



KiwiSaver **the 10th**

King of all it surveys

KiwiSaver Annual Market Report 2017

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Introduction

Almost 11 years ago to the day the KiwiSaver Act (2006) received the royal rubberstamp of approval, anointing a new contender to the Aotearoan retirement savings throne.

Not, of course, that KiwiSaver had much to contend with at the time: a stagnant workplace superannuation industry; a declined-and-falling retail funds market; and, a pretender finance company sector that was about to lose its head.

Even so, just one year after Queen Elizabeth II (via her appointed NZ representative, the Governor-General) officially cut the ribbon, KiwiSaver was reaching for the crown.

Right from the get-go, some 50-odd schemes began vying for the loyalty of Kiwis, a surprising number of whom became enthusiastic subjects of the new savings regime within the first year of operation.

According to the inaugural issue of this survey, which has tracked the machinations of the KiwiSaver courtiers since day one, over 480,000 New Zealanders had accumulated some \$720 million across 42 schemes by the end of the 2007/8 fiscal period. Given most schemes were not accepting members until September 2007, that remarkable first year of growth, which blew Treasury forecasts to smithereens, took place in just six months.

As KiwiSaver celebrated its 10th year of operation on March 31, 2017, those statistics ballooned into more than 2.7 million members and almost \$41 billion (closer to \$43 billion at the time of writing) as identified in this study.

To a certain extent, at least from the perspective of the National-led governments that have held sway for all but KiwiSaver year dot-and-a-half, the regime has been a victim of its own success.

Citing budgetary constraints, successive administrations have stripped KiwiSaver incentives to the bare bones with a series of measures such as: halving the annual member tax credit (MTC) to \$521.43; removing the employer contribution tax relief; cutting the annual admin fee subsidy of \$40 per member; and, axing the \$1,000 'kick-start' payment.

At the same time the government made it more attractive to withdraw KiwiSaver funds for first home purchases – in a move that saw about \$600 million leave its jurisdiction over the 12 months to June 30, 2017, according to Inland Revenue Department (IRD) figures, compared to just over \$60 million five years ago.

But the political knob-twiddling appears to have barely dimmed KiwiSaver growth rates (with the notable exception of the under-18 cohort): overall net scheme membership was up by about 113,000 during the 12 months to March 31. Over the same period, total KiwiSaver funds under management (FUM) grew by almost \$7 billion as gushing member contributions combined with frothy returns into a rich and satisfying mix.

And after a frantic few years of mergers and exits – juiced-up by the implementation of the Financial Markets Conduct Act (FMC) in 2016 – KiwiSaver scheme numbers appear to have plateaued at 30. Actually 29, discounting the zombie Smartkiwi, currently awaiting assent from Her Majesty's Revenue and Customs to release the 'QROPS dozen' from their tax prison.

This is a survey of all that remains, including:

- Transfers between providers;
- Funds under management (FUM);
- Membership;
- Fees and expenses; and,
- Annual performance.

Poachers on the estate: how one's billions go missing (and where they end up)

More than 110,000 new members entered the KiwiSaver realm during the 12 months to March 31, 2017, boosting the overall population to about 2.72 million.

But while fresh game is always welcome, incumbent members (and their fatter balances) tend to be more highly-prized targets as schemes battle to build market share.

Since inception the 'net transfer' survey statistic has tracked the winners and losers in this KiwiSaver turf war. And the net transfer figure, which balances out the dollars going in and out of each scheme through member choice, has yielded a few surprising results over the years.

For example, in the 2008/9 period – the first time transfer figures were reported – the-then Gareth Morgan KiwiSaver (GMK) scheme topped the category. The following year another home-grown upstart, the Huljich KiwiSaver, outpoached all rivals.

Until now those two consecutive periods were the only years when one of the big four Australian banks – mostly ANZ - did not take out the KiwiSaver poacher of the year award (an accolade that excludes mergers and buyouts). Interestingly, both the GMK and Huljich schemes were taken out by competitors soon after their transfer rampages – the former by the Kiwibank scheme (now Kiwi Wealth) in 2013 and the latter by Fisher Funds in 2011.

In 2017 another domestic disruptor, the Auckland-based Generate, has duplicated the Aussie-trumping feats of GMK and Huljich by reporting the highest net transfers of the year.

Generate, which shot up the market to rank third in this category in 2016, netted almost \$150 million off competitors over the year, representing close to 40 per cent of its total FUM.

As the table below reveals, Generate outgunned the next-best FUM poacher, BNZ (the only Australian-owned bank to grace the top five table this year), by more than \$30 million.

