

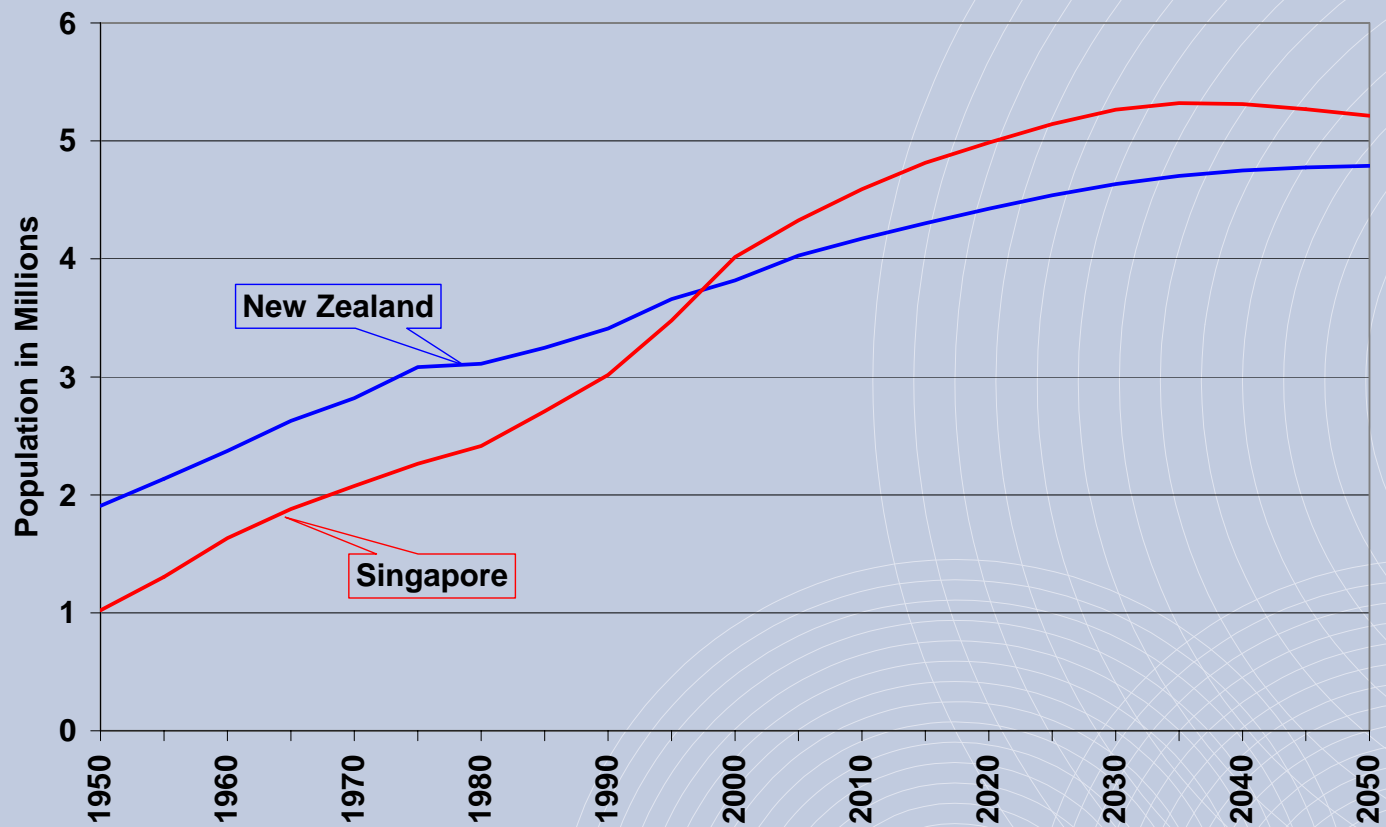


Investment Structures for Saving in New Zealand

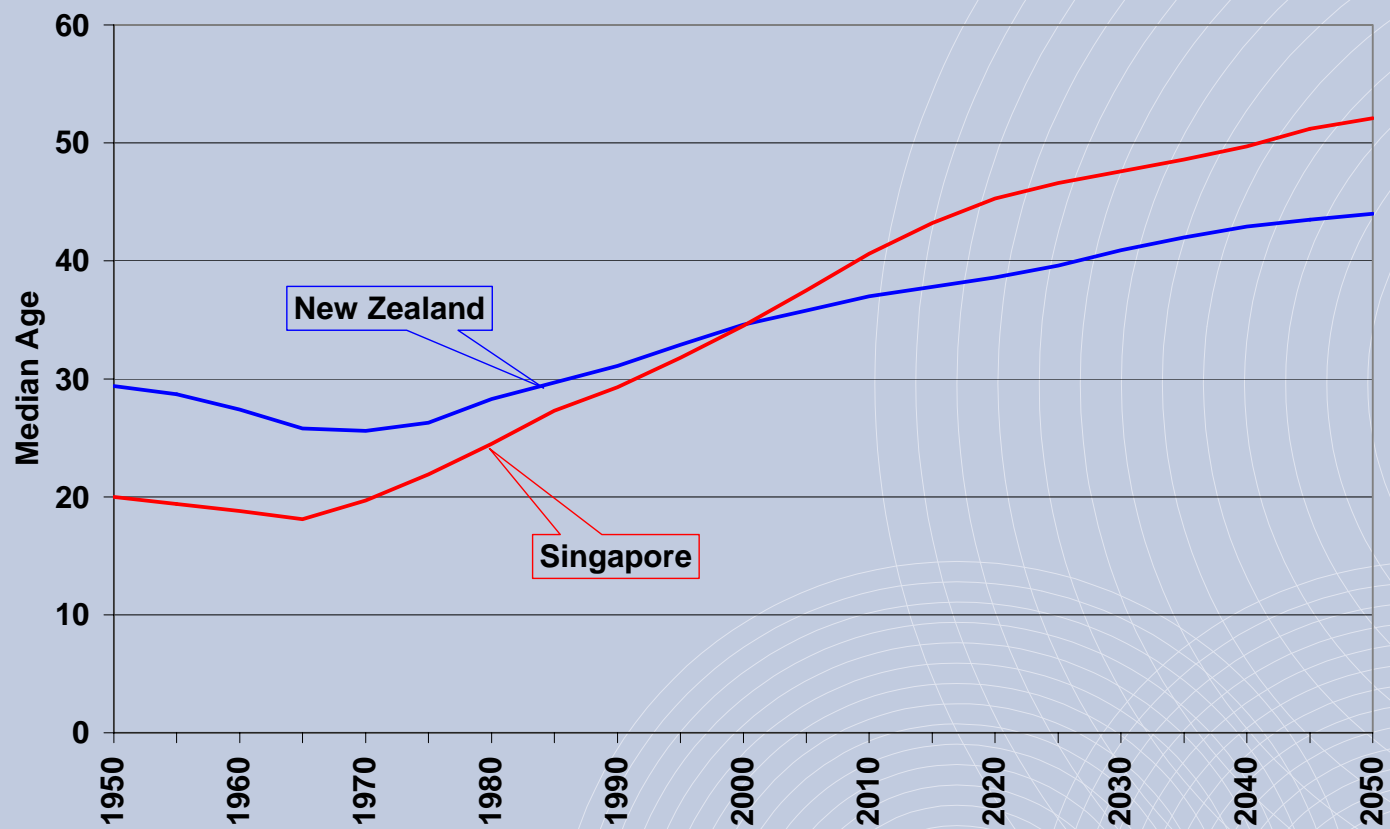
Dr Brian McCulloch
July 2005



UN Population Forecasts



Median Age



World Bank Pillars of Saving

New Zealand

0. Basic social pension  New Zealand Superannuation
1. Public pension plan
2. Mandated personal
3. Voluntary personal
4. Informal support, social programs, other individual financial and nonfinancial assets

New Zealand Superannuation

- Universal benefit
- Paid to all residents over age 65
- A married person receives a minimum of 32.5% of the national average wage
- Indexed annually
- No income nor means test; not related to past earnings history
- Not a contributory scheme

World Bank Pillars of Saving

New Zealand



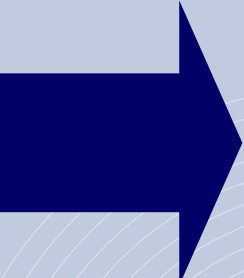
- 0. Basic social pension  New Zealand Superannuation
- 1. Public pension plan
- 2. Mandated personal
- 3. Voluntary personal  Private Schemes, SSRSS, KiwiSaver
- 4. Informal support, social programs, other individual financial and nonfinancial assets  Health care, disability support, long-term residential care, financial assets, home ownership

