KiwiSaver

@ Level 14

KiwiSaver Annual Market Report 2021

By David Chaplin

Introduction

The number is up for KiwiSaver.

After 14 years of hard labour, the famously retiring national savings scheme worked overtime in the 12 months to March 31, 2021, lifting funds under management (FUM) about a third.

Between outbreaks and lockdowns KiwiSaver FUM cut loose during the reporting year to peak just under $82 billion at the end of March compared to $62 billion at the same time in 2020.

Unexpectedly optimistic markets and the steady roll of contributions pumped-up the remarkable turnaround in fortunes from the down-in-the-dumps pandemonium of early 2020.

By contrast, KiwiSaver membership growth hardly mattered: the net 62,342 new members represented annual growth of just 2 per cent.

In spite of the relatively sedate organic member growth-rate – admittedly, at a nominal figure still higher than the membership of all but 12 schemes – three new providers signed-up to the competition before the close of business on March 31 (with one more post balance date).

All four of the newbies – three of which were required to file inaugural annual reports for the period – are local providers with unique distribution strategies.

Both InvestNow and KiwiWRAP also upped the ante on investment choice while Select and Aurora debuted 'fund-hosting' in KiwiSaver with other firms providing the legal front.

The relative success of newish local KiwiSaver arrivals such as Juno and Pathfinder suggests well-targeted boutiques can find a working space amid the still top-heavy market.

Meanwhile, the ongoing upwards trajectory of more-established disruptors – the anti-twins of Simplicity and Generate – might provide further encouragement to new entrants.

As noted in previous editions of this report, challenger brands have steadily chipped away at the market share owned by the large institutional KiwiSaver players over the last few years: a trend continuing apace in 2021.

But this year the competitive drip-drip combined with a flood of state initiatives to further erode the power of the mostly Australian-owned top-tier KiwiSaver schemes.

For instance, the Financial Markets Authority (FMA) has been pressuring larger players especially to finally deliver on the 'benefits of scale' by lowering fees.

Elsewhere, the government sacked four of the larger default providers – AMP, ANZ, ASB and Fisher Funds – this May, in a pincer move that could see up to 380,000 members and $4 billion flow to the six successful bidders.

And in a sad event after balance date, the political force behind KiwiSaver, Sir Michael Cullen, died in August.

Sir Michael's legacy lives on in many areas of the NZ financial sector, including this report that details the latest KiwiSaver numbers as below:

- Transfers between providers;
- Funds under management (FUM);
- Membership;
- Fees and expenses; and,
- Annual gross performance; and,
- Net performance (after tax and net fees).

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 the environmentally sustainable fee of $400 plus GST ($460 including GST).
Please contact the author at david@investmentnews.co.nz or ph +64 21 022 575 03 for further details.

Locals take trans-friendly to higher plain

Dating back to the 2016/17 period the Auckland-based trio of Generate, Milford and Simplicity have all featured among the top five schemes for net transfers.

And while this year is no different – bar Milford supplanting Generate in the number one position for the first time – the three local-schemes-made-good shared honours with at least one Australian bank-owned provider in this category until now.

In a clean sweep for NZ-owned firms, the frisky three year-old Juno reprises its place in the transfer-winners circle with the 2011-vintage NZ Funds making an inaugural entry to the elite group after a decade of also-rans.

The Kiwi success story, in fact, extends to the next rung down where the Wellington-based Booster (always a contender) reported net transfers of about $95 million.

Almost two-thirds of schemes reported positive net transfers over the year but for most the gains were modest. While transfers from rival schemes (where possible the figures strip out flows from non-KiwiSaver funds) typically represent a minor proportion of annual FUM-growth, the metric remains a good indicator of the marketing chops of providers in an increasingly competitive landscape.

As the Juno numbers show, too, transfers are particularly influential for younger schemes as poaching is the only way to grow from a standing start in a market where new entrants are harder to come by (and less lucrative to boot).

Net transfers equate to almost half of the Pie Funds-owned Juno scheme FUM as at the end of March compared to the 10-16 per cent range for more mature operators.

The five providers listed in the table below collectively drained over $1 billion from other schemes during the 12-month period with most of that siphoned from the larger Australian-owned institutions.

