# KIWISAVER THE 13TH

## THE HORROR YEAR

KIWISAVER ANNUAL MARKET REPORT 2020

BY DAVID CHAPLIN

## Introduction

It was a dark and stormy year.

Somewhere, China maybe, a killer lurked unseen in the shadows among the bats and pangolins, biding its time.

Almost dead-on fiscal year-end it went viral, sending chills across the planet. The climate changed. And the current environment.

Governments around the world locked-up their citizens – although they called it 'lockdown' – hoping to starve the silent stalker of victims.

In the social distance, two metres away, supermarket-shoppers shuffled sanitised through the aisles, like zombies. Zoom, now essential viewing, replaced the room. To mask, or not to mask – that was the question.

Borders closed. Airports emptied. Luxury hotels rebranded as quarantine centres and quasi-prisons.

Bing-bong televised messages from the state urged caution and hygiene: stay home; wash your hands; cough into your elbow; keep to your bubble... don't panic.

But, ignoring the advice, terror-crazed markets tumbled amid the pandemonium, investors scrambling for the exits.

On March 23 global share indices were down over 30 per cent off February peaks. And KiwiSaver, just one week shy of turning teen, lay slumped and bleeding on the floor waiting for the final blow.

Happy 13th. An unprecedented year in KiwiSaver, just like all the others.

But while the shock ending to the 2019/20 reporting period coloured the year red, other longer-term trends continued to play out in less horrific fashion over the 12 months to March 31.

As this study details, both KiwiSaver member numbers and funds under management (FUM) continued to climb over the year, if at a slower pace than previous periods. Despite the late March market slump, KiwiSaver FUM rose almost 9 per cent over the year to hit about $62 billion; membership numbers, meanwhile, eased above 3 million for the first time on net growth of 3.2 per cent.

During the 12-month period two new KiwiSaver schemes – Kōura Wealth and the Pathfinder-backed CareSaver – came to play. With no exits, the KiwiSaver population is now 33 after falling below 30 two years ago: at least two new schemes – InvestNow and Consilium – will also launch before 2020 is out.

Other disruptive forces, however, loom in the background. Aside from ongoing market volatility, the KiwiSaver default regime is due for its seven-year check-up that will see a change of asset allocation and new 'responsible investing' standards. At the same time, the regulator is dragging the razor over fees with its 'value for money' campaign.

In hindsight, the 12 months just gone might not look so frightful after all. And, thanks to consultancy firm Melville Jessup Weaver (MJW), this report includes some extra graphic evidence to shine a light on the dark and stormy statistics of KiwiSaver, year 13, that include, as per previous instalments:

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

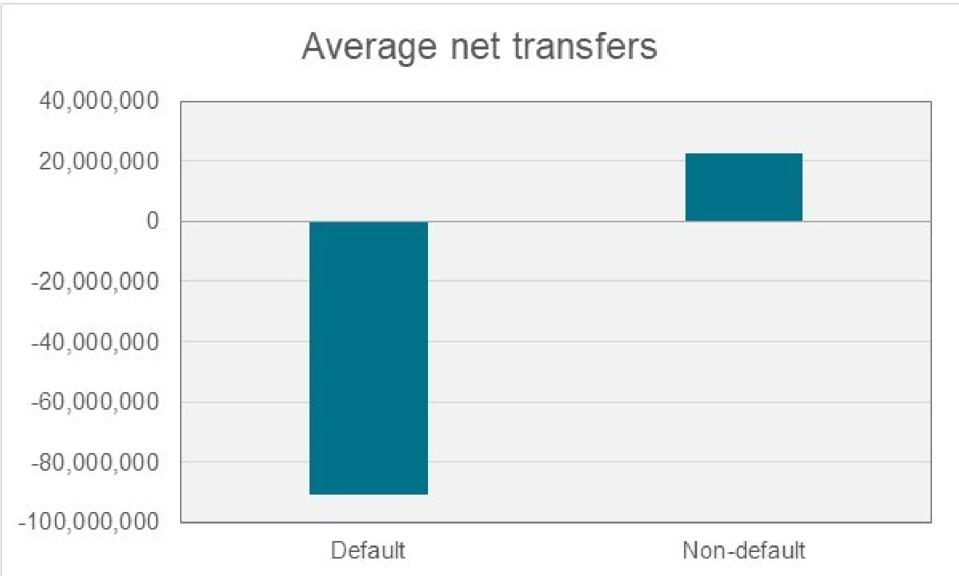
**A complete set of the data in Excel spreadsheet form, covering member and funds under management trends; fees and expenses; investment returns; scheme transfers and other metrics, is available for an unprecedented, but still not-unreasonable, fee of $400 plus GST ($460 including GST). Please contact the author at david@investmentnews.co.nz or ph +64 21 022 575 03 for further details.**

## Little bleeders: death by default

Default status has always cut two ways for KiwiSaver schemes.

At first glance, a ride on the auto-enrolment carousel appears to offer schemes a constant flow of new members for little effort. But the data reveals the dark-side of default.

As the MJW chart below illustrates, default schemes on average tend to bleed heavily in the transfer market, losing about $90 million net on average in the 2019/20 period to rivals. Over the same period, non-default schemes experienced an average boost in FUM from net transfers of $20 million plus.