KiwiSaver

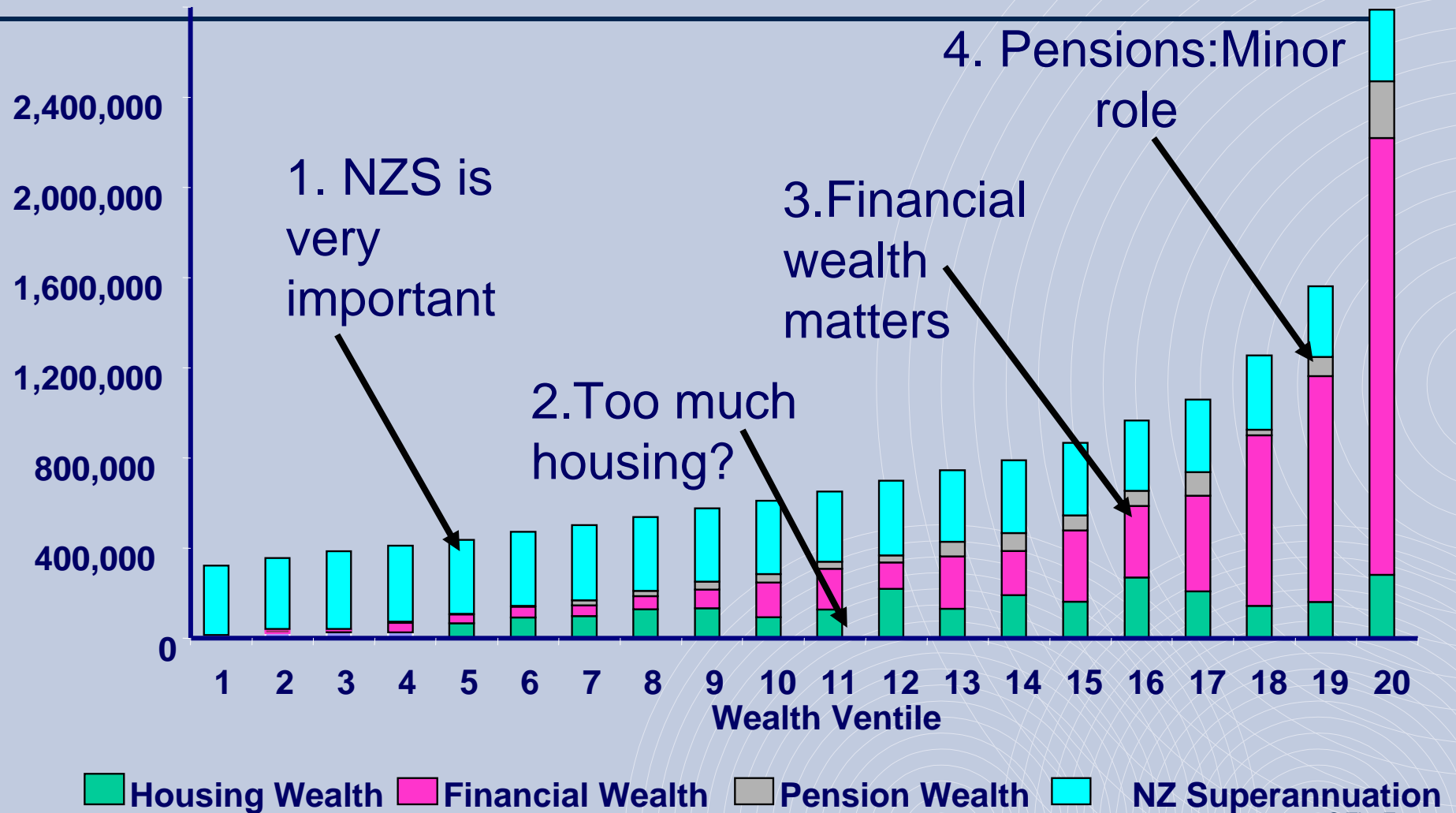
- Work-based savings scheme
- Voluntary participation (opt out)
- Defined contribution
- Private sector providers
- Payroll deductions through Inland Revenue
- Government up-front contribution and fee subsidy
- Locked-in until eligible for NZS (65)
 - Access for first-home ownership
- To be implemented by April 2007
 - 25% of workforce expected to be enrolled by 2012