Opposites in an investment-style sense, passive Simplicity and active Juno have primarily relied on word-of-mouth or guerilla marketing strategies to fuel-up transfer reservoirs – although the latter does have a small in-house advisory team.

NZ Funds, which had a spectacular year in several ways, and Generate compete fiercely in the incentivised-adviser market where commission levels hold sway.

More recently, however, Generate (and even more recently, Simplicity) have followed Milford with big-budget mainstream media campaigns. Milford has bolstered its already strong direct following with multi-channel marketing and soliciting adviser support: clearly, it has worked.

Top 5 KiwiSaver schemes by net transfer inflows		
Scheme	Net transfer inflow $m	% of total scheme FUM as at March 31, 2021
Milford	395	11.9
Generate	284	10.6
Simplicity	266	15.9
Juno	175	46.2
NZ Funds	105	16.2

For a record seventh straight year in a row the AMP KiwiSaver scheme reported the largest FUM-loss via the transfer market – albeit that both the nominal outflows and gap between the second-placed scheme in this category (ANZ) have narrowed a little compared to previous years.

Since the 2014/15 year, the AMP KiwiSaver has given up a net $1.7 billion in transfers to other providers, reflecting some structural distribution issues that likely trace back to the merger with the Axa scheme in 2013. (The ASX-listed AMP bought the Axa Asia-Pacific business in 2011 for over A$13 billion.)

At the same time, the AMP NZ brand has not been helped by high-profile ructions at the Australian parent over the last two years that concluded in 2021 with a decision to consciously decouple from its funds management arm (AMP Capital) and reform other business units.

Left to its own devices in some respects, AMP NZ revealed plans in 2020 to switch its KiwiSaver scheme (and other investment products) from mostly AMP Capital-managed active strategies to a BlackRock indexed approach. Whether the radical redo – implemented in the 2021 September quarter - stems the transfer outflows is a question for next year.

As a consolation prize, AMP was not the worst performer in the transfer competition as measured by provider.

ANZ, in fact, saw over $500 million flow out to other firms across its three schemes during the 12-month period with the main bank KiwiSaver product reporting major transfer leaks for the first time – as shown in the table below.

Other bank, and bank-related (Kiwi Wealth) schemes filled out the remaining places.

The 2022 figures in this group will be distorted with only Westpac and Kiwi Wealth retaining default status while AMP, ANZ and ASB must hand over all non-activated default members by December 1 this year.

Top 5 KiwiSaver schemes by net transfer outflows		
Scheme	Net transfer outflow $m	% of total scheme FUM as at March 31, 2021
AMP	304	4.7
ANZ	283	2.2
ASB	270	2
Westpac	151	1.8
Kiwi Wealth	132	2.3

Below decks: how ship-shape schemes shore-up growth

The net transfer results effectively measure how well providers compete for members in open seas.

But behind closed doors, schemes could be insulated to a certain extent from competitive losses if other internal member dynamics are healthy.

As per the previous two years, this report uses the Retention Ratio and Leak Index to illuminate the hidden behaviour from a couple of slightly different angles.

In brief, the Retention Ratio compares core contributions (sourced from employee, employer and government) against member-generated withdrawals, which covers line items such as first home, retirement and death.

Expressed as a simple fraction of contributions over withdrawals, the higher the number the better schemes are at keeping core member cashflows: a score under 1 would represent withdrawals outweighing contributions.

As the tables below reveal, all schemes have a reasonably comfortable buffer of member contributions over withdrawals ranging from about three-times coverage for the bottom five group to four- or five-times for the leading group.

Year-on-year there have been a few scheme changes in both the top and bottom lists but the overall range of outcomes for schemes (limited, as in all tables in this report to those with more than 5,000 members) remains consistent over the period.

While KiwiSaver contribution holidays and hardship withdrawals did spike up early in the 2020 COVID crisis, the brief panic does not show up in the Retention Ratio. With government making noises about increasing the minimum employer and employee contribution rate to 4 per cent apiece (8 per cent total) from the current 3 per cent, the cushion could get fluffier in future years.