The aggregate figures, of course, don't tell the whole story. Importantly, the MJW chart shows the average net flows from entire schemes rather than only the default fund component of each of the nine providers currently in that camp.

And overall, the winners and losers in the transfer game were split almost evenly across the 33 schemes covered in this report. The evidence suggests that while default status is correlated with victim status in the transfer statistics, it's not always the mark of death.

In previous years, some of the larger Australian bank-owned default schemes have been among the best-performers in the transfer category. Even during the period covered in this review, two default schemes – BNZ and Booster – both made the top five for net transfers (see table below).

Booster is among the two new entrants in the transfer elite compared to last year along with the Pie Funds-owned Juno, which leapt into contention after poaching over 3,500 members from competitors over the 12 months ending March 31.

Otherwise, Generate, Milford and BNZ reprise their regular top-five efforts. Simplicity, also a historical transfer winner, is out of the picture this year… or is it?

As at publication date neither Simplicity nor SuperLife had filed final financials or annual reports: aside from FUM and member data, this study excludes both schemes from analysis.

The two compliance-is-overdue schemes are both renowned passive investment fans. Correlation, of course, is not causation, especially from such a small sample size.

| **Top 5 KiwiSaver schemes by net transfer inflows** | | |
|---|---|---|
| Scheme | Net transfer inflow $m | % of total scheme FUM as at March 31, 2020 |
| Generate | 393 | 23 |
| Milford | 322 | 16.4 |
| BNZ | 163 | 5.9 |
| Juno | 61 | 57 |
| Booster | 55 | 3 |

Down at the bottom end of the transfer charts, excluding the perennial inhabitant AMP, there have been some significant year-on-year shifts.

Apart from AMP, three of the remaining most transfer-prone schemes are all bank-owned. Historically, bank schemes have featured heavily in this category with a few twists this year including:

- the main ANZ scheme (usually a net positive for transfers) replaces its twin stand-alone default sister in the line-up;
- Westpac, a first-timer here last year, returns in slightly worse shape;
- the in-again, out-again ASB, swings back down in-again.

Elsewhere, Mercer slips out of the bottom-five transferers for the first time in living memory, as Kiwi Wealth makes a surprise appearance.

Yet, true-to-form, AMP turned in another horror-show performance, with by far the worst transfer result both in nominal and proportionate terms.

Continuing an unbroken series dating back for more than half a decade, AMP lost a net $333 million in scheme transfers in the latest period – adding to the collective $1 billion plus it bled to competitors during the previous five years.

In fact, AMP was one of only three schemes to see nominal FUM go backwards over the year with the transfer losses compounded by COVID-hit investment returns that dragged almost all providers into the red after costs.

| **Top 5 KiwiSaver schemes by net transfer outflows** | | |
|---|---|---|
| Scheme | Net transfer outflow $m | % of total scheme FUM as at March 31, 2020 |
| AMP | 333 | 6.2 |
| ANZ | 234 | 2.3 |
| Westpac | 142 | 2.1 |
| ASB | 125 | 1.2 |
| Kiwi Wealth | 124 | 2.8 |

## Slicing and dicing: the hole truth

Introduced in the 2018/19 report, this year the Retention Ratio and Leak Index figures return for cameo appearances.

The separate, but related, measures cast some light on the inner workings of KiwiSaver schemes, revealing differences in member demographics and behaviour.

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.