Along with Generate, both BNZ and Kiwi Wealth featured as top five transfer performers in 2016, while Milford has been there, or thereabouts, since its 2010 launch.

However, another local newcomer, the indexer Simplicity, also entered the shooting match with a bang during the year. The passive assassin, indeed, racked up just under \$100 million after only officially joining the hunt just last August. Almost all (about 90 per cent) of Simplicity’s FUM has come directly from other providers rather than new members.

Simplicity may have just picked off the easy targets – attracted by the scent of low fees – but there might be a few more roaming the market. Post March 31, Simplicity has doubled its FUM to over \$200 million.

Top 5 KiwiSaver schemes by net transfer inflows		
Scheme	Net transfer inflow \$m	% of total scheme FUM as at March 31, 2017
Generate	148.1	37.4
BNZ	116.9	10.1
Milford	110.5	13.7
Simplicity	96	89.4
Kiwi Wealth	73.7	2.4

At the other end of the scale little has changed year-on-year. As per the 2016 result, the five schemes experiencing the highest net transfer losses are all default providers – a catch-all repository system that is notoriously prone to leakage – with the only change seeing Mercer replace Booster (nee Grosvenor) in the bottom five.

The ANZ Default scheme, the ‘purest’ in the category in that most members have ended up there via the auto-enrolment carousel, provides a good illustration of the sieve effect. Only about \$1.4 million transferred in to the ANZ Default scheme as roughly \$82 million flowed out (much of it to ANZ’s main KiwiSaver product).

AMP suffered the worst-by-far net transfer outflows over 2016/17 period – a position it has more-or-less owned in the decade-long KiwiSaver history. As further survey results will show, though, the default factor may be the least of AMP’s troubles in maintaining market share.

Top 5 KiwiSaver schemes by net transfer outflows		
Scheme	Net transfer outflow \$m	% of total scheme FUM as at March 31, 2017
AMP	206	4.5
Mercer	101.6	6.5
Fisher Two	99.9	5.7
ANZ Default	80.6	6.1
ASB	49.4	0.7

All told about \$1.8 billion changed schemes through the 12-month transfer window, on a par with the previous year, and representing roughly 4.4 per cent of total KiwiSaver FUM.

Game of banks: the five FUM kings

The 2016/17 KiwiSaver season was at first glance a win for the status quo.

In a year when total FUM grew by about \$6.9 billion (including \$2.6 billion of investment returns), the top five providers – as per the table below – secured sovereignty over roughly three-quarters of the annual coffer-top-up.

Exactly the same five institutions filled the top five spots last year while also maintaining the exact same collective market share of 73.3 per cent.

Nonetheless, there has been a subtle shift of power in the land of the FUM kings: most notably, AMP has ceded third place to Westpac while losing 0.5 per cent market share over the year. Westpac ascended to form an Australian bank KiwiSaver triumvirate without much effort, holding market share steady year-on-year.

ASB turned in the biggest top five market share restoration with a 1 per cent increase compared to its 2015/16 effort – edging closer to reigning champ ANZ, which gave up 0.2 per cent to its nearest rival. ANZ does not look in danger of losing the KiwiSaver crown, however. (The bank's chief, Shayne Elliott, also quashed rumours ANZ would offload its KiwiSaver schemes as part of the ongoing wealth division review.)

Fisher Funds, meanwhile, saw the market share of its dual schemes slip over the period (down 0.3 per cent). Post balance date, Fisher also shed the last vestige of its 'boutique' cachet, selling out the remaining 51 per cent equity held by staff and founders to other shareholder TSB Bank (with US private equity firm, TA Associates, taking a minority share).

The game of banks continues apace.

Top 5 KiwiSaver providers by FUM: March 31, 2017		
Provider	FUM \$bn	% of Total (\$40.8)
ANZ (ANZ, ANZ Default, OneAnswer)	10	24.5
ASB	7.1	17.4
Westpac	4.7	11.5
AMP	4.6	11.3
Fisher (One and Two)	3.5	8.6
Total	29.9	73.3

Big FUM, of course, can make it difficult for schemes to grow proportionally faster as the years roll on (although ANZ defied that notion last year as the fourth quickest-growing provider). Smaller, nimbler schemes hold the upper hand in this metric with four of those featuring in the top five this year also ranked last year in almost the same order. The NZX-owned SuperLife sneaks in as the sole newcomer to the table below in 2016/17 – albeit with 10 or so schemes reporting similar FUM growth-rates.