World Bank Pillars of Saving

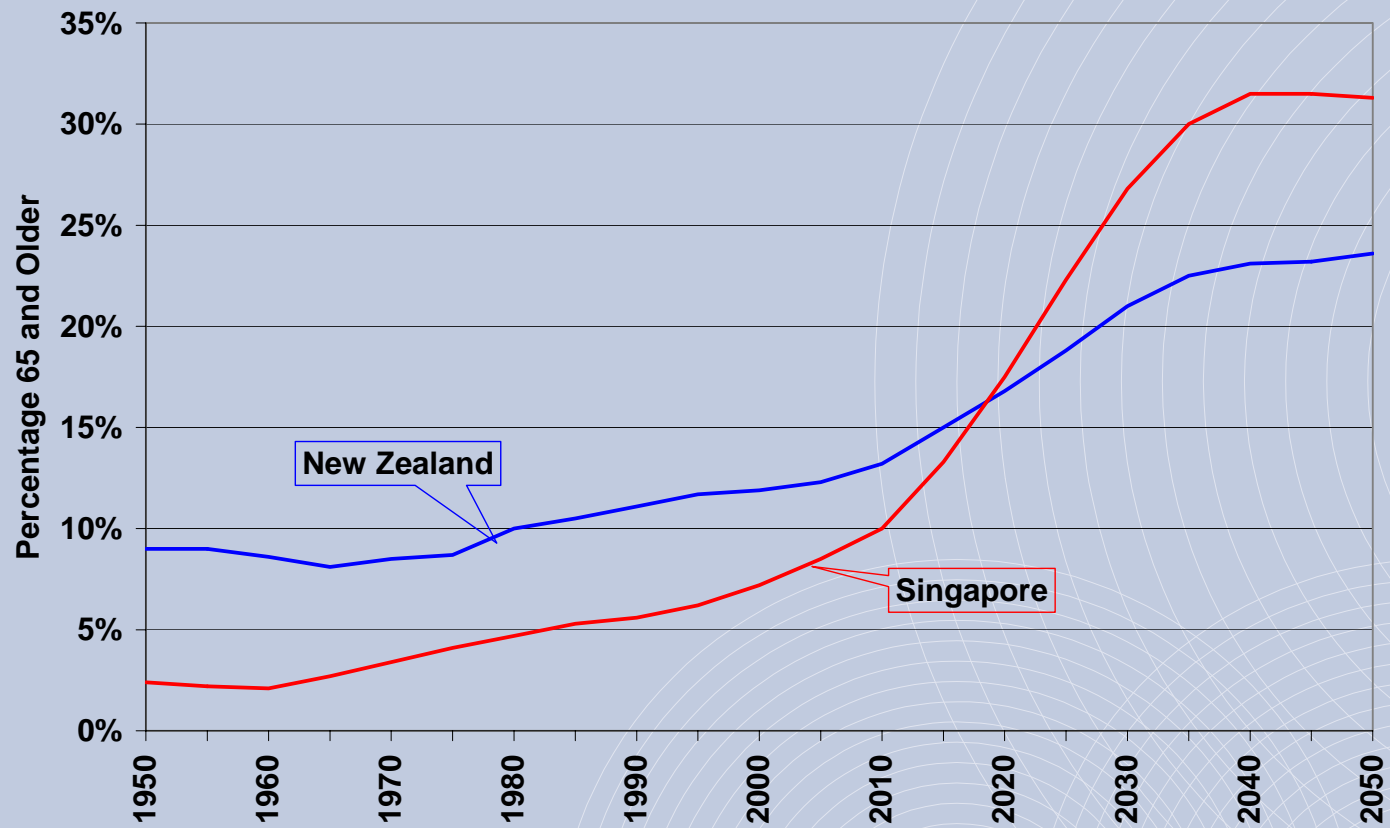
New Zealand

- 0. Basic social pension  New Zealand Superannuation
- 1. Public pension plan
- 2. Mandated personal
- 3. Voluntary personal  Private Schemes, SSRSS, KiwiSaver
- 4. Informal support, social programs, other individual financial and nonfinancial assets  Health care, disability support, long-term residential care, financial assets, home ownership