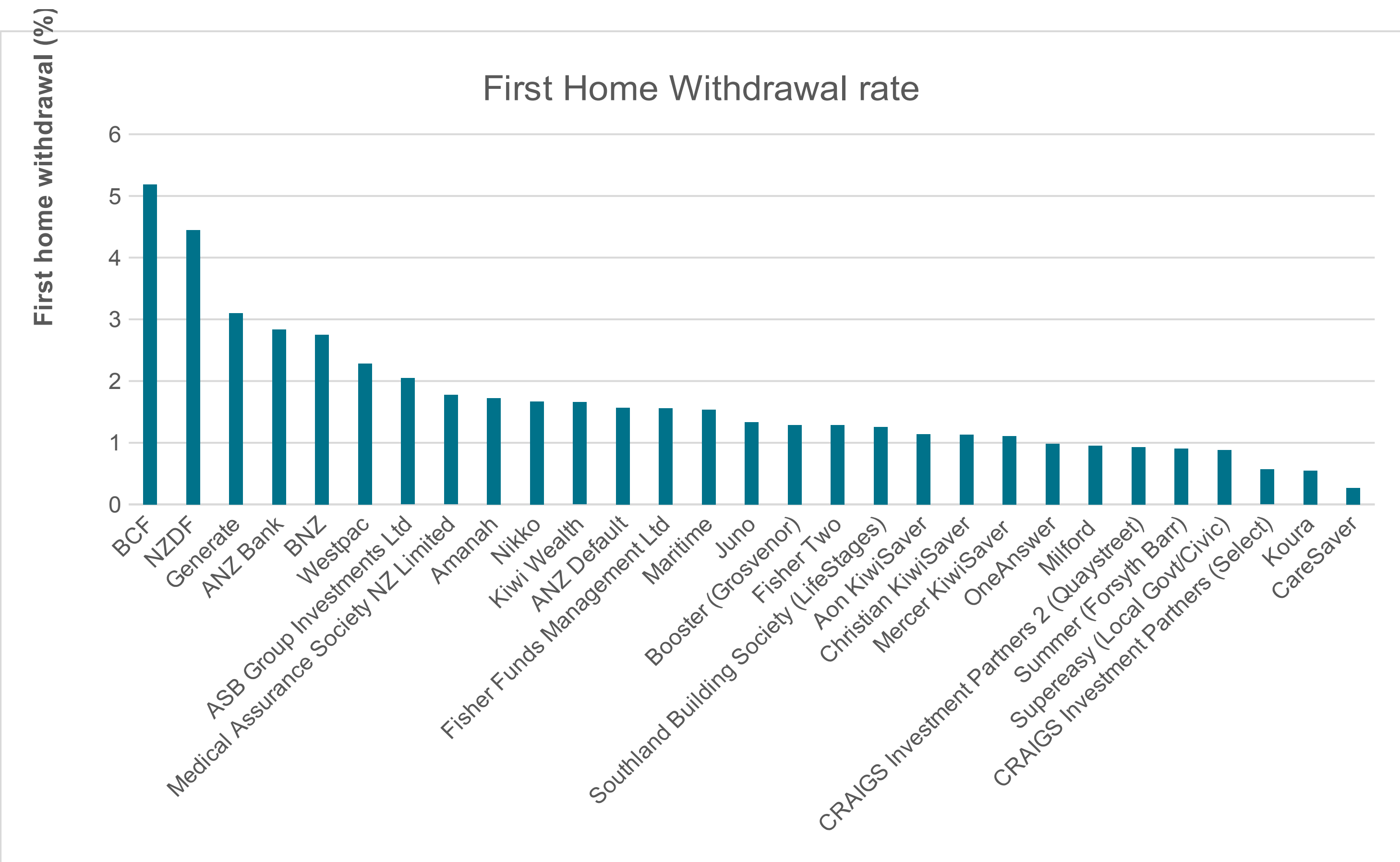
(As per all tables in this report, schemes with less than 5,000 members are excluded.)

| Scheme | **Top 5 schemes by Retention Ratio** (= contributions/withdrawals) |
|---|---|
| Juno | 6 |
| NZ Funds | 4 |
| Mercer | 4 |
| BNZ | 3.9 |
| Booster | 3.7 |

| Scheme | **Bottom 5 schemes by Retention Ratio** (= contributions/withdrawals) |
|---|---|
| OneAnswer | 2.7 |
| Quaystreet (Craigs) | 2.8 |
| Fisher Funds | 2.8 |
| ANZ | 2.9 |
| Westpac | 3 |

Compared to the previous year, the Retention Ratio dial has not moved significantly either in terms of the absolute scores (and their range) nor the schemes that occupy the top and bottom five rankings. But given the slow-moving trends the metric tracks, a rapid year-on-year change would be surprising.

An MJW analysis (see graph below) of the first home withdrawal data in isolation, however, does show a wide dispersion across schemes. Aside from retirement, first home withdrawals represent the single-largest category of KiwiSaver account-shrinking behaviour.




As reflected in the Retention Ratio, bank-based schemes tend to feature high up the first home withdrawal ranks. Both the smallish NZDF (run by Mercer) and the fast-growing Generate also see a relatively large proportion of funds leave for home-buying purposes – possibly reflecting a younger member demographic. The BCF scheme is likely a statistical blip here with its tiny, 643-member base skewing the first home withdrawal data.
Not all schemes, including AMP, report first home withdrawals.

While the Retention Ratio focuses on pure internal member behaviours, the Leak Index introduces a competitive tension to the mix.

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.

With the exception of Juno, achieving an ultra-high score largely due to an out-size one-year transfer record, the least-leaky schemes remain consistent over the year. Meanwhile, Mercer, ANZ Default and AMP return in the leakier levels (slightly rearranged) as OneAnswer and Fisher Two debut in place of Aon and Supereasy from the 2019 study.

| Scheme | **Top 5 schemes by Leak Index** (= withdrawals+net transfers/contributions as %) |
|---|---|
| Juno | 502 |
| Generate | 191 |
| Milford | 149 |
| Craigs (Select) | 107 |
| NZ Funds | 99 |

| Scheme | **Bottom 5 schemes by Leak Index** (= withdrawals+net transfers/contributions as %) |
|---|---|
| Mercer | -19.4 |
| ANZ Default | -19 |
| AMP | -17.7 |
| OneAnswer | -7 |
| Fisher Two | 1.4 |

## FUM-loss: big five grip slowly slips

Continuing a multi-year trend, the five largest KiwiSaver providers gave up market share to underlings during the latest 12-month stretch.

In total, the top FUM five saw their collective KiwiSaver ownership decline by about 2.5 per cent year-on-year – mostly due to ANZ and AMP going backwards by 1.3 per cent and 0.7 per cent, respectively.

