

MERCER KIWISAVER SENTIMENT INDEX STUDY

MAY 2014





CONTENTS



EXECUTIVE SUMMARY	2
Key findings.....	3
ABOUT THE MERCER KIWISAVER SENTIMENT INDEX	4
THE CURRENT STATE OF THE NATION: OPPORTUNITIES & CHALLENGES	6
Support is rising but more work to be done	6
Participation rates increasing.....	7
Awareness high, understanding low	9
Sources of truth	12
Satisfaction and loyalty towards KiwiSaver providers	13
PREPARING FOR RETIREMENT: ATTITUDES TO WHEN, HOW & HOW MUCH?.....	15
How prepared – or unprepared – are New Zealanders for retirement?.....	15
Retirement reality check squashes plans for a comfortable retirement.....	17
What’s the magic retirement number?	18
INSIGHTS INTO THE FUTURE OF KIWISAVER.....	19
Sources of funding retirement: Greater reliance on KiwiSaver means less reliance on government	19
Contribution rates	21
Confidence in government policy	22
What New Zealanders want in their retirement savings schemes	23
APPENDIX: ABOUT THE SURVEY PARTICIPANTS.....	26

EXECUTIVE SUMMARY

The numbers are stacking up for New Zealand's retirement savings system. KiwiSaver is seven years in. There are more than 2.15 million KiwiSaver members. There is \$16.6bn retirement savings accumulated within KiwiSaver funds¹. The 2014 Mercer KiwiSaver Sentiment Index study found 71% of working New Zealanders rate KiwiSaver as a good, very good or excellent way to save for retirement. The outlook is promising.

This is the fourth wave of the study and we believe it signals a positive outlook for New Zealand's unique retirement savings system.

Participation in and support of KiwiSaver are on the rise and people are thinking about and preparing more for retirement than they ever have before.

On the flip side, KiwiSaver is only seven years in and it is crucial that all key players including the government, KiwiSaver providers, and employers understand public sentiment and engagement of KiwiSaver and continue to work to improve the scheme and improve retirement outcomes for New Zealanders.

Our research reveals that more New Zealanders are actively preparing for retirement but a level of confusion about KiwiSaver continues; ongoing education and financial literacy remain paramount.

Many New Zealanders do not properly understand all of the benefits in KiwiSaver they are entitled to and this is a challenge and opportunity for KiwiSaver providers, the Government and employers.

As a KiwiSaver default provider, Mercer has been enhancing the financial security of more than 100,000 New Zealanders over the past seven years; as a global consulting firm we've been analyzing and helping design world-class retirement savings systems for even longer – we are committed to improving the security and sustainability of people's retirement savings and incomes.

Our 2014 Mercer KiwiSaver Sentiment Index study includes some interesting revelations; some encouraging and some concerning. We are proud to continue to deliver this research and our insights into implications and solutions to the ongoing challenges.

¹ <http://www.ird.govt.nz/resources/5/c/5c208575-1ddb-4751-8c5c-e5ec0f4b383a/kiwisaver-annual-report-2013.pdf>



KEY FINDINGS

- 71% of working New Zealanders rate KiwiSaver as a good, very good or excellent way to save for retirement.
- 94% believe KiwiSaver will be beneficial in helping them personally fund their retirement.
- 67% of survey participants claim to belong to a KiwiSaver scheme, this is a significant increase since 2012.
- 72% rated responsible investment options and 56% rated lifecycle investment options as important features of a retirement savings scheme.
- 64% believe providing help with the management of their savings as an income throughout retirement is an important feature of a savings scheme.
- 31% knew the maximum payment for an annual member tax credit is \$521 per year.
- 53% incorrectly believe if they change jobs their new employer will automatically start contributing to KiwiSaver on their behalf.
- 20% rated their level of knowledge about retirement savings schemes and ways to save for retirement highly, while 52% expressed a desire to have a greater level of knowledge.
- 61% claim to have given at least some thought and undertaken some preparation for retirement.
- 21% of males have given a lot of thought and made plans for retirement, while only 15% of females have done the same.
- 20% of survey participants aged 50 or older had given very little, if any, thought to preparing for their retirement.
- 53% believe they will be less comfortable in retirement – more than ever before
- The mean age New Zealanders want to retire is 59. The mean age they expect to retire is 66.

POSITIVE ACTION TO IMPROVE RETIREMENT OUTCOMES

While our government will ultimately set the future of our retirement savings policy, we strongly believe KiwiSaver providers and employers play a critical role in working to improve financial literacy and ultimately retirement outcomes in New Zealand.

Some suggested solutions include:

KiwiSaver Providers

- Provide access to online tools such as retirement simulators to help New Zealanders make informed decisions to improve their retirement savings
- Timely communications about investment performance and proactive guidance on 'what to do now' to assist with managing and informing member expectations about KiwiSaver balances. This may include: strategies to deal with market volatility, as well as easy access to advice through a variety of channels (i.e. internet, telephone, face-to-face)
- Improve members' understanding of the availability of tax incentives by implementing 'reminder' communication campaigns

- Regular member research to provide valuable insights into characteristics, needs and attitudes towards retirement savings. Such data can inform future member service strategies.

Employers

- Consider the development of 'phased retirement' plans and flexible working conditions for older workers and in workforce planning
- Maintain an ongoing dialogue with older employees to determine the best transition to retirement plan for both the employee and business
- Further promote KiwiSaver as an employee benefit. Strengthen employee loyalty and advocacy by tapping into financial educational planning information and resources provided by KiwiSaver providers
- Partner with your KiwiSaver provider to incorporate financial literacy programs into the company's learning and development strategy.

ABOUT THE MERCER KIWISAVER SENTIMENT INDEX

The Mercer KiwiSaver Sentiment Index study is designed to provide insight into working New Zealanders' sentiment towards KiwiSaver. It is based on an online survey of a random sample of 1,000 working New Zealanders aged 18 – 65 years and it aggregates individual perceptions of:

- Participation in KiwiSaver
- Perceived personal benefit of KiwiSaver in helping fund retirement
- Overall perceptions of KiwiSaver as a way to save for retirement
- Anticipated reliance on superannuation in retirement

Research for the 2014 Mercer KiwiSaver Sentiment Index study was conducted from 16 January to 21 January 2014. Data has been weighted to reflect the age/gender demographics of the working New Zealand population and to accommodate any over/under representation of specific demographic subgroups in the sample.

Mercer's Study was initially conducted in June 2007 and again in December 2009 and February 2012. Where appropriate, results have been compared to those from previous waves of the study.