Scheme	**Top 5 schemes by Retention Ratio** (= contributions/withdrawals)
Juno	5.6
Milford	4.7
Booster	4.5
Fisher 2	4.2
ANZ Default	4.2

Scheme	**Bottom 5 schemes by Retention Ratio** (= contributions/withdrawals)
Craigs	2.8
ANZ	2.9
Westpac	3.1
QuayStreet (Craigs)	3.1
Fisher Funds	3.2

Based on the Retention Ratio alone all KiwiSaver schemes can count on steady growth on the back of member contributions besting withdrawals by at least 3:1.

Members, of course, have one other choice: to leave. The Leak Index introduces this factor into the equation for a more nuanced look at how member behaviour affects scheme growth in an ideal world free of investment returns, fees and tax.

In practice, the Leak Index combines the Retention Ratio withdrawal data with net transfer figures, which in turn is weighted against contributions.

Unlike the Retention Ratio, however, the Leak Index is presented as a rounded percentage. The lower the percentage, the more prone schemes are to leaking funds based on member choices: a negative result suggests – absent net investment performance gains – scheme FUM would shrink in nominal terms.

Clearly, net transfers have a strong influence on this metric, especially at the top end where relatively small schemes that have been successful in attracting members from rivals dominate: all five of this group also featured in the list of best-performers by net transfers.

Scheme	**Top 5 schemes by Leak Index** (= withdrawals+net transfers/contributions as %)
Juno	445
NZ Funds	245
Simplicity	149
Milford	121
Generate	111

The narrative is not so clear-cut for the bottom of the leak dwellers. AMP and ANZ (courtesy of its two minor schemes) both appeared in the worst net transfers group while Mercer and the Medical Assurance schemes also reported negative transfer results.

But the main ANZ scheme turned in a positive Leak Index reading of almost 20 per cent, illustrating how a large member base with decent recurring net contributions can keep the ship afloat through rough weather.

Scheme	**Bottom 5 schemes by Leak Index** (= withdrawals+net transfers/contributions as %)
OneAnswer (ANZ)	-16.8
AMP	-14.5
ANZ Default	-14.1
Mercer	-6.1
Medical	5.4

Going down-market: the big sink

Over the 12 months to the end of March 2021 the five largest KiwiSaver providers saw their collective market share dive a further 2.6 per cent after experiencing a similar result in the previous period.

From a peak of about 76 per cent market share achieved in the 2013/14 reporting year, the top five providers have now given back over 10 per cent to competitors.

While Fisher stayed at par year-on-year the remaining four biggest KiwiSaver firms lost some market share during the period led by ASB (-0.9 per cent) and AMP (-0.7 per cent): both ANZ and Westpac each shed about 0.5 per cent.

All of the providers in the top-five list, with the exception of Westpac, will take a further market-share hit later in 2021 as they pass on their respective default members. In the case of AMP, for instance, this could see about $900 million exit – setting the stage, perhaps, for Kiwi Wealth to enter the bigger time.

Nonetheless, the top-of-the-table providers – particularly, ANZ and ASB – maintain a safe distance ahead of the pack and may even emerge leaner but more profitable after the default cull this December.

Top 5 KiwiSaver providers by FUM: March 31, 2021		
Provider	**FUM $bn**	**% of Total ($81.6bn)**
ANZ (ANZ, ANZ Default, OneAnswer)	17.9	21.9
ASB	13.5	16.5
Westpac	8.6	10.5
Fisher (One and Two)	6.7	8.2
AMP	6.5	8
Total	**53.2**	**65.1**

But if the large institutionally owned providers are starting to feel weight (and age) slow their growth, a number of slimmer, more youthful NZ-owned schemes are accelerating.

Unencumbered by much corporate baggage, only the five schemes listed below (of those with 5,000 members or more) recorded annual FUM-growth above 50 per cent led by Juno, which ended the year almost four-times larger than 12 months previously.

The larger NZ Funds also more than doubled FUM over the year on the back of solid member growth and a bitcoin-fueled investment return bonanza.

Meanwhile, Simplicity kept up the same growth-rate as in the 2019/20 period while both Generate and Milford stepped-up a gear or two. Milford, in particular, put the foot down in growing almost 70 per cent over the 12 months compared to under 30 per cent last year – a notable achievement, too, given the scheme ($3.3 billion at the end of March) is the largest of the five fastest sprinters.

Even in nominal terms Milford was among the top four as measured by FUM-growth with only ANZ (main scheme), ASB and Westpac banking more in the year.