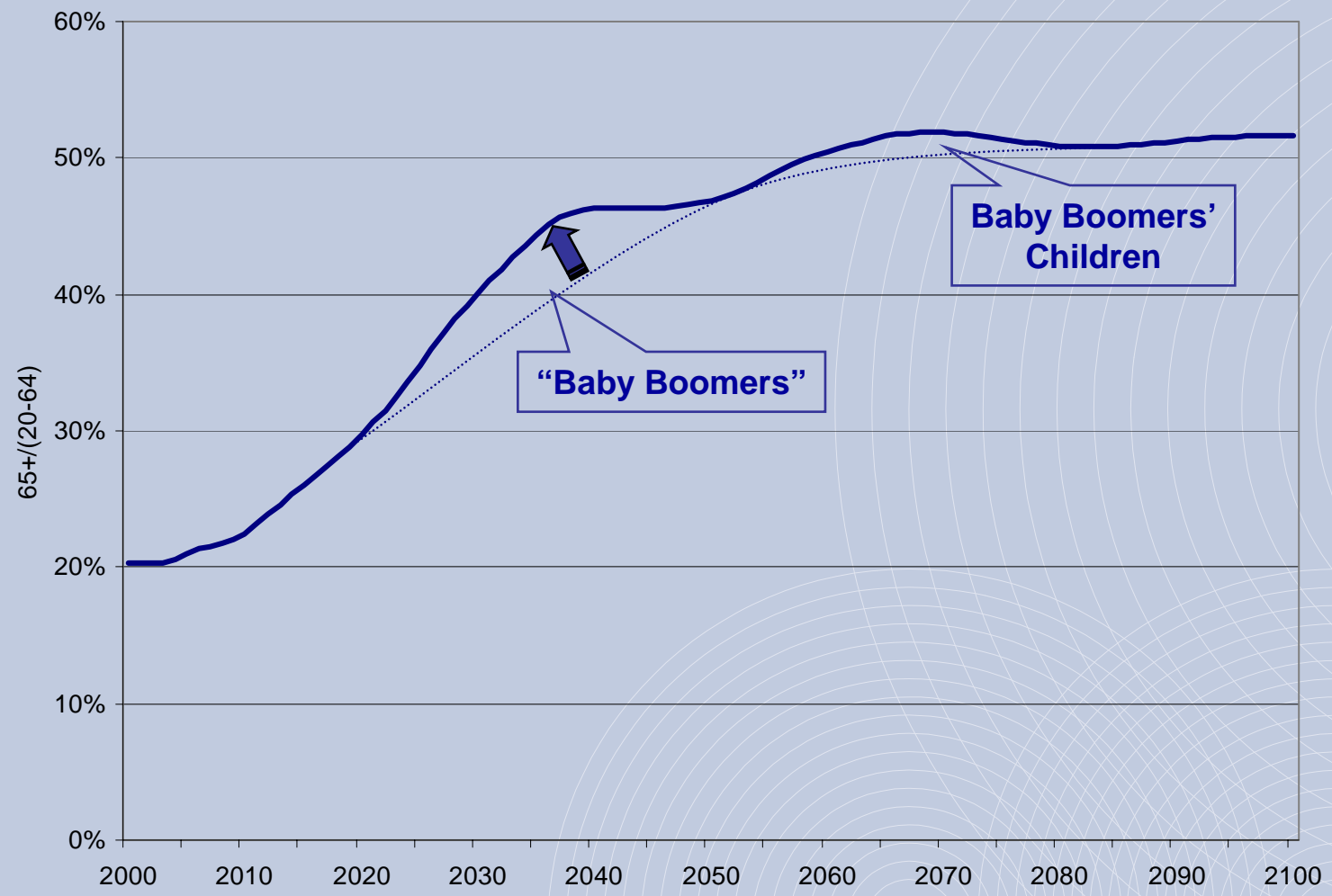
Net wealth of couples aged 56-64: wealth ventiles



