KiwiSaver 11

another prime year

KiwiSaver Annual Market Report 2018

By David Chaplin

Introduction

For the 29 schemes in operation during the period, KiwiSaver Year 11 repeated the prime conditions of 2017.

The numbers, at least, were looking healthy as at the end of March 2018: almost $50 billion under management; over 2.8 million members; and, average returns of 7 per cent.

On the face of it there was little to differentiate the 2017/18 period from the previous year as the same number of schemes churned out a similar average performance while collectively absorbing net membership growth of 115,000 (compared to about 110,000 in 2016/17).

Stability reigned, too, across most of the metrics covered in this report with rankings based on funds under management (FUM), membership and fees more or less unchanged year-on-year.

Even the competitive landscape remained flat over the period with familiar winners and losers reprising their respective places in the member transfer market podium.

Admittedly, there was some annual shuffling of schemes based on investment performance if not any major surprises. All bar one scheme finished the year in the black, helped along by smooth, upwardly-mobile returns in most asset classes.

Aside from a slight jolt in February 2018, volatility also remained low during the year.

Post the March balance date, global markets have been more fragile as geopolitical tensions morphed into trade wars and currency fluctuations (including a sharp drop in the NZ dollar this August).

But regardless of investment conditions, a number of other potentially-disruptive undercurrents began swirling in the KiwiSaver market during the 12 months to March 31.

For the first time providers reported fees in dollar amounts to members in 2018. According to recent Financial Markets Authority (FMA) research, about 30 per cent of members noted the dollar-disclosure format with about a third of those saying their fees were too high – and a third again of that group thought about changing schemes as a result.

The perennial issue of fees emerged again in legislation tabled by the newly-elected coalition NZ First Party in September last year. Under the now-abandoned ‘Kiwi Fund’ bill the government would’ve established and run a low-cost KiwiSaver scheme with an element of capital protection.

While Kiwi Fund failed before take-off the high-level political focus on fees – and other KiwiSaver issues such as early-release conditions – has put the industry on notice.

More positively, the Labour-led government also legislated for individuals aged over 65 to join KiwiSaver and expanded the member contribution options.

And while it has yet to directly impact KiwiSaver providers, the ongoing Royal Commission (RC) into financial services in Australia, which recently put superannuation under interrogation, could bring further pressure to bear this side of the Tasman.

Already, the FMA and the Reserve Bank of NZ are rifling through the back and front offices of the country’s financial institutions searching for RC-like evidence.

Elsewhere, a Labour-promised review of the tax system could dismantle the incentive structure that underpins KiwiSaver. The

Sir Michael Cullen-led review is tipped to recommend a broad capital gains tax that could end the current tax-free gains status of most Australian and NZ shares held in portfolio investment entities (PIEs).

The interim Cullen report is due this September.

In other events after balance date, two new KiwiSaver schemes launched in 2018 following a placid two-year period. Both the Nikko Asset Management and Pie Funds Management schemes plan to compete on unique points of difference: an in-production robo-advice system in the case of Nikko; and, Pie's tiered fixed fee model offering active management at passive prices.

Pie and Nikko bring total scheme numbers to 31: but that's next year's number.

This survey, which reviews how the incumbent 29 schemes fared over the 12 months to March 31, includes a new measure of net returns (after fees and tax) in addition to the usual metrics as below:

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

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 still not-unreasonable fee of $300 plus GST ($345 including GST).
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Transfer tricks: 3 ways to win, what losers have in common

For the second year in succession the Auckland-headquartered boutique scheme, Generate, has clawed its way to the top of the net transfer table.

Over the 12 months to the end of March, Generate netted $173 million from competitors, amounting to about a quarter of its total FUM: last year the comparative figures were $148 million and just under 40 per cent.

Since inception in 2013, Generate’s army of commission-incentivised salespeople have siphoned off a net $430 million from rival schemes, equating to roughly 60 per cent of its March 31 FUM.

But if Generate has used guerilla tactics to establish a rebel stronghold, BNZ’s success in the transfer market shows traditional bank sales strategies remain as powerful as ever.

BNZ, a latecomer to the Australian bank-owned KiwiSaver market, notched up net transfer gains of $157 million, up about $40 million on last year when it also ranked second by this measure.