Top 5 KiwiSaver schemes by annual FUM growth-rate		
Scheme	FUM growth year to 31/3/21 $m	FUM growth-rate, year to 31/3/21 %
Juno	273	254.4
NZ Funds	373	136.4
Simplicity	692	70.6
Milford	1,349	68.8
Generate	982	57.4

A flat pack (and five chasers)

Total KiwiSaver membership-growth slowed considerably in the latest reporting year. Over the 12-month period net member numbers were up over 62,000 – or 2 per cent – compared to 93,000 or so in the previous year.

As overall growth decelerated, the five largest providers ended the year exactly where they started with about 2.1 million members between them while their collective market share dipped about 2.3 per cent.

But the pain was not shared equally: ANZ was lighter by almost 8,000 members across its three schemes year-on-year while Westpac lost about 4,000. ASB member numbers fell slightly (321) while Fisher (One and Two) bucked the trend, adding over 2,800 members for the year.

And for the first time, AMP leaves the top table after its membership dropped by more than 3,900 over 12 months to be replaced by Kiwi Wealth, which accrued some 3,000 members during the same period. For now, AMP remains ahead of Kiwi Wealth by FUM with the former reporting about $6.5 billion under management at March 31 compared to $5.8 billion for the latter.

Top 5 KiwiSaver providers by members March 2021		
Provider	**Members**	**% of Total (3.1m)**
ANZ (inc ANZ, ANZ Default, OneAnswer)	734,920	23.8
ASB	534,262	17.3
Westpac	387,555	12.5
Fisher Funds (One and Two)	247,135	8
Kiwi Wealth	219,706	7.1
Total	**2.1m**	**68.7**

While institutionally owned KiwiSaver providers mostly flat-lined, or worse, the same gang-of-five local schemes stayed well ahead of the growth curve during the year.

Excluding NZ Funds, though, member growth-rates slowed for the leading group of schemes with front-runner Juno, for example, growing at half the pace of last year – albeit that nominal membership numbers for the Pie Funds-owned scheme rose almost 7,300 against 4,615 over 2019/20.

Milford also saw net membership increase more in nominal terms over the year as its growth-rate eased slightly. Both Simplicity and Generate added fewer members year-on-year: despite growing at half the rate of the previous period the two schemes booked impressive membership numbers led by Generate, which had the highest nominal increase in members across the entire market.

However, NZ Funds reported the biggest relative annual increase in both nominal and proportionate membership growth. The Auckland-based boutique manager – which competes mostly with Generate and Booster for financial adviser-derived KiwiSaver business – tripled its membership growth-rate over the year while adding almost four-times the number of net new members compared to the 2019/20 period.

BNZ and Booster – previous high-achievers in this category – were fourth and fifth, respectively, by nominal member-growth but at a low single-digit growth-rate.

Top 5 KiwiSaver schemes by member growth-rate		
Scheme	Member growth year to 31/3/21	Member growth-rate year to 31/3/21 (%)
Juno	7,269	111.2
NZ Funds	5,900	61.4
Simplicity	12,357	36.3
Milford	10,965	29.7
Generate	14,771	17.1

Chilling in the fee-freezer (but costs rise in hot year)

All else being equal, the total per-dollar cost of KiwiSaver will inexorably rise every year given most fees, and some expenses, are linked to FUM.

To date, KiwiSaver FUM has increased every year even in the odd down-times for investment returns (for example, the 2019/20 COVID-hit season) with contributions more than making up for market losses.

The 2020/21 period, however, featured both bumper returns as well the constant thump of compounding member contributions in a dual action that pushed nominal total KiwiSaver costs to a record peak of over $670 million – or $165 million above the high-tide mark set last year.

Despite the 30 per cent plus spike in fees and expenses (this study bundles all visible accounted-for costs into one figure), KiwiSaver was slightly cheaper again this year as measured against the average FUM for the period.

Based on the total average FUM, KiwiSaver cost about 0.93 per cent in 2020/21, down .03 per cent on last year. The marginal downward-dip came in a period where the FMA launched a regulatory assault on KiwiSaver (and other managed fund) fees via its ‘value for money’ guidance.