Elderly Population

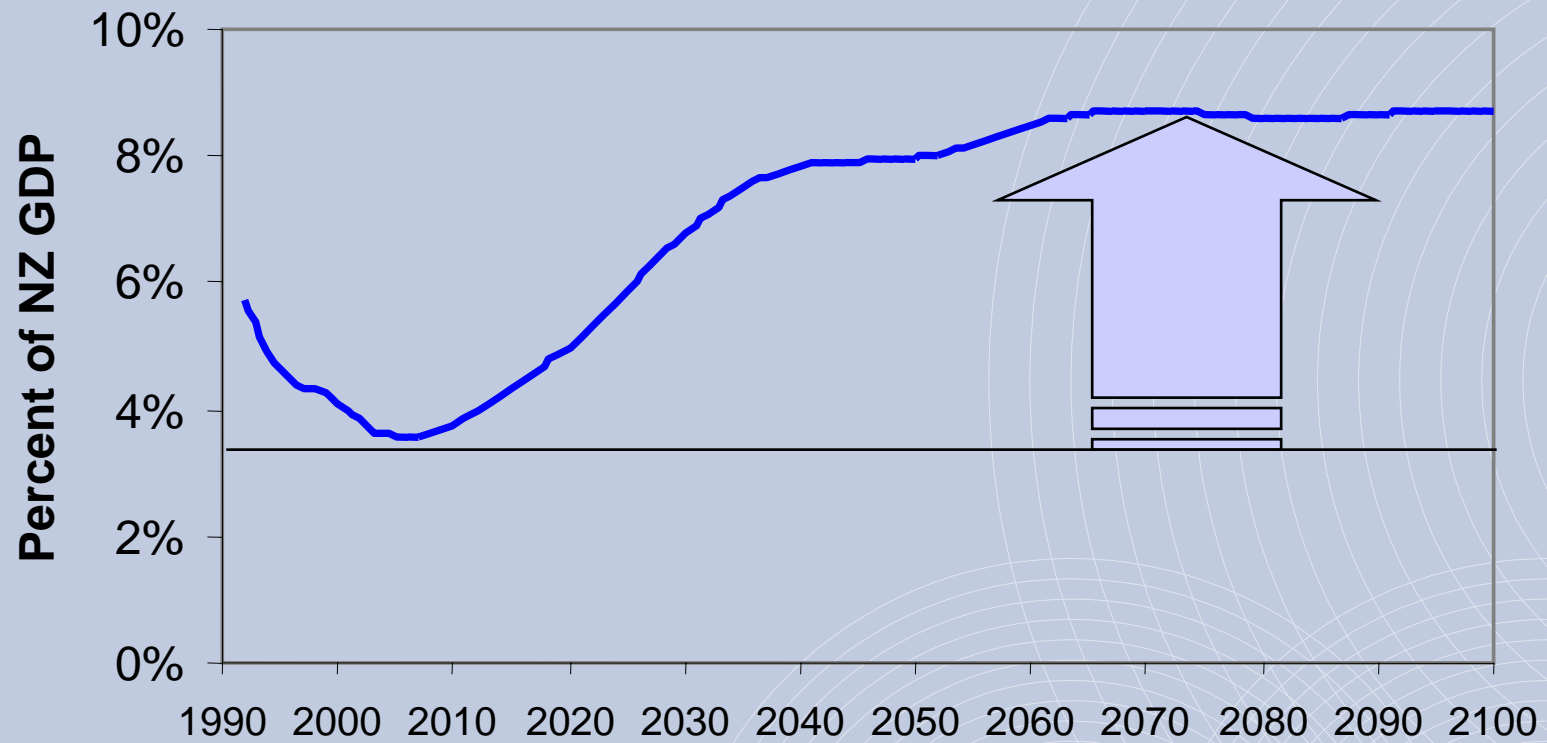


Elderly Dependency Ratio



Source: LTFM DEFU 2004

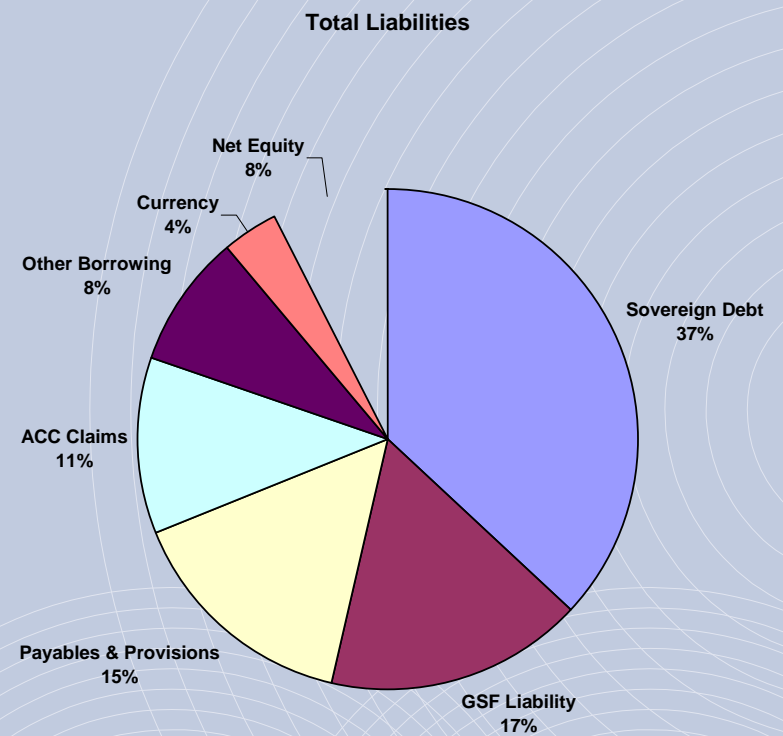
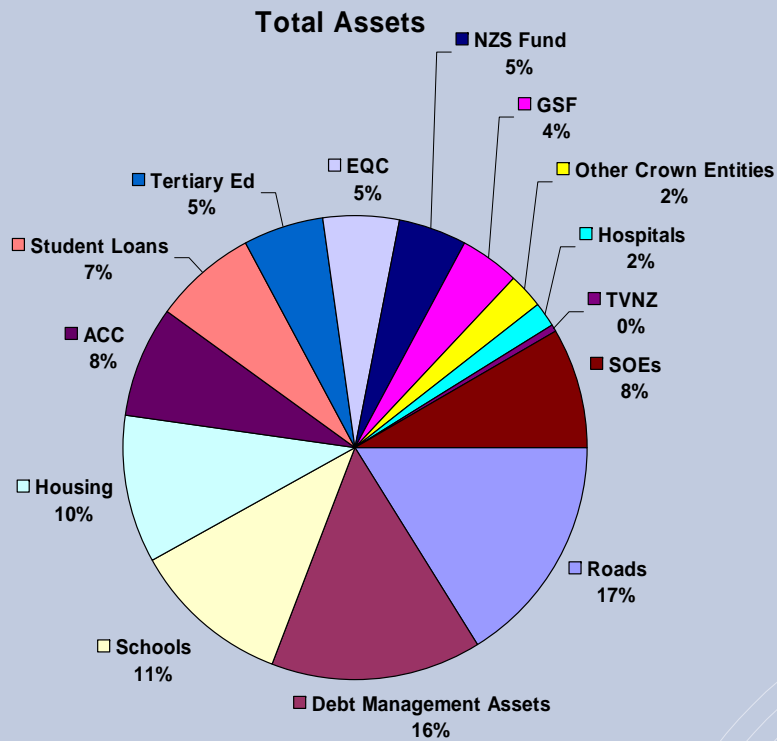
Cost of New Zealand Superannuation



New Zealand Superannuation Fund Policy Background

- Need a stronger Crown Balance Sheet to cushion the impact on Crown finances
- Public Debt already at relatively low levels
- Diversification benefit of broadening the Crown financial portfolio across capital markets

Crown Financial Position



New Zealand Superannuation Fund Policy Background

- Need a stronger Crown Balance Sheet to cushion the impact on Crown finances
- Public Debt already at relatively low levels
- Diversification benefit of broadening the Crown financial portfolio across capital markets
- **International record of poor financial performance of politically controlled public funds**

New Zealand Superannuation Fund Governance Structure

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

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

... with explicit commercial objectives ...

... and clear accountability."

Policy Design Considerations

- An interdependent package, not a smorgasbord menu
- The broad picture is important but the “devil is in the detail”
- Context-specific. New Zealand has a well-developed legal system, open capital markets, a strong public sector management system, and a small relatively affluent economy.

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

- Property of the Fund
 - Clearly defined in legislation
- Capital contributions
 - Transparent funding process
- Capital withdrawals
 - According to legislated algorithm
 - Late 2020s
- Policy credibility and commitment

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

- Separate Crown entity
- Nominating committee
- Expertise
- Ministerial directions
- Conflicts of interest
- Board remuneration

“... 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.”*

“... and clear accountability.”