ASB, Westpac and the Fisher twins held more-or-less steady over the same period.

| **Top 5 KiwiSaver providers by FUM: March 31, 2020** | | |
|---|---|---|
| **Provider** | **FUM $bn** | **% of Total ($62bn)** |
| ANZ (ANZ, ANZ Default, OneAnswer) | 13.9 | 22.4 |
| ASB | 10.8 | 17.4 |
| Westpac | 6.8 | 11 |
| AMP | 5.4 | 8.7 |
| Fisher (One and Two) | 5.1 | 8.2 |
| **Total** | **42** | **67.7** |

In spite of losing some weight to rivals, the monster providers still managed to scratch out positive FUM-growth over the year, excluding AMP, which ended the year about $30 million light (or -0.5 per cent) on the previous March 31 figures.

Only the minnow Maritime scheme (down -2.1 per cent) reported a worse proportional FUM-drop while the much larger ANZ-owned OneAnswer KiwiSaver came up just under par for the year.

As the table below reveals, Juno enters the FUM-growth charts at number one in its second year of operation. Almost 70 per cent of Juno's roughly 6,500 members (as at March 31) joined the scheme during the period under review, which gives the Pie-owned provider a statistical leg-up over more mature rivals.

Nonetheless, Juno added more than $73 million in nominal terms over the year – of which over $60 million came in transfers from other schemes.

The rest of the fastest-growing gang replicate the top four from last year – Simplicity, Generate, Milford and BNZ – in the same order.

| **Top 5 KiwiSaver schemes by annual FUM growth-rate** | | |
|---|---|---|
| Scheme | FUM growth year to 31/3/20 $m | FUM growth-rate, year to 31/3/20 % |
| Juno | 73.2 | 215.8 |
| Simplicity | 403 | 69.9 |
| Generate | 515 | 43 |
| Milford | 441 | 29.1 |
| BNZ | 591 | 27.4 |

Except BNZ, all of the fast-growing schemes are Auckland-based boutiques (Juno can claim dual citizenship with its Hawke's Bay satellite office).

The rising challenge of local-owned schemes could encourage the imminent new entrants waiting at the gate, InvestNow and Consilium – hailing from Wellington and Christchurch, respectively.

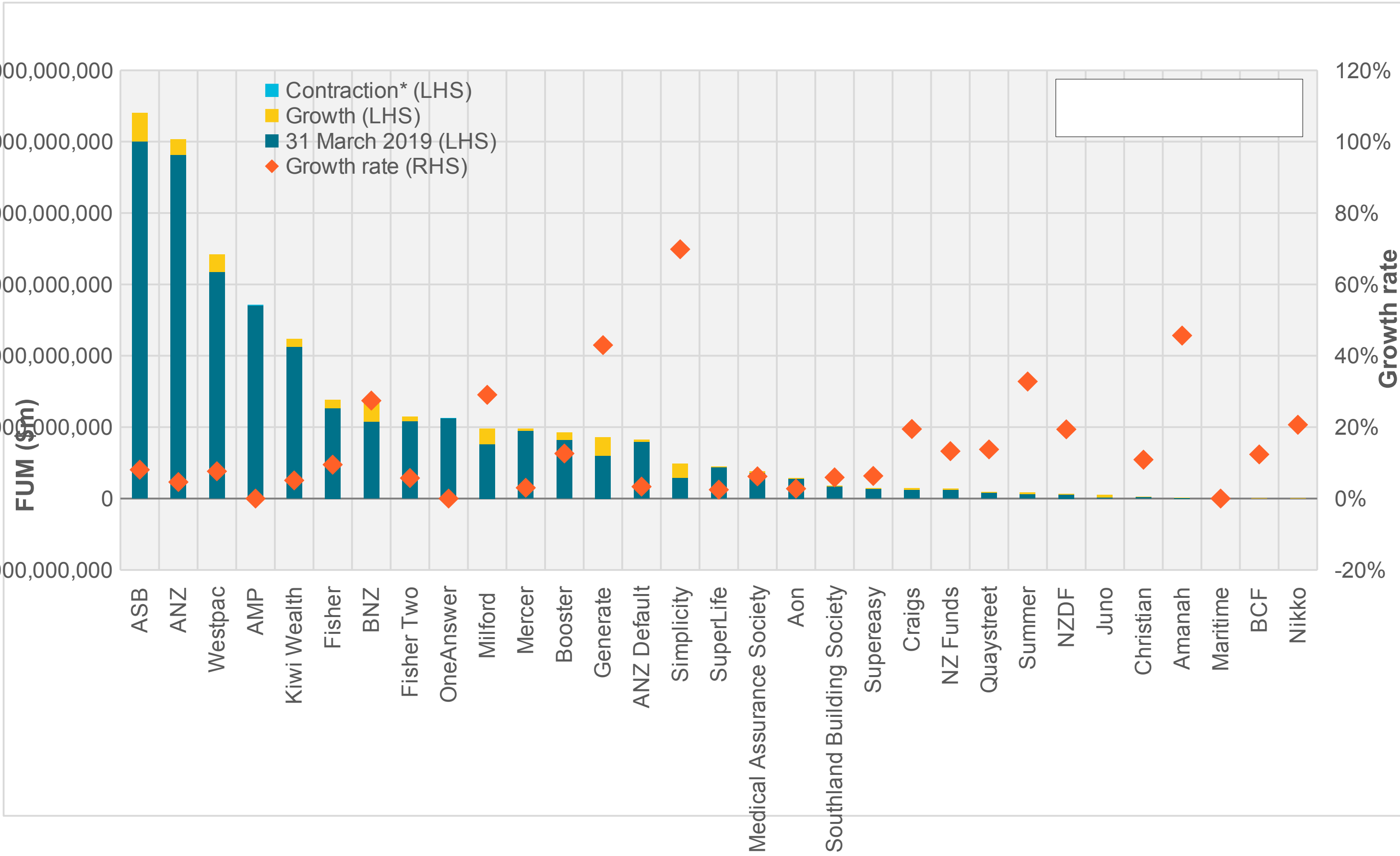
It is understood several other groups, including advisory firms, are kicking around KiwiSaver concepts.