Of the other Australian-owned bank schemes only ASB carded a positive transfer result over the 12-month period with its approximately $55 million gain this year cancelling out net outflows of about $50 million in 2017.

ANZ saw net transfer losses across all three of its schemes while Westpac bled $22 million over the year.

Meanwhile, Simplicity continued to scratch away at incumbents, raking in a net $145 million from KiwiSaver transfers – or almost half its FUM as at March 31. Unlike Generate and BNZ, the passive investment Simplicity scheme has not grown on the back of a distribution channel, relying instead on the direct appeal of its low-cost message and free media coverage.

Simplicity swapped places with Milford in the transfer rankings over 2017/18, although the latter and fifth-placed Kiwi Wealth recorded remarkably consistent year-on-year net gains, as per the table below.

Top 5 KiwiSaver schemes by net transfer inflows		
Scheme	Net transfer inflow $m	% of total scheme FUM as at March 31, 2018
Generate	173	24.4
BNZ	157	9.6
Simplicity	145	48.2
Milford	92.7	8.4
Kiwi Wealth	74	2

With the exception of ASB (which, as reported above, flipped a $50 million net outflow last year into a $55 million gain 12 months later), the net transfer outflow awards in 2018 feature familiar characters.

AMP continues a miserable run at the top of this table. The AMP KiwiSaver scheme has held the record for the highest net transfer outflows since the year ending March 31, 2015. In fact, the only year where AMP racked up a positive transfer result was over 2013/14 when it absorbed the massive Axa scheme.

Barring the Axa anomaly, AMP has been at, or near, the lead in this metric since the statistic first showed up in the 2008/9 report.

Similarly, Fisher Two (and in its prior incarnation as Tower), Mercer and the ANZ Default scheme have been on the wrong end of the transfer market during most annual periods.

The three schemes – especially ANZ – rely almost entirely on the default carousel system to deliver new members each year, many of whom quickly move on to other rides. Both ANZ and Fisher, which offer alternative schemes, can gain on the swings as default members step off the roundabout: an option not available to Mercer.

(Mercer has seen KiwiSaver growth, though, as underlying provider to the restricted NZ Defence Force scheme – one of the fastest-growing since it launched in 2016.)

But for the first time, over the 2017/18 year the main bank-branded ANZ KiwiSaver scheme experienced net transfer outflows – albeit at a marginal loss of $1.9 million. The blue bank's other KiwiSaver outlet, the adviser-distributed OneAnswer, fills the fifth spot in the net transfer outflow rankings this year – back where it usually resides.

Top 5 KiwiSaver schemes by net transfer outflows		
Scheme	Net transfer outflow $m	% of total scheme FUM as at March 31, 2018
AMP	197	3.9
Fisher Two	116	6
Mercer	111	6.4
ANZ Default	101	6.9
OneAnswer	71	3.5

Overall, roughly $2.2 billion (or 4.4 per cent of total KiwiSaver FUM) changed hands during the 12-month period via the scheme transfer market, up almost $400 million year-on-year but about equal as a proportion of the market.

FUM fall: how the high 5 went down

After steadily growing market share from KiwiSaver day one, the top five biggest providers took a small – but notable – step backwards during the 12 months to the end of March 2018.

While the order of the top five FUM-holders stayed the same compared to last year, all providers – bar ASB – saw their respective market shares slip over the annual period.

Collectively, the five KiwiSaver giants gave back 1.5 per cent of total FUM-share to their underlings during the 2017/18 year. Most of the loss was down to AMP, which saw its market share drop from 11.3 per cent last year to 10.5 per cent in the latest rankings; but, ANZ, Fisher, and Westpac also stumbled slightly year-on-year with the former losing 0.4 per cent share and the latter two down 0.2 per cent each.

ASB eked out a 0.1 per cent market share gain to creep 0.5 per cent closer to number one provider, ANZ.

Of course, in nominal terms the big five providers – even AMP – recorded massive FUM gains over the year as regular member and government inflows were topped up by good investment returns. ANZ, for instance, added about $1.7 billion to the kitty followed by ASB ($1.4 billion – the best single scheme result) and Westpac ($1.2 billion).

Despite the relative slump in market share, the five largest KiwiSaver providers will likely hang on to their dominant positions for a while yet – barring some disaster and/or commercial action. (For example, AMP has publicly stated as desire to flog off its NZ financial services assets, which would include the KiwiSaver scheme.)