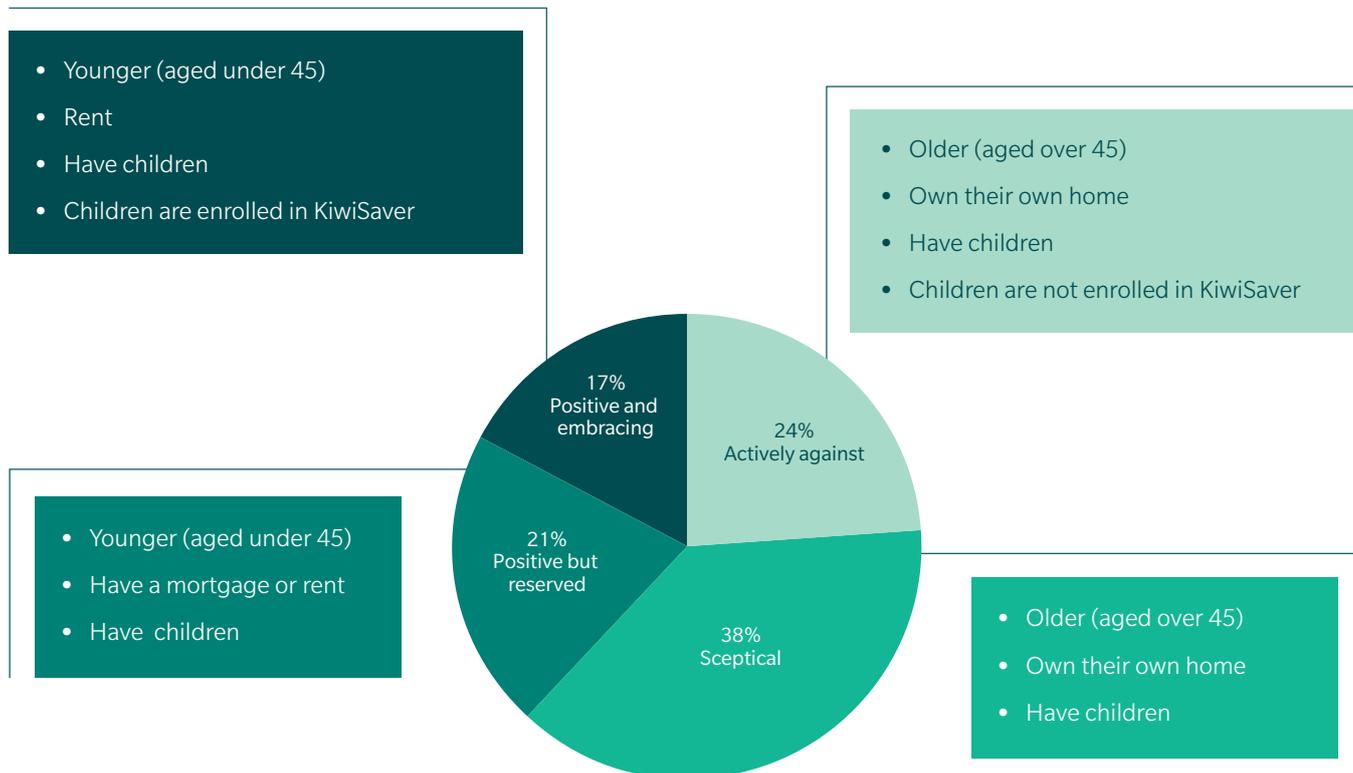
Scores are grouped into four segments:

- 1. Positive and embracing**
- 2. Positive but reserved**
- 3. Sceptical**
- 4. Actively against**

Mercer KiwiSaver Sentiment Index



Profiling segment characteristics



THE CURRENT STATE OF THE NATION: OPPORTUNITIES & CHALLENGES

Participation in and support of KiwiSaver are on the rise and people are thinking about and preparing more for retirement than they ever have before. However, a level of confusion about KiwiSaver continues; ongoing education and financial literacy remain paramount.

SUPPORT IS RISING BUT MORE WORK TO BE DONE

New Zealanders support of KiwiSaver is significantly increasing.

Seventy one per cent of working New Zealanders rated KiwiSaver as a good, very good or excellent way to save for retirement. This is a significant improvement on the 65% reporting the same in 2012.

Ninety four per cent of New Zealanders believe KiwiSaver will be beneficial in helping them personally fund their retirement. This result is a significant improvement on the 89% seen in 2009.

Throughout our KiwiSaver Sentiment Index studies we have observed a strong positive correlation between the sentiment towards KiwiSaver, the level of confidence in understanding KiwiSaver, retirement preparedness and KiwiSaver participation.

In 2014 ratings of the KiwiSaver scheme as a way to save for retirement were stronger among those:

- Currently in the scheme
- Prepared for retirement
- Knowledgeable about the scheme
- Made an active choice to join their current KiwiSaver provider, and
- Aged over 50 years

Those in KiwiSaver and who understand it believe it is a good system: the challenge is to increase participation and knowledge levels. New Zealanders with higher self-ratings of knowledge of KiwiSaver are three times more likely than those with lower self-ratings of knowledge to rate it as a very good

“It seems a good idea especially for people who don’t know a lot about investing and saving”

PARTICIPANT IN MERCER’S 2014 KIWISAVER SENTIMENT INDEX

“Because it is a great way of saving as you don’t miss it from your pay because it goes out before you even get to see it.”

PARTICIPANT IN MERCER’S 2014 KIWISAVER SENTIMENT INDEX

or excellent way to save for retirement. Not surprisingly, those currently in KiwiSaver were also more likely to rate it as a very good or excellent way to save for retirement than those not in a scheme.

Drivers of positive sentiment focused on perceptions that the scheme: is a good idea; encourages saving; and is supported by employers. Mention was also made of the fact it is easy to join and contribute to, and it is supported by the government – suggesting a degree of comfort in the role the government is taking to help people plan and prepare for their retirement.

However, while sentiment is on the rise, results show there is still more work to be done. A common concern among those who view the scheme negatively centred on a lack of faith or trust in the government to ensure funds will be available during their retirement.