According to the FMA, larger providers in particular have yet to pass on the ‘benefits of scale’ to members with the regulator now demanding schemes justify their fees at least once a year. The government doubled-down the pressure during the default provider reappointment process that saw winning bids come in between 0.2 per cent – thanks to SuperLife - and 0.4 per cent as all-in fees (with no fixed dollar annual member ‘administration’ charge).

As the tables below reveal, most of the schemes with the larger dollar-amount collections price-out at 1 per cent or less per average FUM: Fisher Funds, the exception, cost 2.2 per cent on that basis due to high performance fees levied over the period. (Note the data below is by scheme, not provider.)

At the cheap end of town, SuperLife emerges at just 0.2 per cent by the measure used in this study, which simply weighs all reported fees and costs against the average FUM for the year.

However, while SuperLife is undoubtedly one-of, if not the, cheapest KiwiSaver scheme in the market, the 0.2 per cent figure understates the true cost. The anomaly follows a recent change in how SuperLife reports fees, some of which are collected in underlying funds including the Smartshares exchange-traded funds.

Previously, SuperLife reported the related party fees in either its KiwiSaver scheme or the-then consolidated SuperLife superannuation fund. SuperLife restructured the super fund a couple of years ago into about 45 separate funds – all reporting individually, making aggregate costs difficult to reconcile.

Prior to the change, the SuperLife KiwiSaver cost about 0.5 per cent by the measure in this study with some reductions in its underlying funds since.

The SuperLife example, too, points to a wider issue in chasing down true costs in KiwiSaver as some fees and expenses disappear down the rabbit-hole of underlying funds, emerging only in a lower unit price.

Certain scheme structures can also render some fees invisible to scheme annual accounts. For example, two of the new KiwiSaver arrivals in the period under review – InvestNow and the Consilium-backed KiwiWRAP – have some fees off-book. In the case of KiwiWRAP, supporting advisers can charge members up to 0.7 per cent in annual advice fees that don’t appear in scheme accounts.

InvestNow, meanwhile, appears almost free as the scheme has zero admin charges while members pay investment fees direct to the underlying managers individually.

Of course, the InvestNow KiwiSaver has costs, which are paid by the scheme manager, and members incur fees (that are reported in their annual personal account reports) but the structure makes aggregate fee-reporting comparisons impossible.

Regardless, the following tables represent the best-endeavour effort to compare-and-contrast KiwiSaver scheme costs.

Top 5 KiwiSaver schemes by fees/expenses charged		
Scheme	Fees/expenses $m	% of average FUM 2020/2021
ANZ	116.5	1
ASB	83.8	0.7
Fisher Funds	70.8	2.2
AMP	58.3	1
Westpac	48.3	0.6

Top 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2020/2021
Fisher Funds	70.8	2.2
Milford	39	1.5
Generate	31.5	1.4
Craigs	4.9	1.4
Booster	27.9	1.2

Bottom 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2020/2021
SuperLife	2.3	0.2
Simplicity	4.9	0.4
BNZ	17.5	0.6
Westpac	48.3	0.6
Supereasy	2.2	0.7

Up in the atmosphere: a high-flying experience

After raining red last year, investment markets returned to shine in the 12 months to March 31 in a remarkable period that delivered black numbers to all but one KiwiSaver scheme.

Across all schemes with more than 5,000 members, annual gross aggregate returns ranged from 12.4 per cent for BNZ to an over-the-top 62 per cent at NZ Funds.

As per usual, the performance numbers used in this study – based on comparing reported dollar-denominated investment returns against average scheme FUM over the year – come with a salt warning: the figures are not risk-weighted and the average FUM measure only approximates cash-flow effects (which can vary significantly, especially in smaller fast-growing schemes).

But the composite return figures do reflect the general asset allocation of the scheme in question – for instance, default schemes tend to have more members in conservative funds – and some individual quirks.

NZ Funds is the clear stand-out performer of the year by this measure, returning 62 per cent or more than double that of the four other high-scorers in the table below.

Historically, NZ Funds has one of the most erratic performance records – up the top one year, down the next – of all KiwiSaver schemes and this period continues the trend. After a near bottom-of-the-table experience last year, NZ Funds hit the heights on the back of an audacious allocation to bitcoin just as the cryptocurrency soared once more.

Combined with a highly effective member-recruitment drive, the investment returns saw NZ Funds KiwiSaver FUM about triple year-on-year. The manager did, though, trigger another regulatory intervention mid-2021 in the wake of an advertising campaign boasting the 100 per cent plus annual return of its KiwiSaver growth fund.