Of the more recent start-ups, though, only the Pathfinder-backed CareSaver has made much headway to date: Nikko and Kōura languish down the bottom of the FUM tables.

As at March 31, CareSaver reported $18 million under management on behalf of 750 members, accrued since a launch in the latter quarter of 2019. Post balance date, CareSaver has more than doubled membership and FUM.

In a look at the wider market (see graph below), MJW plots FUM across the entire KiwiSaver market against growth-rates. Due to scale issues, the Juno growth-rate (up almost 220 per cent) is not included in the MJW chart.

*KiwiSaver FUM vs annual growth-rate ending March 31, 2020*




Clearly, the KiwiSaver market remains skewed to the institutional incumbents, which arguably now also include locals Fisher Funds and Kiwi Wealth.

The combined Fisher entities, for instance, are poised to overtake AMP as the fourth-largest provider this year on current growth trends.

As the MJW graph illustrates, however, most of the rapid market growth in the next few years is likely to appear among a handful of hard-chasing NZ firms, chipping away for now at the soft target of bank-owned schemes and AMP. At some point, perhaps, they will turn on each other.

## Body count: revenge of the dis-membered

In line with the FUM findings, the overall membership share of the top five providers fell back by almost 2 per cent in the 2019/20 KiwiSaver reporting year.

Collectively, the five providers counted almost exactly the same number of members on March 31 as 12 months previously: three providers – AMP, ANZ and Westpac – actually saw nominal membership declines over the 12 months with Fisher and ASB picking up the slack.

Again, AMP had the worst of it, seeing net membership fall by almost 5,000. Westpac and ANZ (including net exits across all three schemes) lost about 3,000 members apiece. Mercer, Medical Assurance Society and Aon were the only three other providers to suffer net member declines, albeit in the order of 90-200 each.

While AMP has consistently experienced net member loss over the last five years, this period marks the first time ANZ membership has gone into reverse: this time the main ANZ scheme was also in the red, unable to cover for the typical net exits in its OneAnswer and Default products.

| **Top 5 KiwiSaver providers by members March 2020** | | |
|---|---|---|
| **Provider** | **Members** | **% of Total (3m)** |
| ANZ (inc ANZ, ANZ Default, OneAnswer) | 744,859 | 24.8 |
| ASB | 534,583 | 17.8 |
| Westpac | 391,533 | 13 |
| Fisher Funds (One and Two) | 243,922 | 8.1 |
| AMP | 220,257 | 7.3 |
| **Total** | **2.1m** | **71** |

Overall, KiwiSaver membership grew just 3.2 per cent during the 12 months to March 31, equating to an extra 93,000 individuals on the scheme registers: the same figures last year stood at 3.4 per cent and more than 96,000 net new members.

As the natural growth-rate grinds lower, a few small-to-medium schemes have been able to grab more than their fair share of new members. Juno reported a member growth-rate almost three-times that of next-best in this category, Simplicity – a performance amplified by its low starting numbers.

Milford and Generate, both almost twice the size of Simplicity, added about a third each to their membership over the 2019/20 period, continuing a multi-year run of good form.

Only 10 schemes managed double-digit percentage growth this year, ranging from statistically dubious results from tiny providers to 14.5 per cent for BNZ – the largest in this category.

BNZ added 22,500 net new members over the period with just Generate (almost 21,000) and Simplicity (over 14,000) in the five-figure club. However, Milford and ASB came close, adding about 9,300 members each.

Bar BNZ and Milford, all of the 10 largest KiwiSaver providers clocked in member growth-rates below the industry average.