- Statement of investment policies, standards and procedures
- Audited financial statements
- Personal liability of board members
- Independent performance review
- Official information
- Statement of intent and annual report

Investment Standards, Policies and Procedures

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

Code of Conduct

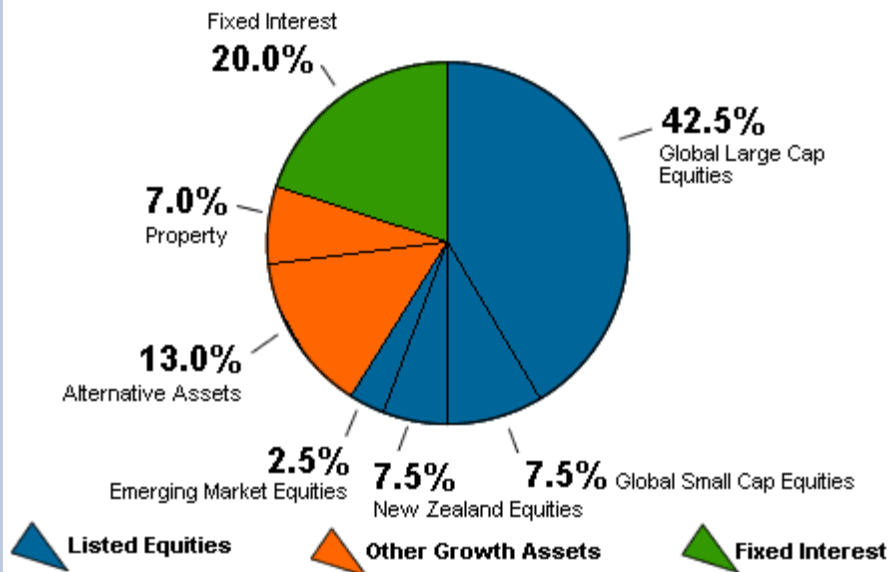
- Professional conduct
- Compliance with the law
- Confidential information
- Conflicts of interest
- Corporate opportunities
- Disclosure of interests
- Political participation
- Use of board systems and property
- Whistleblowing protection
- Board members and employees
- Additional to legislation

NZSF Strategic Asset Allocation

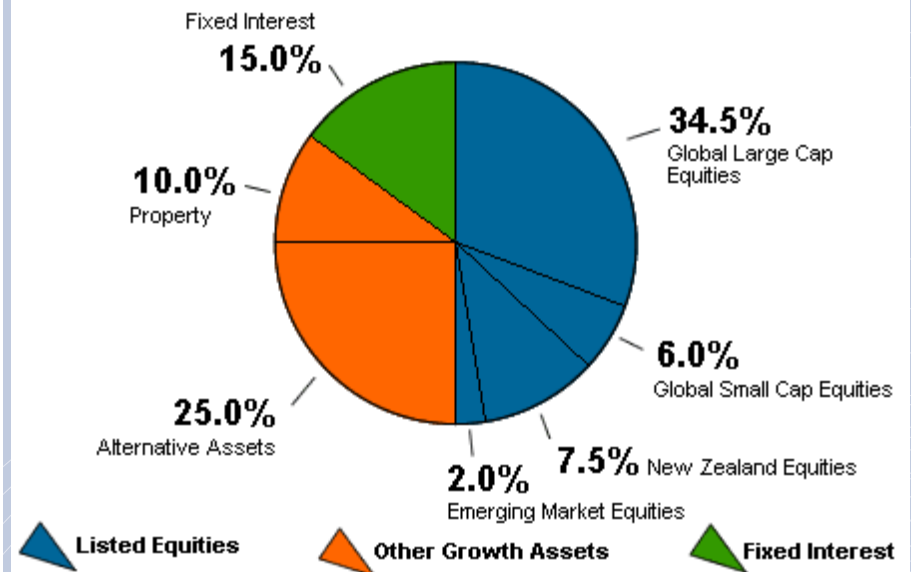
- long term investment horizon
- broad investment mandate
- the Fund's tax status
- large cash inflows received from the Crown
- lack of a requirement for liquidity

NZSF Strategic Asset Allocation

June 2007 Strategic Asset Allocation



Longer Term Strategic Asset Allocation



Investment Structures for Saving

World Bank Pillars

0. Basic social pension
1. Public pension plan
2. Mandated personal
3. Voluntary personal
4. Informal support, social programs, other individual financial and nonfinancial assets

New Zealand

New Zealand Superannuation

Private Schemes,
SSRSS, KiwiSaver

Health care, disability support, long-term residential care, financial assets, home ownership