Advertising “phenomenal returns”, the FMA said in a communiqué this April, “could mislead investors”.

As it happened, the start of the KiwiSaver reporting year coincided almost perfectly with the COVID-related ephemeral market crash late in March 2020. Almost all schemes benefited in annual reporting from the record market bounce-back off a low base over the subsequent 12 months.

In fact, just one scheme, Nikko, ended the year in the red for idiosyncratic reasons. While Nikko is excluded from the main tables in this study due to its sub-5,000 membership, the scheme did come out top in two categories as the fastest-growing by FUM and membership.

From a low base of 77 at the end of March 2020 Nikko added more than 1,300 new members during the year, equating to a growth-rate of over 1,700 per cent. Over the same period, the Nikko KiwiSaver FUM jumped from about $7 million to $52 million by the 2021 March-end – or an annual increase of more than 600 per cent.

Just about all of the new Nikko members and money poured into the Ark Innovation Fund – a product the manager added as a stand-alone KiwiSaver option late in 2020. The US-based Ark (part-owned by Nikko) had an astonishing surge in growth and performance last year (up over 100 per cent for the Innovation strategy).

In an unfortunate piece of timing, the Nikko KiwiSaver Ark-voyage coincided with a rough performance patch in the first quarter of 2021 that took scheme returns down about 11 per cent.

Top 5 KiwiSaver schemes by gross annual performance		
Scheme	Total return $m	Performance %
NZ Funds	285	62
Juno	64	26.5
Milford	695	26.4
Medical	212.9	23.9
SuperLife	248.1	23.3

Bottom 5 KiwiSaver schemes by gross annual performance		
Scheme	Total return $m	Performance
BNZ	394	12.4
ANZ Default	241	13.3
Mercer	287	13.3
ASB	1,759	14.4
Westpac	1,205	15.6

The gross performance figures shown above can skew the results somewhat against a few providers who report related party fund fees that are deducted off investment returns. After a 'net fees' adjustment – which takes into account the discrepancies – the scheme performance rankings do change a little. The net performance figures reported below are also after tax, which again slightly alters the arrangement of winners and losers in the tables below.

Top 5 KiwiSaver schemes by net annual performance		
Scheme	Total net return $m	Performance
NZ Funds	233	50.7
Juno	61	25
Milford	633	24
SuperLife	242	22.7
Medical	188	21.1

Bottom 5 KiwiSaver schemes by net annual performance		
Scheme	Total net return $m	Performance
BNZ	358	11.2
ANZ Default	218	12
Mercer	261	12.1
ASB	1,606	13.2
Westpac	1,087	14.1

Getting in on the ground

The last three years have seen a marked turnaround in KiwiSaver scheme diversity following almost a decade of consolidation.

From a low of 29 schemes in the 2017/18 period, eight new providers – mostly local players – have registered to play, four of those since September 2020 as displayed in the table below.

New KiwiSaver schemes launched since March 2018		
Scheme	Date launched	Member numbers as at 31/3/21
Nikko	3/4/18	1,412
Juno	23/7/18	13,749
Pathfinder (born as CareSaver)	26/6/19	2,297
Kōura	21/8/19	356
InvestNow	20/9/20	691
Select	16/11/20	43
KiwiWRAP	16/12/20	9
Aurora	21/7/21	n/a

Juno, as the numbers show, has been quickest out of the gates among the newly bred schemes. And after a slowish start, Pathfinder (which rebranded from CareSaver to its parent brand earlier in 2021) has been building momentum as a specialist ‘ethical’ KiwiSaver.

Nikko proved this year how a well-targeted product can super-charge growth while InvestNow reported solid numbers after only six months.

Kōura has the least to show after almost two years of slog but in 2021 the scheme, launched as a robo-advice proposition, took on a new part-owner with links to a large mortgage and insurance advice network – a patch where providers like Booster, NZ Funds and Generate have ploughed successfully.

Both Select – part of the Investment Services Group that holds Devon Funds, Clarity Funds, JMI Wealth and the Select platform - and the Consilium initiative, KiwiWRAP, also have relationships with financial advisory networks that should help with distribution.