The NZ government-owned Kiwi Wealth remains the only likely contender for a top five ranking based on current growth rates. As at March 31, Kiwi Wealth reported about $3.7 billion under management, equating to 7.6 per cent market share – less than 1 per cent and about $400 million behind the Fisher twins.

Top 5 KiwiSaver providers by FUM: March 31, 2018		
Provider	**FUM $bn**	**% of Total ($48.6bn)**
ANZ (ANZ, ANZ Default, OneAnswer)	11.7	24.1
ASB	8.5	17.5
Westpac	5.5	11.3
AMP	5.1	10.5
Fisher (One and Two)	4.1	8.4
Total	**29.9**	**71.8**

Unsurprisingly, the five biggest providers failed to register among the fastest-growing schemes of the 2017/18 fiscal period. The metric, which tracks proportionate annual FUM growth, naturally favours schemes expanding off a low base.

Typically, the fastest-growing schemes also perform well in the net transfer results, reflecting a certain competitive momentum.

And this year is no different. All of the fastest-growing KiwiSaver schemes in the table below also featured in the net transfer top five, if in a slightly different order.

Simplicity, the youngest of the schemes listed here, grew almost 180 per cent over the year to hit about $300 million (it has since added $100 million more). At its current rate of growth, last year's faster-growing scheme, Generate, could crack the $1 billion mark by next March after adding over $300 million (up almost 80 per cent) during the period under review.

BNZ, Milford Kiwi Wealth growth rates slowed only marginally year-on-year as the mid-tier players increased their collective market share.

Even the slowest-growing scheme, ANZ Default, added some 10.2 per cent in FUM over the 12-month stretch with the median scheme up about 17.5 per cent.

Top 5 KiwiSaver schemes by annual FUM growth-rate		
Scheme	FUM growth year to 31/3/18 $m	FUM Growth-rate April 1, 2017-March 31, 2018 - %
Simplicity	193	179.6
Generate	312	78.8
BNZ	475	40.8
Milford	300	37.3
Kiwi Wealth	660	21.8

Semi-prime member growth as regime nets 115,517

Consistent with the minor dent in FUM-share of the big five providers, the same group saw its collective control of KiwiSaver members fall from 76.1 per cent last year to 74.5 per cent as at the end of March 2018.

Interestingly, while the top five firms kept market share of FUM steady last year, the group was already leaking proportional hold over members during 2016/17, where the figure was down from about 78 per cent the previous year.

Again reflecting the FUM results, all of the five largest providers – except ASB - reported declining market share of members for the annual period. AMP racked up a net loss in membership of just over 6,000 – incredibly, the firm's best result in this category for four years.

A further six schemes bled members during the period including: Mercer (-2,755); Fisher Two (-2,406); as well as ANZ Default and OneAnswer (both down about 1,700).

In total, over the year KiwiSaver membership grew 115,517 – one of the exclusive ‘semi-prime’ numbers.

Top 5 KiwiSaver providers by members March 2018		
Provider	**Members**	**% of Total (2.83m)**
ANZ (inc ANZ, ANZ Default, OneAnswer)	735,519	25.9
ASB	513,966	18.1
Westpac	396,180	14
Fisher Funds (One and Two)	238,334	8.4
AMP	230,818	8.1
Total	**2.1m**	**74.5**

ASB scored the highest nominal growth in KiwiSaver membership for the year of almost 26,500 followed by 24,739 for fellow Aussie bank subsidiary, BNZ.

Proportionately, ASB grew just 5.4 per cent while the budding BNZ scheme kept up its 20 per cent plus annual growth rate of the previous year.

In another metric milestone, Simplicity took over from Generate as the fastest member-accumulator of the year, adding some 165 per cent to its fan club during the period. In its early days, Generate went through a similar growth path, clocking up growth rates of 400 per cent and 160 per cent over operational year two and three, respectively.

The pop appeal of philosophically-opposed Generate and Simplicity – one active, the other index – could offer inspiration to other niche KiwiSaver contenders.