The figures below exclude schemes with less than 5,000 members, which knocked the recently-deployed NZ Defence Force scheme (boasting an annual FUM increase of 145 per cent) out of contention:

Top 5 KiwiSaver schemes by annual FUM growth-rate		
Scheme	FUM growth year to 31/3/17 \$m	FUM Growth-rate April 1, 2016-March 31, 2017 - %
Generate	220.4	125.2
Milford	257.7	47.1
BNZ	362	45.2
NZ Funds	35.2	27
SuperLife	121.9	23.5

Loyal subjects (but some members are revolting)

While the top five KiwiSaver providers have dominion over 73.3 per cent of FUM, in membership terms the measure is, and always has been, slightly higher.

However, as the table below shows, during the latest 12-month period the proportion of members in thrall to the ruling five providers dropped to 76.1 per cent from almost 78 per cent the previous year. All five providers gave up some membership market share over the year but none more so than AMP, which was down about 0.7 per cent in a period that saw it bleed a further 7,682 members. Since the 2014/15 year AMP has lost more than 22,000 in net membership.

Mercer (-2,496), Fisher Two (-2,421) as well as the ANZ Default and OneAnswer (-1,147 and -723, respectively) schemes also went backwards member-wise during the latest annual period. Aon and the Maritime (formed last year by the merger of the SRF and Waterfront funds) schemes also experienced minor member losses over the year.

Top 5 KiwiSaver providers by members March 2017		
Provider	Members	% of Total (2.72m)
ANZ (inc ANZ, ANZ Default, OneAnswer)	722,079	26.5
ASB	487,489	17.9
Westpac	389,740	14.3
Fisher Funds (One and Two)	237,485	8.7
AMP	236,823	8.7
Total	2.07m	76.1

In absolute terms ANZ recorded the biggest member increase of the year with a net gain of 21,576 (up 4 per cent). The only other two providers to expand membership by more than 20,000 – BNZ and Kiwi Wealth – both feature in the top five growth-rate table below. Those sterling bank membership drives, however, were not enough to dethrone Generate from the top ranking it has held in this metric for the last three years: since, in fact, it launched.

Top 5 KiwiSaver schemes by member growth-rate		
Scheme	Member growth year to 31/3/17	Member growth-rate year to 31/3/17 %
Generate	12,534	71.2
Milford	4,014	29.2
BNZ	20,750	23.3
Kiwi Wealth	21,086	13.8
NZ Funds	469	6.8

Generate also dropped off the ‘non contributing member’ hot list over the year, replaced by ASB. Otherwise, the ‘non-con’ list, which is a broad measure of the quality of scheme membership, mirrors the previous year’s result. However, all schemes below slightly reduced their non-con rates during a period that saw the all-of-KiwiSaver average non-con metric fall both proportionately (to 40 per cent from about 43 per cent last year) and nominally (-23,581).

Top 5 KiwiSaver schemes by ‘non contributing’ member %		
Scheme	Non contributing members as at March 31, 2017	Non contributing % of total scheme membership
Fisher Funds	71,379	54.5
Booster	51,400	50.5
ANZ Default	40,417	44.4
ANZ	249,413	44.4
ASB	206,273	42.3

Royal coffers up: a Treasury count

In total the 29 KiwiSaver providers covered by this survey collected some \$379.5 million in fees and expenses from the peasants over the 12 months to March 31, 2017.

While that figure represents an increase of almost \$58 million (or 18 per cent) on the prior year, compared against average FUM for the period of about \$37.3 billion (taken as the March 2016 plus March 2017 figures divided by two), the total cost of KiwiSaver 2016/17 comes in around 1.02 per cent – a discount of 2 basis points on the previous period.

As per tradition, the tables below reveal the top five KiwiSaver schemes by total fees and expenses levied in nominal terms and against FUM (showing both the five most- and least-expensive by this measure).

Year-on-year the first two tables feature the same providers in the same order, with the per-FUM figures also broadly consistent. The entry of Simplicity with its 0.3 per cent fee promise has added a new element to the cheap-and-cheerful end of the range. Simplicity has hit the 0.3 per cent target (banishing the ANZ Default scheme from this table), with fellow passive-style schemes SuperLife and ASB coming in at 0.7 per cent.

Curiously, a kink in the FMC reporting rules means providers no longer supply total fees/expenses figures in annual member reports. While the figures can be gleaned – although not always - from scheme financials, the lack of a consistent and clear reporting of this significant statistic seems at odds with the current regulatory push for better disclosure. In particular, the figures for schemes which previously reported ‘direct’ and ‘indirect’ fees – principally levied through fund-of-fund structures may be more difficult to compare year-on-year.