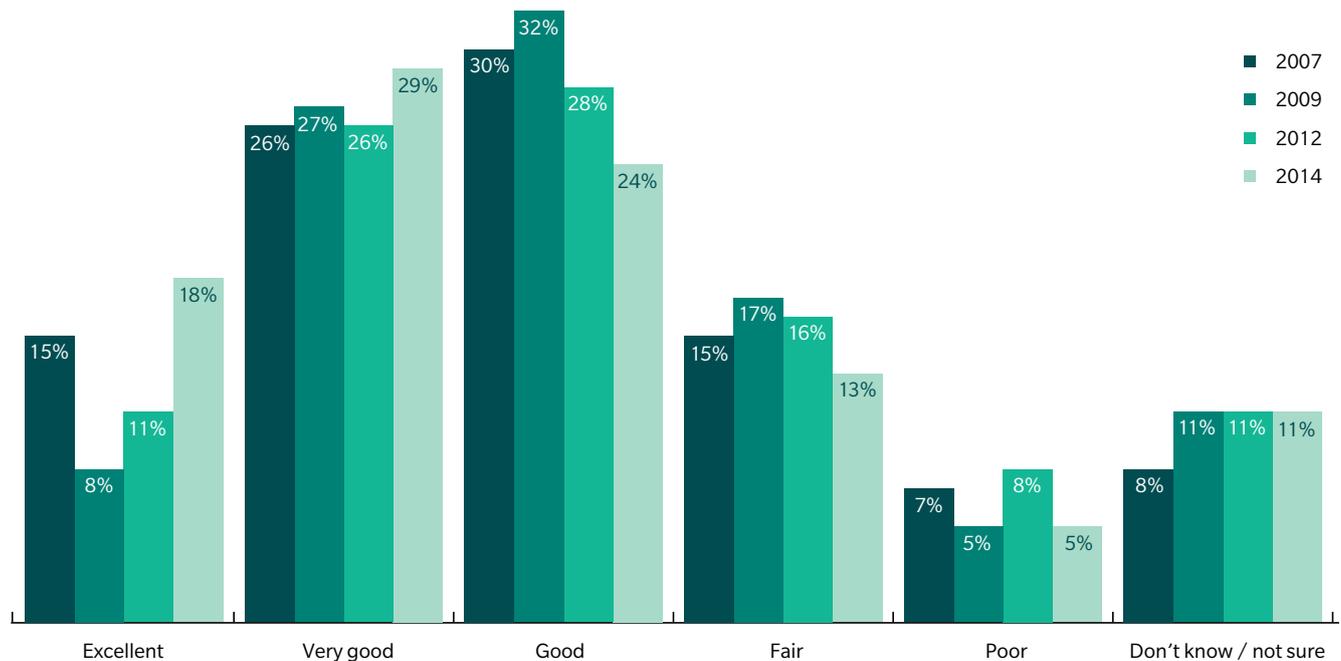
These findings continue to suggest more education is needed about the long-term nature of KiwiSaver, and the balance between risk and reward.

Around one in five New Zealanders rated KiwiSaver as a fair (13%) or poor (5%) way to save for retirement. The reasons behind this rating have changed since 2012. In 2014, concerns include the perceived lack of guarantee and future viability of the scheme. In 2012, concerns included the exposed risk and vulnerability of global markets on retirement saving schemes.

These findings suggest there is still a moderate level of uncertainty and caution when it comes to saving for retirement through KiwiSaver.

Rating of KiwiSaver as a way to save for retirement

Q. Generally speaking, how would you rate the KiwiSaver scheme as a way to save for retirement?



PARTICIPATION RATES INCREASING

More than two in three (67%) survey participants claim to belong to a KiwiSaver scheme, this is a significant increase since 2012. Inland Revenue reports over half of the eligible New Zealand population are now KiwiSaver members².

Higher participation indicates New Zealanders increasingly understand the need to have an adequate retirement savings plan in place. It may also demonstrate the success of government policy in encouraging a savings culture among New Zealanders, specifically the increase in the contributions rate from 2% to 3% effective as of April 2013.

We believe Government, employers and KiwiSaver providers alike need to capitalise on these participation rates and drive even higher take-up of the scheme.

Possible actions include introducing auto-enrolment if the Government is able to return the budget to surplus³; KiwiSaver providers must continue to deliver quality service and competitive returns; and employers should act as strong advocates for KiwiSaver and position it as an important employee benefit.

"It's a good way to get people saving a regular amount on a regular basis."

PARTICIPANT IN MERCER'S 2014 KIWISAVER SENTIMENT INDEX

"It is a good way of saving for the future. Maybe we shouldn't be given the choice"

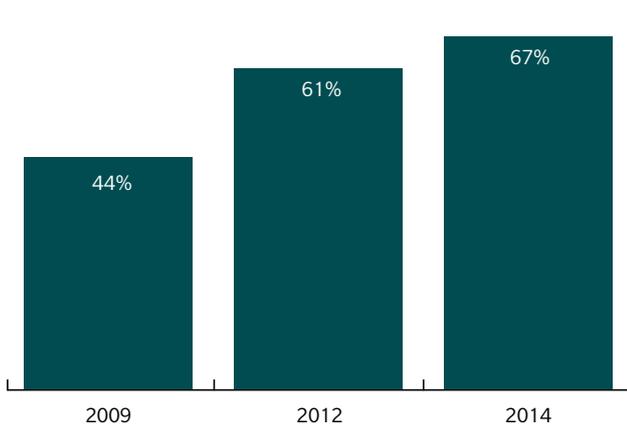
PARTICIPANT IN MERCER'S 2014 KIWISAVER SENTIMENT INDEX

² <http://www.ird.govt.nz/resources/5/c/5c208575-1ddb-4751-8c5c-e5ec0f4b383a/kiwisaver-annual-report-2013.pdf>

³ <http://news.msn.co.nz/nationalnews/8741728/kiwisaver-auto-enrolment-still-possible>

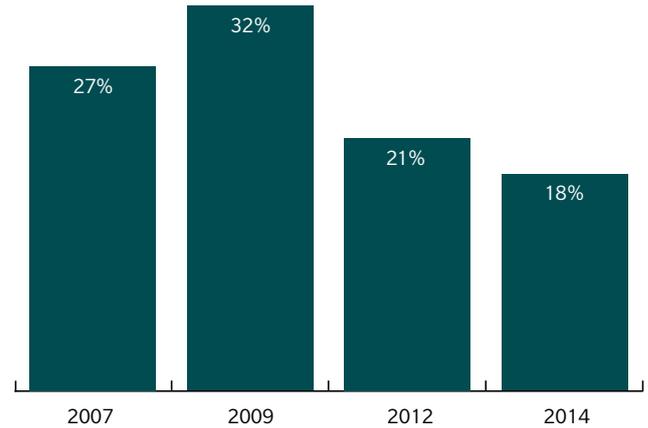
Participation in a KiwiSaver scheme

Q. Are you currently a member of a KiwiSaver scheme?



Participation in a workplace savings scheme through your employer

Q: Do you currently participate in a workplace savings scheme, other than KiwiSaver, through your employer?



WORKPLACE SAVINGS SCHEME PARTICIPATION SHRINKING

Coinciding with increasing participation in KiwiSaver, it is not surprising to see further decline in participation in employer-sponsored workplace savings schemes – fewer than one in five (18%) indicated they are taking part in a workplace savings scheme compared to a third saying the same in 2009.

The declining popularity of such schemes raises important questions for employers, including:

- How does KiwiSaver fit into existing benefit design and align with employer objectives?
- Should employers continue with existing plans or run solely with KiwiSaver?
- How do employers differentiate themselves in order to attract talent?