Top 5 KiwiSaver schemes by member growth-rate		
Scheme	Member growth year to 31/3/18	Member growth-rate year to 31/3/18 %
Simplicity	7,052	165.9
Generate	13,689	45.4
BNZ	24,739	22.5
Milford	3,774	21.2
Kiwi Wealth	20,297	11.7

The high number of non-contributing KiwiSaver members is a cause of considerable angst for some providers, government and consumer activists: it is also a decent proxy for member 'quality', representing a level of engagement as well as money flows.

But the official proportion of non-contributing (non-con) members could be overstating the case. Members fall under the non-con category by not paying into a scheme over a two-month period prior to measurement. The definition potentially catches many members who contribute under their own terms, perhaps to take advantage of the annual member tax credit (MTC) government top-up.

Anecdotal evidence suggests one of the most common ad hoc member payments is in the order of $1043 – or just enough to earn the maximum $521 MTC.

Regardless, the overall KiwiSaver non-con rate as measured in this report has fallen in nominal as well as proportional terms over the last two years running. The latest figures show the non-con rate is about 38 per cent, down from 40 per cent last year.

The three schemes with the highest non-con rates remain in their respective positions year-on-year as per the table below – although all three report lower figures in 2018. Mercer and Fisher Two replace ANZ and ASB in the bottom two positions this year but the difference in this metric among the seven or so schemes below ANZ Default is marginal.

Top 5 KiwiSaver schemes by 'non contributing' member %		
Scheme	Non contributing members as at March 31, 2018	Non contributing % of total scheme membership
Fisher Funds	69,584	51.8
Booster	50,472	48.1
ANZ Default	39,089	43.8
Mercer	39,429	41.9
Fisher Two	43,308	41.6

All this for 1 per cent (more or less)...

All up, the 29 KiwiSaver providers charged about $450 million to members for various services during the latest 12-month reporting period. The 2018 bill represented a nominal increase of about $80 million compared to last year but remained steady at just above 1 per cent of the average FUM over the period.

The pressure on KiwiSaver costs ramped up further over 2018 driven by new dollar-reporting standards, a heightened focus on fees by the FMA (which released an online fee comparison tool) and the emergence of cheap-az schemes such as Simplicity and Pie (which launched after balance date).

Next year the regular government review of default schemes and a further report on KiwiSaver fees and investment practices by the Retirement Commissioner will no doubt ratchet up the debate.

In the meantime, most providers have either knocked a little off their base fees or at least kept proportional costs steady over the year.

As per previous editions, the tables below summarise the top five schemes gauged on nominal fees and expenses (bundled into a single figure) and as a proportion of average scheme FUM during the year.

Furthermore, the analysis also targets the five cheapest schemes as a proportion of average FUM.

The results, which exclude those with less than 5,000 members, focus on scheme-only results rather than aggregated provider figures.

Both the top five schemes that collected the highest nominal fees/expenses and the five cheapest schemes (compared to average FUM) remain the same as in the 2017 report.

The mix of most expensive schemes (proportionate to average FUM) is broadly the same as last year with some place-swapping and mild price-cuts evident.

Top 5 KiwiSaver schemes by fees/expenses charged		
Scheme	Fees/expenses $m	% of average FUM 2017/2018
ANZ	85.6	1.1
ASB	53.9	0.7
AMP	48.8	1
Westpac	45.1	0.9
Kiwi Wealth	37.9	1.1

Top 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2017/2018
Fisher Funds	31.4	1.6
Generate	8.6	1.6
NZ Funds	2.7	1.5
Milford	13.8	1.4
Booster	18.3	1.4

Bottom 5 KiwiSaver schemes by fees/expenses per FUM		
Scheme	Fees/expenses $m	% of average FUM 2017/2018
Simplicity	0.87	0.4
SuperLife	3.9	0.6
ASB	53.9	0.7
Supereasy	1.7	0.8
Mercer	12.9	0.8

.... plus 7 per cent

KiwiSaver providers managed another solid group performance over the 12 months to March 31 with a return on the average FUM for the year (about $44.7 billion) of close to 7 per cent: just about the same as the previous period.

In total, the 29 schemes topped up KiwiSaver accounts by more than $3.1 billion over the year as the good times rolled on. Of course, there was a reasonably wide spread of gross annual returns ranging from a 1.1 per cent loss for the tiny Amanah scheme (heavily weighted to US stocks) to 12.7 per cent for Milford.