**Top 5 KiwiSaver schemes by member growth-rate**

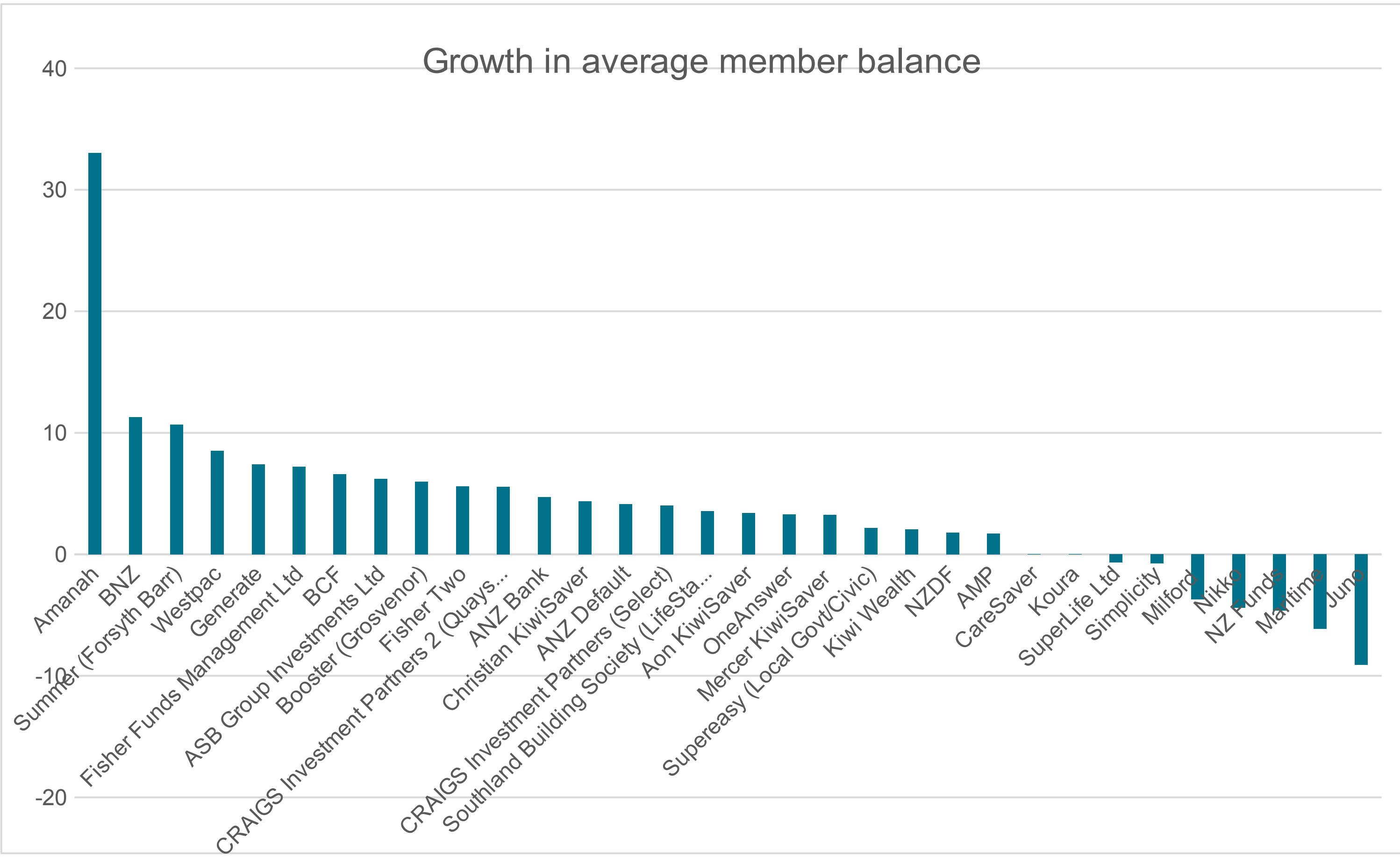
| Scheme | Member growth year to 31/3/20 | Member growth-rate year to 31/3/20 % |
|---|---|---|
| Juno | 4615 | 247 |
| Simplicity | 14,157 | 71.1 |
| Milford | 9,360 | 34 |
| Generate | 20,702 | 33.1 |
| NZ Funds | 1,519 | 18.8 |

Rapid member-growth may not necessarily translate directly into better scheme profitability. For example, the fastest-growing scheme, Juno, has shown the biggest annual drop in average member balance – an important indicator of scheme economics – according to the MJW analysis below.

Juno did make an appeal to start-up clients with a zero-fees policy for low-value accounts and under-18s. Other notable member-enhancing schemes – Simplicity and Milford – also appear down the bottom end of the MJW graph.

Regardless, Milford retains bragging rights as the scheme with the highest average member balance (ignoring the Nikko anomaly) while Simplicity is slightly above the median.

Excluding the small (about 1,200 members) shariah-compliant Amanah scheme, BNZ reports the most-improved average member balance for the year, rising almost 10 per cent – although it remains mired down the bottom of the average balance pile with another religious outfit, the Exclusive Brethren BCF scheme.