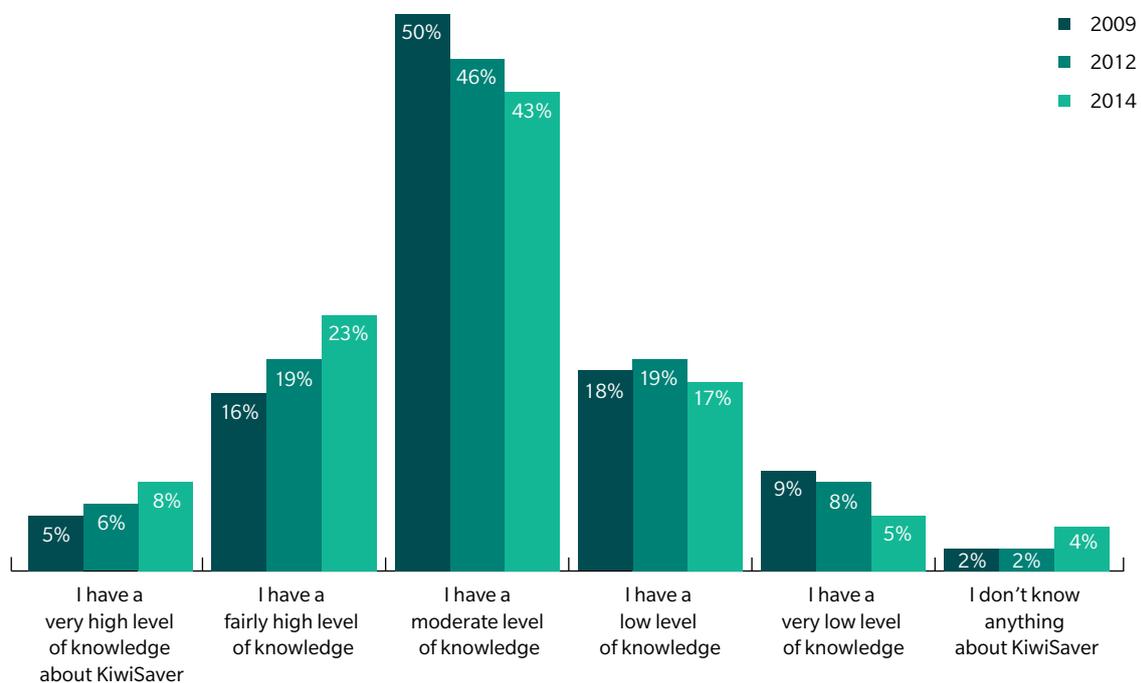
AWARENESS HIGH, UNDERSTANDING LOW: NEW ZEALANDERS MISSING OUT

Knowledge of KiwiSaver is at an all-time high, but understanding of the scheme is still lacking.

Thirty one per cent of working New Zealanders believe they have a fairly high or very high level of knowledge about KiwiSaver – the strongest result since KiwiSaver’s introduction.

Knowledge about KiwiSaver

Q. How would you rate your level of knowledge about KiwiSaver?



Of course, some groups of the community are more confident in their perceived understanding of KiwiSaver than others. Analysis reveals higher levels of self-ratings of knowledge about KiwiSaver among:

- Those currently in a KiwiSaver scheme
- Those who consider themselves prepared for retirement
- Those who view the scheme positively
- Those who made an active choice to join their current KiwiSaver provider

However, there is a difference between perceived knowledge and truly understanding a concept.

To discover New Zealanders’ understanding of KiwiSaver, we asked survey participants a range of true or false statements and discovered after nearly seven years from the introduction of KiwiSaver, there remains some gaping holes in New Zealanders’ understanding of the features and benefits available to them.

On average, New Zealanders scored 8 correct out of 16. However, results suggest high levels of uncertainty – especially on statements related to member tax credits and tax rates. This could mean some New Zealanders are missing out on money they are entitled to.

Less than one in three (31%) New Zealanders confidently knew the maximum payment for an annual member tax credit is \$521 per year. A further 62% were unsure if this was true or false.

This result coincides with the Commission for Financial Literacy and Retirement Income's (CFLRI) paper titled 'Focusing on the Future', which highlights as of June 2012 around one in four KiwiSaver members, who were eligible for the member tax credit, had not made any contributions to their account and more than half did not contribute enough to gain the full member tax credit⁴.

4 <http://www.cflri.org.nz/sites/default/files/docs/RI-Review-2013-Focusing-on-the-Future.pdf>

More than half (53%) of working New Zealanders incorrectly believe if they change jobs their new employer will automatically start contributing to KiwiSaver on their behalf. Only 28% knew there is more than one tax rate applied to KiwiSaver investment earnings, while 57% were uncertain.

It was concerning to see nearly one in ten unable to answer any statements correctly – suggesting that working New Zealanders need further help in understanding features associated with KiwiSaver.

Indeed, many working New Zealanders were simply unsure when it came to the overall understanding of KiwiSaver and its benefits.

WHAT DO WE KNOW & WHAT DON'T WE KNOW?

HIGH LEVELS OF UNCERTAINTY ABOUT THE FOLLOWING:

- The government will subsidise your selected or default KiwiSaver scheme fees (up to \$40 a year per member)
- The maximum payment for an annual member tax credit is \$521 per year
- There is only one tax rate that is applied to all KiwiSaver investment earnings
- Normally, you'll need to contribute for 12 months before you can take a 'contributions holiday' (ie: stop regular contributions)
- The government will match your contributions up to \$20 each week provided you meet specified criteria
- You can belong to more than one KiwiSaver scheme at a time

HIGH LEVELS OF KNOWLEDGE ABOUT:

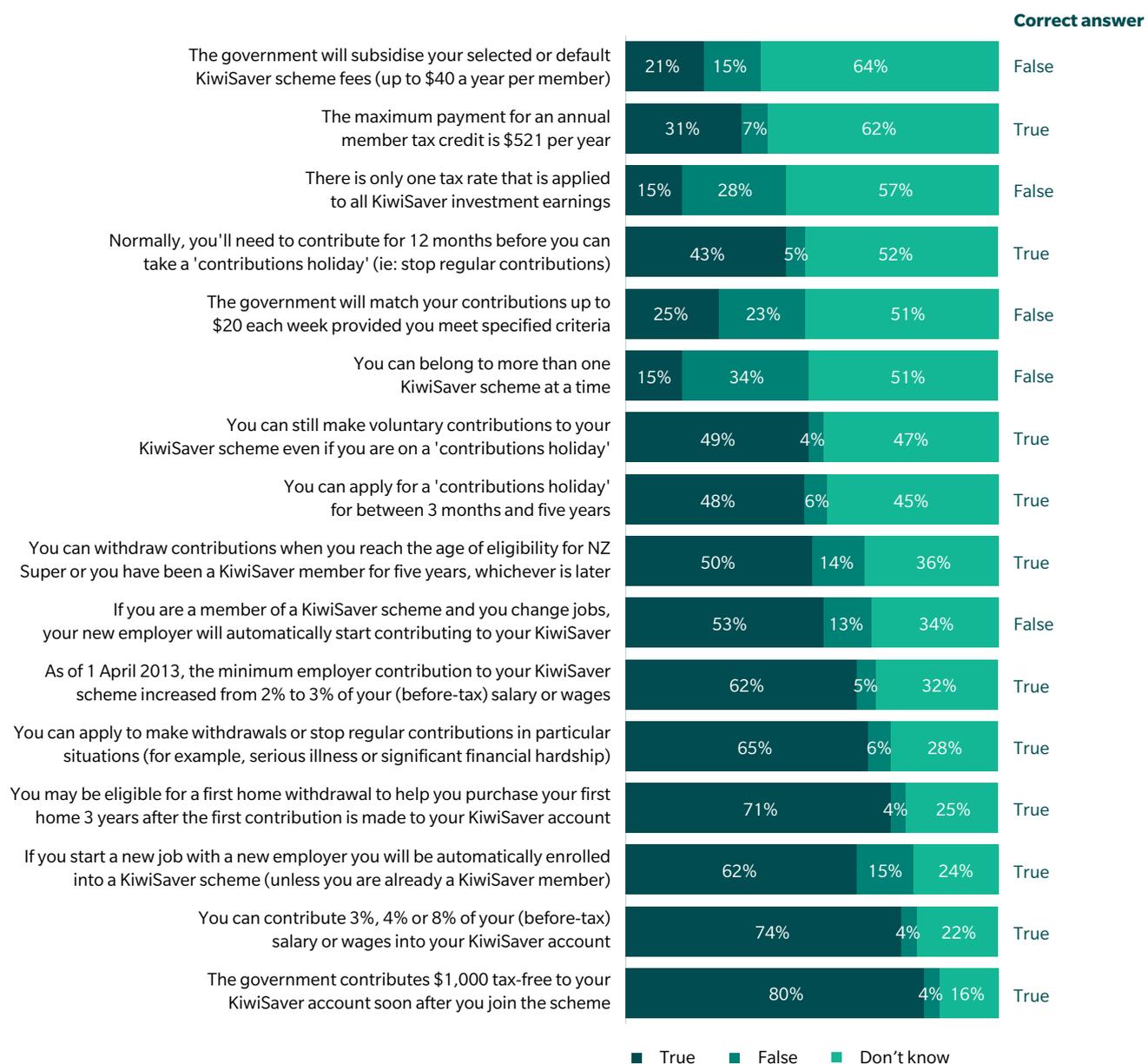
- The government contributes \$1,000 tax-free to your KiwiSaver account soon after you join the scheme
- You can contribute 3%, 4% or 8% of your (before-tax) salary or wages into your KiwiSaver account
- You may be eligible for a first home withdrawal to help you purchase your first home 3 years after the first contribution is made to your KiwiSaver account
- You can apply to make withdrawals or stop regular contributions in particular situations (for example, serious illness or significant financial hardship)

THERE IS MISUNDERSTANDING ABOUT:

- If you are a member of a KiwiSaver scheme and you change jobs, your new employer will automatically start contributing to your KiwiSaver

Knowledge about KiwiSaver benefits and features

Q. KiwiSaver was designed to help New Zealanders save for their retirement. Below is a series of statements about KiwiSaver that may or may not be true. Please indicate for each which is true or false. If you're not sure, please select the 'not sure' option.



SOURCES OF TRUTH: EXPERTS OVERTAKE WORD OF MOUTH

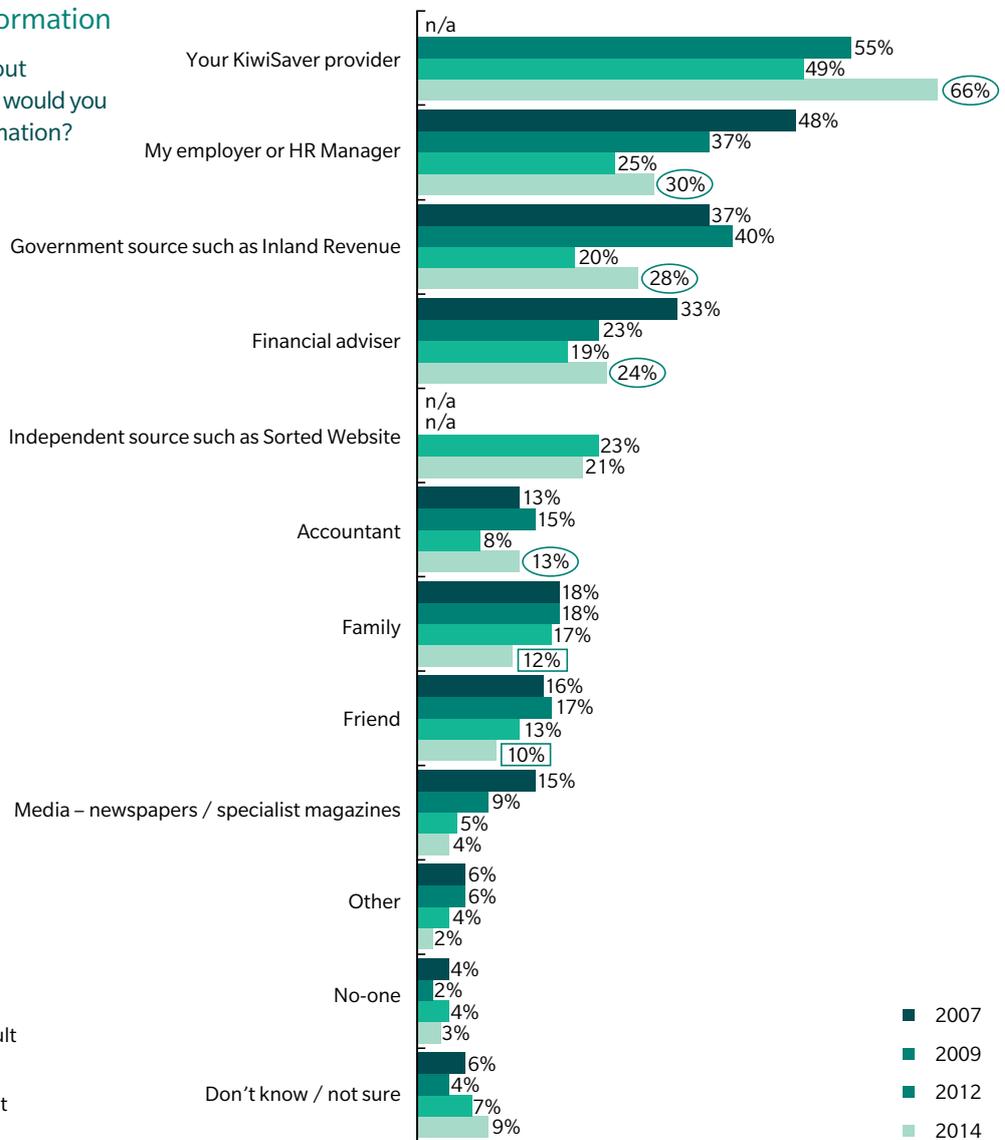
We have seen a shift towards those that may be viewed as “experts in the field” and a move away from those more likely to provide hearsay or word of mouth (i.e. family and friends) as a source of information on KiwiSaver.

