# Fact Sheet – Capital Guarantees for KiwiSavers Accounts

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|  | **Conservative Fund** | **Balanced Fund** | **Growth Fund** |
| Morningstar average annual earnings projections after tax and fees (2013) | 4.0% | 6.0% | 6.6% |
| Contribution rate required to fund a comfortable retirement at 2 times NZ Super for someone at the top end of decile 2 for annual income ($30,300 in 2013 a little more than the minimum wage at $28,200 in 2013) with FSC proposed KiwiSaver fund tax rates in place. Average wage (mean in 2013) $56,400 | 13.1%\* | 7.6% | 6.1% |

\* With current KiwiSaver fund tax rates.

**Cost and benefits of guarantees and moving to higher earning funds**

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| Additional savings at age 65 by being in a balanced rather than conservative KiwiSaver fund for someone on the average (mean) wage contributing 7.6% of income | $170,100 | Lump sum cost of a KiwiSaver retirement guarantee for a balanced fund  $2099  Cost expressed or an additional annual contribution rate paid over 40 years  0.114% | Lump sum cost of a KiwiSaver First Home Deposit Guarantee for a balanced fund  $700  Cost expressed as an additional annual contribution rate paid over 20 years  0.05% |
| Additional savings at age 65 by being in a growth rather than conservative fund for someone on the average (mean) wage contributing 6.1% of income | $222,500 | Lump sum cost of a KiwiSaver Retirement Guarantee for a growth fund  $2395  Cost expressed as an additional annual contribution rate over 40 years  0.122% | Lump sum cost of a KiwiSaver First Home Deposit Guarantee for a growth fund  $1,070  Cost expressed as an additional annual contribution rate over 20 years  0.08% |
| Cost of a retirement guarantee required for a conservative fund KiwiSaver |  | Lump sum cost or annual contribution rate over 40 years  $2035  or 0.125% | Not needed |

Note: these are the “pure costs” of providing the Guarantee, a commercial provider would also seek a fee for the backup provided by their balance sheet. Although either the one off cost fee or the increased contribution rate would cover the cost of the estimated losses in a bad year for financial markets, the guarantee provider cannot be sure whether the bad year will occur next year or in twenty years time:

* + The Retirement Capital Guarantee would guarantee the value of your retirement nest egg at the level it was a year prior to your retirement.
  + The First Home Deposit Capital Guarantee would guarantee the value of your savings over the three years prior to your withdrawal to make a deposit on your first home. To be eligible to make a withdrawal from KiwiSaver you need to have been saving in KiwiSaver for at least three years.

The FSC estimates First Home Deposit withdrawals for more than 15,000 first homes had been purchased with the assistance of KiwiSaver savings by the end of 2013:

## Horizon Research Polling, December 2012

* + 50% of adult KiwiSavers had already purchased their first home.
  + 80% of those who had used KiwiSaver to help purchase a home said it made saving for their first home deposit easier.
  + 60% of KiwiSavers that had yet to purchase a first home planned to use KiwiSaver to help them do that.
  + If KiwiSavers were made compulsory 349,000 adult New Zealanders said they would definitely use KiwiSaver to fund a deposit on their first home and another 419,000 said they were likely to do so.

## Horizon Research Polling, November 2013

* + 61% of KiwiSavers either don’t know or were not sure what style of KiwiSaver fund they were invested in (conservative, balanced or growth).
  + The KiwiSavers who did not want to take any risk (without guarantees) with their KiwiSaver investments were more likely to be female, 45 years of age or more and had households incomes under $70,000.
  + With guarantees in place people said if they knew they were currently in a conservative fund 10.7% would stay where they were whereas 60.2% would move, to either a balanced (27.5%) or growth (32.7%) fund.
  + When asked if they could advise the Government on which type of fund people should be defaulted into, when a person first joins KiwiSaver, with the proposed guarantees in place, only 13.7% said a conservative fund and 56.6% said either a growth (21%) or a balanced (35.6%) fund.

## KiwiSaver June 30, 2013 FMA Report

As at June 30, 2013, there was $3.388 billion in KiwiSaver default funds and $3.100 billion was invested in conservative funds.