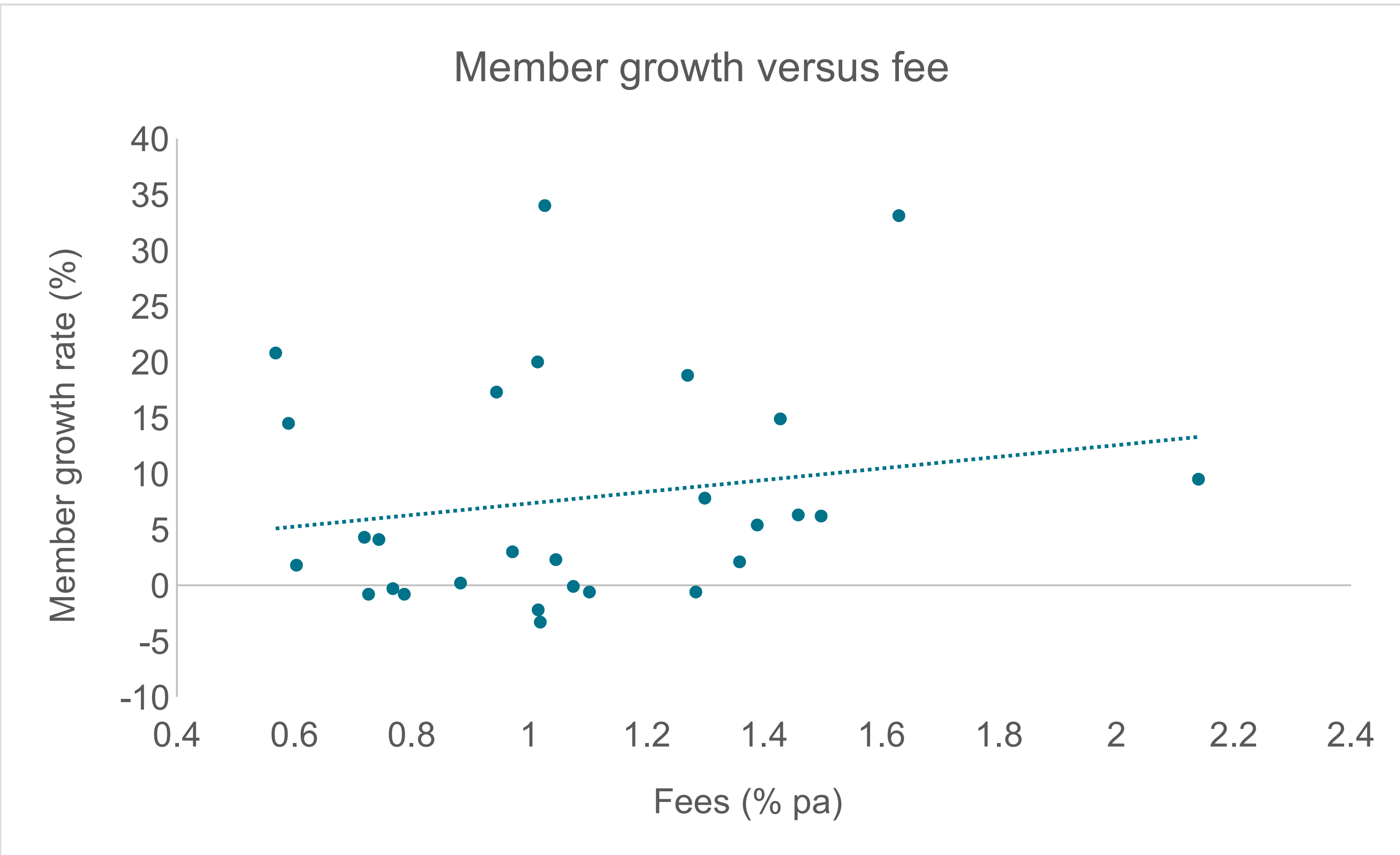


## KiwiSlasher 2: fear of fees

Providers took their knives – or probably pencil-sharpeners - to fees over the 12 months to March 31 in moves that trimmed aggregate KiwiSaver costs in percentage terms again after dropping below 1 per cent for the first time last year.

Based on the measure used in this report, pitting total KiwiSaver fees and expenses against average FUM for the period, the average fee slunk to about 0.93 per cent. In dollar terms, total fees and expenses rose about $35 million from last year to top $540 million.

While several schemes dropped fees following pressure from the regulator and competitors during the year, the Financial Markets Authority (FMA) noted in its 'value for money' report that the long-anticipated 'scale benefits' had yet to fully materialise in KiwiSaver. The FMA study, carried out by consulting firm MyFiduciary, also found no link between investment style or fees. As the MJW graph below reveals, there is also no clear relationship between member growth-rates and fees in the KiwiSaver market – at least this year.



Familiar names pop up in familiar positions in the standard KiwiSaver fee charts presented below – especially in the most-expensive categories. SuperLife and Simplicity, both historically occupying the cheap seats, remain absent from the fee tables pending the arrival of pandemic-delayed financial reports. In their place, BNZ and Mercer get a look-in.

| **Top 5 KiwiSaver schemes by fees/expenses charged** | | |
|---|---|---|
| Scheme | Fees/expenses $m | % of average FUM 2019/2020 |
| ANZ | 105.9 | 1.1 |
| ASB | 62.8 | 0.6 |
| AMP | 55 | 1 |
| Westpac | 51.9 | 0.8 |
| Kiwi Wealth | 42.4 | 1 |

| **Top 5 KiwiSaver schemes by fees/expenses per FUM** | | |
|---|---|---|
| Scheme | Fees/expenses $m | % of average FUM 2019/2020 |
| Generate | 23.7 | 1.6 |
| Booster | 25.4 | 1.5 |
| Craigs (Select) | 3.9 | 1.4 |
| Fisher Funds | 36 | 1.4 |
| QuayStreet (Craigs) | 2.3 | 1.3 |

| **Bottom 5 KiwiSaver schemes by fees/expenses per FUM** | | |
|---|---|---|
| Scheme | Fees/expenses $m | % of average FUM 2019/2020 |
| BNZ | 14.5 | 0.6 |
| ASB | 62.8 | 0.6 |
| ANZ Default | 11.8 | 0.7 |
| Supereasy | 2.1 | 0.7 |
| Mercer | 14.8 | 0.8 |

## Into the red: the negative nightmare

The timing was terrifying.