Sixty six per cent of working New Zealanders would primarily seek assistance from their KiwiSaver provider if they need guidance – highlighting the significant role KiwiSaver providers play in educating and advising members about their retirement investments.

Employers should not underestimate the role they play in building the success of KiwiSaver and in improving the quality of New Zealanders’ retirement outcomes. Employers have a responsibility to contribute to their employee’s retirement savings. We believe employers should view this relationship as an opportunity to build employee engagement and demonstrate a genuine interest in employees’ financial wellbeing. Employers therefore, need to work closely with KiwiSaver providers to ensure they have the tools and educational resources available to meet employees’ needs.

Preferred source of information

Q. If you have questions about KiwiSaver, who (if anyone) would you approach for more information?



○ Significantly higher result than comparison group
 □ Significantly lower result than comparison group

■ 2007
 ■ 2009
 ■ 2012
 ■ 2014

SATISFACTION AND LOYALTY TOWARDS KIWISAVER PROVIDERS

Relationships between KiwiSaver providers and members are strengthening. Satisfaction levels with KiwiSaver providers have significantly increased, with 64% (up from 54% in 2012) either satisfied or very satisfied with their provider. A relatively sizeable proportion (31%) remain 'middle of the road' in their view of their provider, while very few (5%) were dissatisfied.

To continue to improve satisfaction and therefore retention, we believe KiwiSaver providers should focus on delivering responsive service, quality educational material and tools, value for money and of course, competitive returns, in order to foster loyalty and satisfaction. Retirement saving is a lifetime project, and we invest in building lifetime relationships.

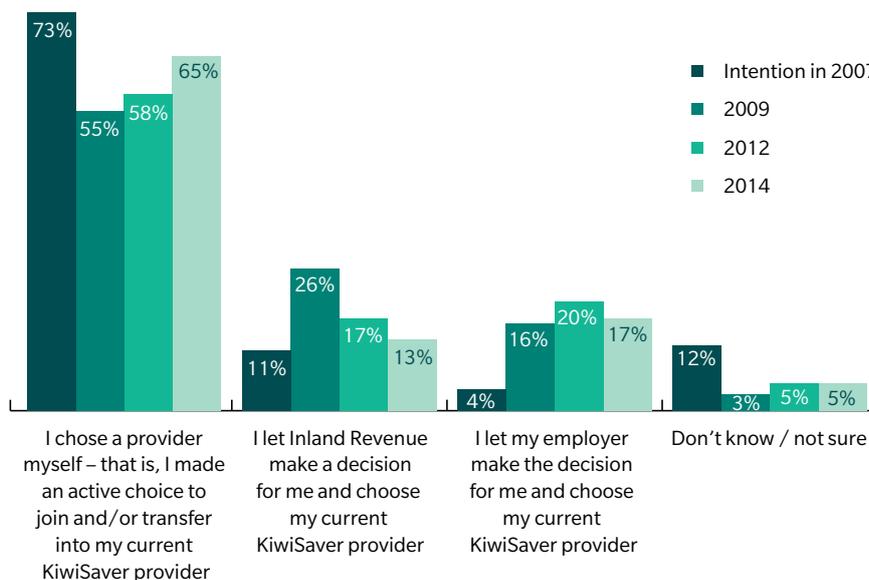
The majority (81%) of working New Zealanders say they are likely to remain within their current KiwiSaver arrangement for the next 12 months, while nearly half (47%) say they are very likely to stay with their current provider. This is a significant improvement on the 72% saying the same in 2012.

In 2014, a significantly higher number of working New Zealanders actively chose their current KiwiSaver provider (65%, up from 58% in 2012), while less than a third (30%) let Inland Revenue or their employer make the decision on their behalf.

Selection of a KiwiSaver provider

Q. Thinking about your membership in a KiwiSaver scheme, which of the following best applies to you?

(Base: Participates in a KiwiSaver scheme)



Seventy nine per cent of KiwiSaver members who were nominated a provider by Inland Revenue or their employer were aware of the ability to proactively choose a provider on their own – and yet, they chose not to.

Competing with the natural human need or desire to spend today rather than save for tomorrow remains an ongoing challenge for KiwiSaver providers, employers, and the government.

If we want to build New Zealand's retirement savings significantly, we must also continue to build interest in KiwiSaver, encourage extra contributions and create a sense of ownership for members. Mercer invests significant resources in marketing and communication to members and we encourage employers to make use of such material to connect with employees and play a part in meeting New Zealand's retirement challenge.



PREPARING FOR RETIREMENT: ATTITUDES TO WHEN, HOW & HOW MUCH?

A lot of New Zealanders have had a retirement reality check. The mean age at which New Zealanders would like to retire is 59. In stark contrast, the mean age they expect to retire is 66. More New Zealanders than ever before believe they will be less comfortable in retirement than they are now.

HOW PREPARED – OR UNPREPARED – ARE NEW ZEALANDERS FOR RETIREMENT?

Most (61%) survey participants claim to have given at least some thought and undertaken some preparation for retirement – indeed one in five (19%) have made many preparations. These results are a significant improvement on previous waves of the study; in 2012 only 54% had given some thought and undertaken preparations for retirement.

We've also seen significant improvements at the opposite end of the scale with the amount of people who have not given any thought to or made any preparations for retirement decrease from 21% in 2012 to just 15% in 2014.

While these results highlight an increased awareness of the importance of planning for retirement, nearly two in five (37%) still have given, at best, only some thought to retirement but made very little, if any, preparation.

