
- Fewer opt-outs than forecast (around 35,000)
- Average daily new members of 2,500
- Website hits and information “helpdesk” – several thousand hits per week

Schemes

- 45 schemes registered with the Government Actuary
- 11,500 employers have selected preferred scheme

Funds flows

- Over NZ\$80 million in inflows
- Now being channelled to providers

KiwiSaver: strategic challenges and opportunities

- World first – no precedents
- Design/ build in parallel with legislation
- Tight timeframe
- Partnership with employers, providers, officials
- Systems challenges (scale and complexity)
- High profile and high risk
- Communication
 - Officials' role to inform and educate – not sell or promote
 - Employers, individuals and providers are key stakeholders
 - Major engagement with employers and providers
 - Multi-media advertising campaign to target individuals
 - Strong brand emphasis

Current focus of effort

- 2nd Bill – nearly completed legislative deliberation
- Communication – to advise of legislative decisions, prepare for compulsory employer contributions
- Evaluation
 - analysing actual uptake data
 - reviewing assumptions and modelling
 - identifying and remedying operational “bugs”
 - outcome evaluation in longer-term
- Reforecasting fiscal and economic impact

Regulation and Governance – legal framework

- Regulated as for other superannuation products
- Schemes operate under trust deeds (like existing registered superannuation schemes)
- No government guarantee of scheme balances
- Requirements laid out KiwiSaver Act:
 - Compliance with Securities Act 1978
 - Compliance with Superannuation Schemes Act 1989
 - Compliance with Trustee Act 1956
- In addition, KiwiSaver providers must:
 - Ensure schemes must have independent trustee
 - Set fees at level that are “not unreasonable”
 - Disclose approach to responsible investment

Regulation and governance: role of Government Actuary

- Similar role as for other super schemes
- Approves registration and applications for exempt employers
- Maintains a register of providers and schemes
- Monitors fee levels and performance
- May intervene – including winding-up – schemes that break the law
- Reports to Parliament

Default schemes and providers

- To deal with members who don't choose a scheme for themselves, or by employer
- Default to conservative fund
- Member may switch fund, with no charge
- Selected by open and competitive tender
- Six appointed
- Re-tender in 2014
- Relevant Ministers may review before then

More information on



?

<http://www.kiwisaver.govt.nz/>

<http://www.ird.govt.nz/kiwisaver/>

<http://www.treasury.govt.nz/budget2007/kiwisaver/extendedqa/default.asp>