KiwiSaver schemes were obliged to report performance numbers to March 31, 2020 – a date just over a week post the March 23 virus-related nadir when global share markets sunk more than 30 per cent below the recent high.

Against that back-drop, a surprisingly large number of schemes (11) reported positive investment returns, most barely clawing above zero. But after fees and tax, only five schemes managed to stay above the waterline for the 12-month period.

The following tables present the best- and worst- performers – gross and net – in one of the worst years of the KiwiSaver back catalogue.

| **Top 5 KiwiSaver schemes by gross annual performance** | | |
|---|---|---|
| Scheme | Total return $m | Performance |
| Juno | 2.3 | 3.3 |
| Milford | 52.5 | 3 |
| ANZ Default | 24.8 | 1.5 |
| Craigs (Select) | 3 | 1.1 |
| Fisher Two | 21 | 0.9 |

| **Bottom 5 KiwiSaver schemes by gross annual performance** | | |
|---|---|---|
| Scheme | Total return $m | Performance |
| NZ Funds | -19.4 | -7.5 |
| ASB | -244 | -2.3 |
| Generate | -30.2 | -2.1 |
| SBS (Lifestages) | -7.2 | -2 |
| ANZ | -200 | -2 |

| **Top 5 KiwiSaver schemes by net annual performance** | | |
|---|---|---|
| Scheme | Total net return $m | Performance |
| Milford | 28.9 | 1.7 |
| Juno | 0.9 | 1.4 |
| Craigs (Select) | 0.13 | 1.4 |
| QuayStreet (Craigs) | 0.22 | 0.1 |
| ANZ Default | -0.01 | 0 |

| **Bottom 5 KiwiSaver schemes by net annual performance** | | |
|---|---|---|
| Scheme | Total net return $m | Performance |
| NZ Funds | -18.7 | -7.3 |
| SBS (Lifestages) | -13.3 | -3.7 |
| ANZ | -346 | -3.5 |
| Generate | -47.9 | -3.3 |
| ASB | -314 | -3 |

The raw scheme performance numbers offer only an over-the-shoulder glimpse of KiwiSaver copping an end-of-financial-year sucker-punch.

As per all the usual caveats, these performance numbers are whole-of-scheme only with no adjustments for asset allocation and just a rough-and-ready approximation of cash-flows. The figures reveal something about scheme characteristics (the conservative bent of default funds, for example) but hide many other subtleties like asset allocation calls, underlying member choices, operational efficiencies and, believe-it-or-not, investment skill.

Under the bizarre market circumstances, the 2020 performance figures could very well be less useful than in previous years.

Take them with a big dose of salt. Or a few cloves of garlic…

## Conclusion

Just when you thought it was safe to get back in the supermarket, a border incursion delayed the start of normal, version whatever.

But if daily life in NZ is still not quite on the level, the KiwiSaver market has since tracked-and-traced well above the panic-stricken lows of March 31.

Buoyant market conditions fueled by, something unseen, have pushed total KiwiSaver FUM to about $70 billion, a more than $7 billion increase in less than six months.

Concerns about negative interest rates, record government borrowing and a possible cliff-edge collapse in employment have been buried deep in the investor psyche, manifesting only briefly in a volatile Tesla share price.

With elections looming at home, and another loony one in the US, the geo-political landscape could tip further into chaos before 2020 is out, potentially spilling over to KiwiSaver balances through precedented volatility.

By all accounts the NZ election is a done deal with Labour set to resume power post October 17, potentially alone. The current Labour-led government has already set in motion one of the biggest changes to KiwiSaver under new default fund settings due to take effect next year.

While the final default fund details remain under wraps, any provider pitching up in the beauty parade will be required to display an appropriate balanced investment option cleaned of fossil fuel stocks (and other undesirables), slick member ‘engagement’ tools and a generous discount.

In general, default funds have been declining in importance for many years. According to the 2019 FMA KiwiSaver report, default funds account for only 7.7 per cent of FUM and 14 per cent of members.

As outlined in this study, the default prize might even be a booby one for many managers, often associated with low member balances, high transfer losses and dwindling market share.

Nevertheless, the default review is influential in setting price expectations across the industry. Both the FMA and government have made explicit noises about KiwiSaver fees that could grow louder if Labour returns en masse (or in political debt to the Greens).

Yet in spite of the many challenges, new providers are lining up to have a stab at KiwiSaver, sensing a weakness in some of the larger incumbents and the potential to carve out a niche in a market still primed to grow, if not one still in the prime of youth.

At only 13, though, KiwiSaver should have many better years ahead, if its luck holds out.

**The findings in this report are based on figures collected from the annual reports of 33 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 $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.**