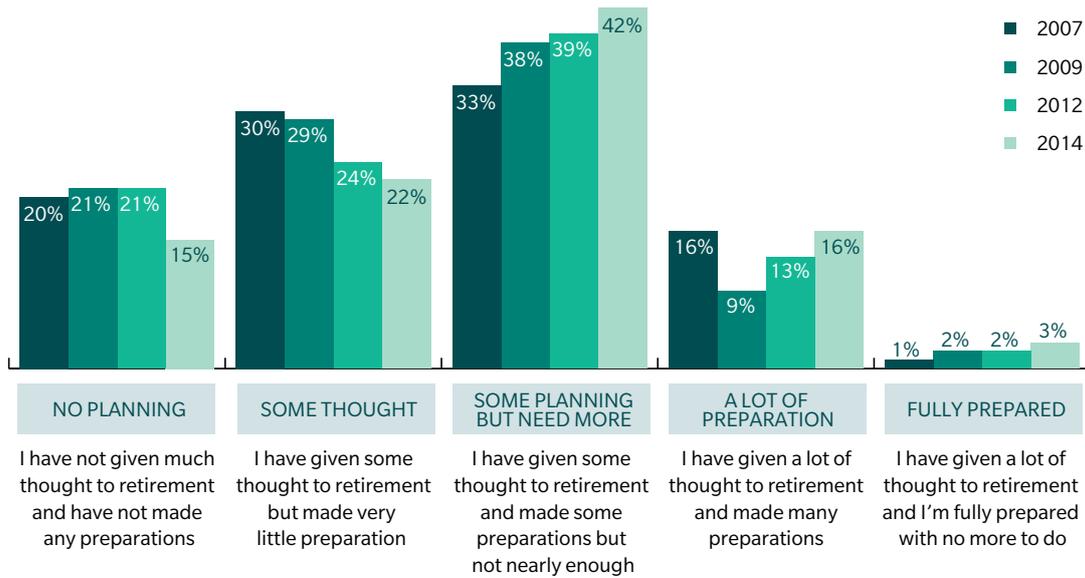
Drilling down, 21% of males have given a lot of thought and made plans for retirement, while only 15% of females have done the same. This is particularly concerning when we know New Zealand women face unique challenges when it comes to saving for retirement. Lower pay and time out of the workforce to raise children can make it hard to build decent savings. As a result, many women retire with less money than they need to ensure a comfortable retirement.

Half of those aged 30-39 years have made little, if any, preparation for retirement. Although this age group is relatively a long way off retirement we know the earlier people begin to plan and save for retirement, the more comfortable they will be. The simple theory of compound interest on savings and investments should not be underestimated.

Twenty per cent of New Zealanders aged 50 or older had given very little, if any, thought to preparing for their retirement. Lack of financial preparation for retirement across a population could have serious implications for the government's budget due to increased pension costs, which in turn will hit the hip pocket of taxpayers: we all have a stake in the challenge of improving New Zealanders' retirement readiness.

Preparation for retirement

Q. Thinking about retirement, which one of the following statements best applies to you?



NEW ZEALANDERS NEED TO “STRESS TEST” RETIREMENT SAVINGS

Most New Zealanders don't have a clear picture of how much to save; how long they will have to work for; or what investment options they should be in at various stages of their life to maintain a quality of life they desire in retirement.

Mercer's KiwiSaver Retirement Income Simulator allows New Zealanders to “stress-test” their retirement savings against life's variables such as: career breaks, changes to KiwiSaver contributions, and sharemarket volatility. It helps people plan their retirement savings during their working life and understand how to manage their savings throughout their retirement years.

The simulator accommodates for variable and personal scenarios such as a partner's income, income from non-KiwiSaver investments, and New Zealand Super entitlements.

Investment markets can be volatile but KiwiSaver members should have a realistic view of how market volatility will affect their savings over the short and long-term. Users can simulate different market conditions on our simulator, so they can make better-informed investment-based decisions.

Alternatively, people can understand the impact of taking time out of the workforce to have a family or care for a family member, or how deferring their retirement or changing their investment option out of the default option, can impact their retirement savings and therefore make a plan to manage it.

For Mercer KiwiSaver members, personal and account details are pre-populated into the simulator making it fast and easy to use. Others can use the simulator but their details will not be pre-populated.

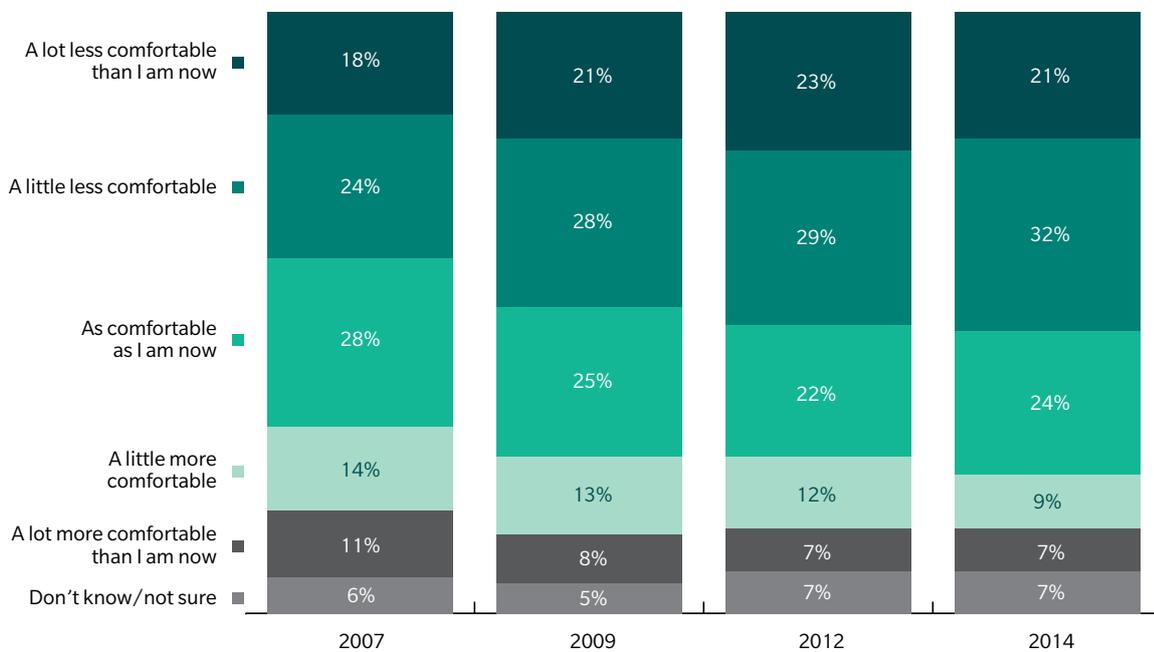
RETIREMENT REALITY CHECK SQUASHES PLANS FOR A COMFORTABLE RETIREMENT

More New Zealanders (53%) than ever before believe they will be less comfortable in retirement than they are now and the amount of people who expect to be more comfortable in retirement has significantly dropped since 2007.