Top 5 KiwiSaver schemes by fees/expenses charged		
Scheme	Fees/expenses \$m	% of average FUM 2016/2017
ANZ	72.5	1.2
ASB	46	0.7
AMP	42.6	1
Westpac	39.5	0.9
Kiwi Wealth	32.4	1.2

Top 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses \$m	% of average FUM 2016/2017
NZ Funds	2.6	1.8
Generate	4.7	1.7
Fisher One	26	1.6
Booster	15.8	1.5
Aon	5.5	1.4

Bottom 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses \$m	% of average FUM 2016/2017
Simplicity	1.65	0.3
SuperLife	3.2	0.7
ASB	46	0.7
Supereasy	1.5	0.8
Mercer	11.8	0.8

Mostly happy returns: a crowning achievement

Nominal investment returns over the 12 months to March 31, 2017, added over \$2.6 billion to the KiwiSaver kingdom – about double the previous year’s effort – giving an average return of just above 7 per cent (4.2 per cent in 2016) based on this study’s measuring stick.

With markets offering up positive, if increasingly brittle, returns across most asset classes during the year, all schemes ended the period in the black across a more tightly-packed field compared to 2016: ranging from 2 per cent for the US-equity focused, Shariah-compliant Amanah to the 11 per cent contribution by the Medical Assurance KiwiSaver.

As per usual warnings, the performance figures presented below measure only total scheme returns without accounting for asset allocation/risk profile or other distinguishing features.

Top 5 KiwiSaver schemes by annual performance		
Scheme	Total return \$m	Performance
Medical Assurance	53.8	11
Fisher One	155.8	9.7
NZ Funds	14.1	9.5
Milford	61.9	9.2
SuperLife	52.7	9.1

Bottom 5 KiwiSaver schemes by annual performance		
Scheme	Total return \$m	Performance
ANZ Default	59.6	4.8
Westpac	239.7	5.6
Mercer	90.4	6.1
ANZ	400.9	6.5
ASB	427.1	6.6

Conclusion

Dreamed into existence in 2006 by the-then Labour Finance Minister, Michael Cullen, the KiwiSaver regime has more than met its KPIs since first admitting members late in 2007.

Membership has risen about six-fold compared to end of KiwiSaver year one with FUM up a factor of 50-plus over the period to March 31, 2017.

KiwiSaver now reigns supreme both as the public face of retirement savings and as the growth engine for the NZ retail funds management industry. In the 2015 year KiwiSaver surpassed the broader NZ retail funds market, continuing to pull away by dint of its government-mandated contribution rules.

While KiwiSaver remains a voluntary affair the collective underlying schemes have earned the loyalty of 2.7 million plus New Zealanders. True, just under 1.1 million members are deemed ‘non contributing’ but the figure might not be as damning as it appears: 300,000 or so of the non-cons are aged under 18 and many also may make irregular KiwiSaver contributions to earn, at least, the \$521.43 annual member tax credit.

Flexible contribution rules may have reduced KiwiSaver growth rates at the margins but it is difficult to quantify the effect. (What can be quantified, though, is the \$600 million leaking out of the regime via the ‘first home’ withdrawal rules over the latest annual period.)

At any rate the savings pool has filled quick enough over the last 10 years to sustain a myriad bunch of providers. However, as this survey and its nine predecessors have documented, behind the scenes KiwiSaver providers have been engaged in a constant and furious competitive battle.

The 2016/17 survey shows the competition continues as incumbents and claimants scrap it out in the transfer trenches. But, notably this year, the number of challengers to the throne remains unchanged – barring the odd technicality – after a long period of consolidation.

At 10, perhaps, the KiwiSaver market has reached a level of mature stability. Just eight of the 29 schemes in this survey reported membership under 5,000 – and at least one of those, Simplicity, has since broken through that threshold. All but six schemes had FUM above \$100 million as at March 31.

More likely, though, the KiwiSaver market is experiencing a lull in the action with further consolidation at the smaller end of town clearly an option. At least one other new provider is also rumoured to mulling a tilt at the KiwiSaver crown.

The regime, too, may be shaken-up by the looming NZ general election. Labour, now a genuine political contender, for instance, has previously vowed to make KiwiSaver compulsory.

Cullen, for one, supports compulsion as a worthy refinement of his vision. Now, of course, the former Labour deputy PM, is better known as Sir Michael Cullen, a royal honour dubbed, no doubt, in part for making KiwiSaver real; for services to financial services.

The findings in this report are based on figures collected from the annual reports of 29 KiwiSaver schemes.

A complete set of the data in Excel spreadsheet form, covering member and funds under management trends; fees and expenses; investment returns; scheme transfers and other metrics, is available for a not-unreasonable fee of \$260 plus GST (\$299 including GST).

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