Generate was the only other scheme to muster a double-digit performance with the median scheme returning the same as the average (7 per cent).

However, there was a reasonably high level of variation year-on-year among both the top five and bottom five scheme performers: only Milford and Fisher Fund were in the top group last year while just ANZ Default and Mercer also featured down the bottom last year.

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 gross annual performance		
Scheme	Total return $m	Performance
Milford	121.2	12.7
Generate	62.6	11.3
Aon	45.4	9.8
Fisher Funds	184.3	9.5
Kiwi Wealth	305.3	9.1

Bottom 5 KiwiSaver schemes by gross annual performance		
Scheme	Total return $m	Performance
Lifestages (SBS)	13.4	4.7
SuperLife	34.2	4.9
ANZ Default	70.1	5.1
Mercer	95.4	5.8
AMP	280.7	5.8

But this year the KiwiSaver study, in a new metric, looks at net returns after fees and taxes. The net figure takes into account some reported underlying manager fees that – while they appear as gross fees – are deducted from the respective fund unit prices. For example, the Mercer and SuperLife net results improve – relatively – after allowing for deducted underlying manager fees.

Across all schemes the difference between gross and net returns ranges from about 0.7 per cent for the Forsyth Barr-owned Summer scheme (which is currently applying a generous fee rebate) and over 2 per cent for Fisher, Generate and Milford.

Although it is not analysed in detail here, there is also a wide dispersion of tax (most schemes pay member PIE imposts) as a proportion of returns, spanning from just over 5 per cent for Fisher and Generate and more than 13 per cent for the Medical Assurance scheme.

The tax figure reflects both the average marginal rates of underlying members and, to a certain extent, investment strategies. For example, schemes that have booked high capital gains on Australasian shares – that come tax-free – should have a relatively lower PIE tax impost than those weighted towards fixed income returns.

Top 5 KiwiSaver schemes by net annual performance		
Scheme	Total net return $m	Performance
Milford	100.5	10.5
Generate	50.6	9.2
Aon	36.7	7.9
Fisher Funds	143.2	7.3
Kiwi Wealth	243.3	7.2

Bottom 5 KiwiSaver schemes by net annual performance		
Scheme	Total net return $m	Performance
Lifestages (SBS)	8.5	3
ANZ Default	53.1	3.8
SuperLife	28.6	4.1
NZ Funds	7.6	4.2
AMP	200.1	4.2

Conclusion

In June 2018 the KiwiSaver market surpassed $50 billion in FUM, continuing a charmed run of upbeat investment returns and solid member growth.

Inland Revenue Department (IRD) figures show almost 2.9 million New Zealanders were KiwiSaver members as at June 30 this year – an increase of 4 per cent over the 12-month period and about double the June 2010 statistic.

According to the IRD, about 163,000 members changed schemes in the year to the end of June while over 34,300 individuals withdrew a collective $768 million from KiwiSaver to fund a first home purchase. A further 17,000 or so members extracted a total $104 million from the savings pool on financial hardship grounds.

Almost 30,000 members also signed out of KiwiSaver during the 12 months to June 30 for regular reasons including emigration, serious illness, retirement and – a good excuse – death.

Since inception in 2007, more than 127,000 have exited KiwiSaver under the regime's prime purpose – to help fund retirement (still age 65). However, there is no requirement for members to quit KiwiSaver at 65; as of next April, a rule change will even allow those aged after 65 to join a scheme.

KiwiSaver, which took over as the biggest NZ retail funds sector in 2016, is growing both FUM-wise (more than double the rate of the non-superannuation unit trust market) and as a target for competitors, consumer groups and politicians.

While the NZ First-initiated Kiwi Fund legislation has been dropped, the current government is making noises both about applying further fee pressure to schemes and encouraging more New Zealanders to join up (without resorting to compulsion).

Perhaps more importantly, the Sir Michael Cullen-chaired Tax Working Group (TWG) is mulling over reforms that could rewrite some of the investment assumptions KiwiSaver managers have operated under since 2007. Cullen, the godfather of KiwiSaver, is due to hand down the TWG interim report next month with a broad capital gains tax expected to be a key recommendation.

In retrospect, the last two prime years of stable scheme numbers and uplifting market statistics might just be an aberration.

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 $300 plus GST ($345 including GST).
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