Meanwhile, the mystery scheme, Aurora, takes the tied distribution strategy for KiwiSaver to its logical conclusion. The scheme bears the same name as its owner, the 60-strong adviser group (again leaning to mortgage and insurance advice) that has sprung up from nothing in 2016.

Aurora and Select also feature another innovation in the KiwiSaver market as the first two established under ‘fund host’ arrangements.

Select uses the NZX-owned Smartshares as the legal front for its scheme while Aurora has appointed Implemented Investment Solutions (IIS) to run the KiwiSaver compliance. Officially, Smartshares and IIS act as ‘managers’ of the respective Select and Aurora KiwiSaver schemes.

In a new twist on ‘co-opetition’ both IIS and Smartshares already offer in-house KiwiSaver schemes under the InvestNow and SuperLife banners, respectively.

The influx of new schemes into the market suggests a growing optimism that the once-impregnable institutional KiwiSaver schemes are now vulnerable to attack from start-ups with a good story.

As this report highlights, there is some evidence to back that theory.

Over the last few years, the bank-based KiwiSaver schemes and AMP have lost ground at the expense of rising local stars like Milford, Simplicity and Generate.

At the same time, sustaining growth in KiwiSaver without institutional backing can be difficult (and expensive) with at least one long-established mid-tier player, Aon, putting its scheme up for sale in 2021.

Getting off the ground is the easy part.

Conclusion

On August 14, 2007, the yet-to-be-knighted and then-Finance Minister Michael Cullen was up at Level 3 of Wellington's Westpac Stadium (now known as Sky) headlining at the Deloitte Lounge.

"Thank you for the opportunity to talk about KiwiSaver and beyond," Cullen began his speech to a gathering of the-now defunct Association of Superannuation Funds of NZ (ASFONZ).

Just one year after the enabling KiwiSaver legislation passed into law and a month or so post the regime's operational launch, he told the ASFONZ crowd "progress has been very encouraging".

"At the end of last week IRD had received 92,000 enrolments just five weeks after the launch date," Cullen noted. "Treasury forecasts that 345,000 will enrol in the first year - around 30,000 a month. The initial data suggests take-up is well ahead of that level."

The KiwiSaver year one Treasury growth estimates (revised upwards from pre-launch forecasts) proved about right but membership doubled again in the following 12 months, quickly rising over the next couple of years well above 1 million.

By March 31, 2014, at the end of its first seven-year period, KiwiSaver member numbers hit almost 2.3 million before growth tapered: over the subsequent seven years total net membership has grown by about 800,000.

As detailed in this study, KiwiSaver membership growth eased again during the 2020/21 reporting year to just 2 per cent, amounting to about 62,000 or 30,000 fewer than the previous 12-month period.

Amid the slowing growth there have been calls from some quarters for compulsion to capture another potential 1 million or so KiwiSaver hold-outs.

Back in 2007, Cullen was dubious about the prospect.

“I am often asked whether I think KiwiSaver will one day evolve to emulate the Australian scheme's compulsion,” he told the ASFONZ audience. “I am confident the current design of our scheme will prove to be the best design in the long haul... The government should not intrude too far into personal decisions about how to spread consumption over the life cycle. A compulsory scheme necessarily replaces informed personal decisions with blunt broad prescriptions.”

Since his ASFONZ speech, KiwiSaver has been through two seven-year regulatory cycles – the second one in 2021 resulting in a major shake-up of the default provider regime due to begin later this year.

In some ways, though, the market has come full circle with the number of schemes rising to 37 – close to the 42 retail and occupational KiwiSaver schemes launched in 2007. (Several other corporate-only funds set sail in 2007 before sinking out of sight.)

Cullen’s Deloitte Lounge speech resonates today: “There are a large number of scheme providers registered. It is inevitable that some will be stronger than others and I am asking the industry to prepare strategies to maintain confidence in the industry. These should involve contingency plans covering issues such as the failure of a scheme and how savings would be taken over and put under new management. The industry should take a lead in reassuring investors and safeguarding their interests.”

Sir Michael died on August 19, 2021. He was 76.

The findings in this report are based on figures collected from the annual reports of 36 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 the environmentally sustainable fee of $400 plus GST ($460 including GST).
Please contact the author at david@investmentnews.co.nz or ph +64 21 022 575 03 for further details.