Yet, these somewhat sobering results should be considered in context of the fact that support, participation, and confidence in knowledge of KiwiSaver is increasing. We believe New Zealanders have experienced a reality check: we're living longer and will require more money to retire with if we want to maintain a similar level of comfort and lifestyle in our retirement years

Anticipated comfort level in retirement

Q. Compared to your lifestyle now, in retirement, do you believe financially you will be...



This retirement 'reality check' could lead to more New Zealanders staying in the workforce longer, given the opportunity to do so.

New Zealand employers are not alone in facing the challenges presented by changing demographics. Many countries in the world economy are managing the challenge of a wave of baby boomers either retiring or about to retire. A shift of older workers remaining in the workforce presents an important opportunity to retain much needed knowledge and experience – as long as they take the right approach.

Employers will need to cater to the preferences of older workers and recognise they often want more flexibility and different financial incentives.

To mitigate the risk of losing this pool of experienced older workers, and to keep them engaged, employers need to:

1. Rethink and reinvent the workplace; and
2. Implement strategies to retain the corporate knowledge of older workers and turn those workers aged 55+ into productivity drivers.

While some employers may welcome employees staying in the workforce beyond age 65, others may look for ways to help employees retire from the workforce. By encouraging employees to take an active interest in KiwiSaver, such employers could use the existence of healthy KiwiSaver balances as one means of helping to facilitate employees' transition to retirement.

WHAT'S THE MAGIC RETIREMENT NUMBER?

The mean age at which New Zealanders would like to retire is 59. Just under one in five (18%) would like to retire before they turn 55. In stark contrast, the mean age they expect to retire is 66. Close to one in three (29%) expect to retire aged 70 or older, which is a significant increase from 2012 when only one in five (24%) said the same.

This rise in the preferred retirement age perhaps suggests a general acceptance that people will need to work longer as well as, an increased awareness of the funding required for retirement coupled with the anticipated resources that will actually be available in retirement.

The average effective age of retirement varies by country⁵. In the United Kingdom, the average age is 64 for males and 63 for females, while the average retirement age is higher in Japan at 69 for males and 67 for females.

⁵ <http://www.oecd.org/els/emp/ageingandemploymentpolicies-statisticsonaverageeffectiveageofretirement.htm>

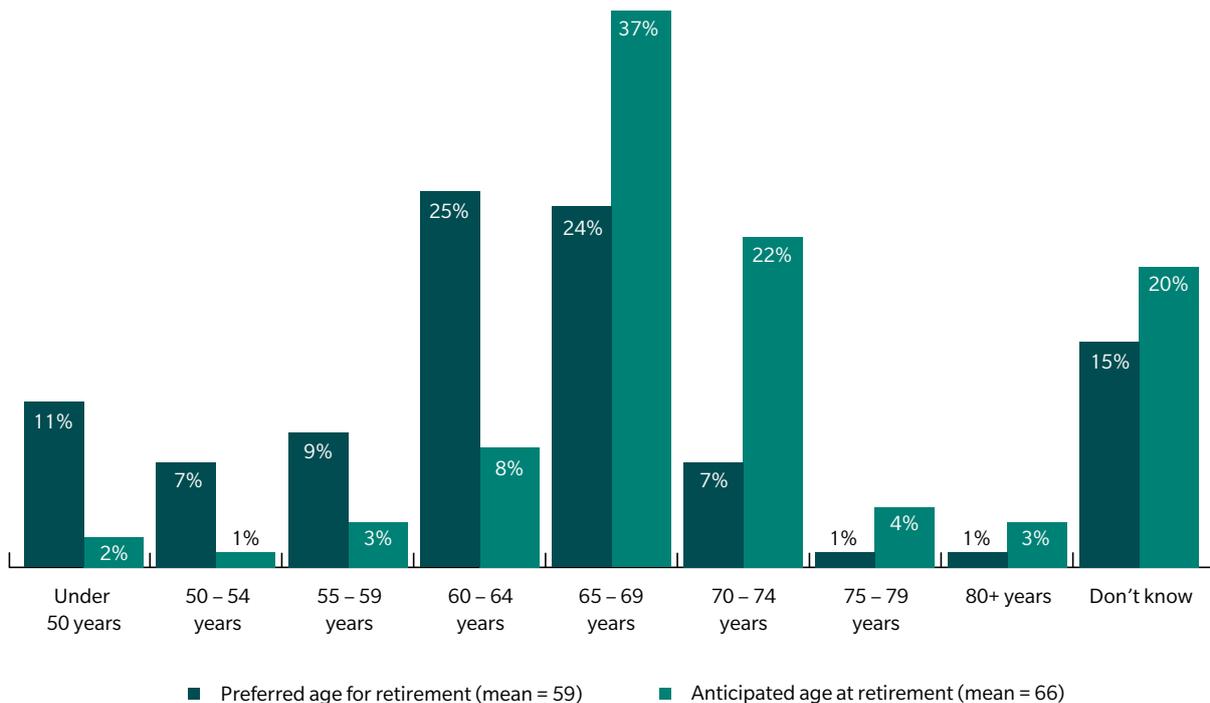
PRETIEMENT – A NEW CAREER PHASE

Pretirement – the phase in an employee’s career just prior to retirement – is an opportunity for both employer and employee. Mercer believes employers should approach their older workforce as in another career stage rather than at the end of their working life who only need to be managed out of the workforce. Engaging with older workers to retain, or even attract, them in the pretirement stage of their career will have benefits for employers. By embracing retirement employers can: retain staff for longer, improve the retention of corporate knowledge, and improve their profile as a desirable employer for the demographic group that will make up much of the labour force.

Preferred versus anticipated age of retirement

Q. If your circumstances allowed, at what age would you **like** to cease working entirely?

Q. In reality, at what age do you **expect** to cease working entirely?



INSIGHTS INTO THE FUTURE OF KIWISAVER



Working New Zealanders want more information about how to save for retirement. KiwiSaver providers, the Government and employers cannot satisfy this appetite if they address it in isolation, we have to work together.

SOURCES OF FUNDING RETIREMENT: GREATER RELIANCE ON KIWISAVER MEANS LESS RELIANCE ON GOVERNMENT

New Zealanders are gradually becoming more reliant on KiwiSaver to fund their retirement years.

In projections of the asset portfolio expected to be available to working New Zealanders at retirement, superannuation (including KiwiSaver and employer sponsored super schemes) accounted for on average, 32% of all potential funding (superannuation in Australia accounts for 48%⁶). While this is a stable result since 2012, it is a significant increase on 2009 figures, where superannuation and retirement savings schemes were anticipated to account for only 22%.

⁶ Mercer Superannuation Sentiment Index study – Returning to Better Times (February 2013)

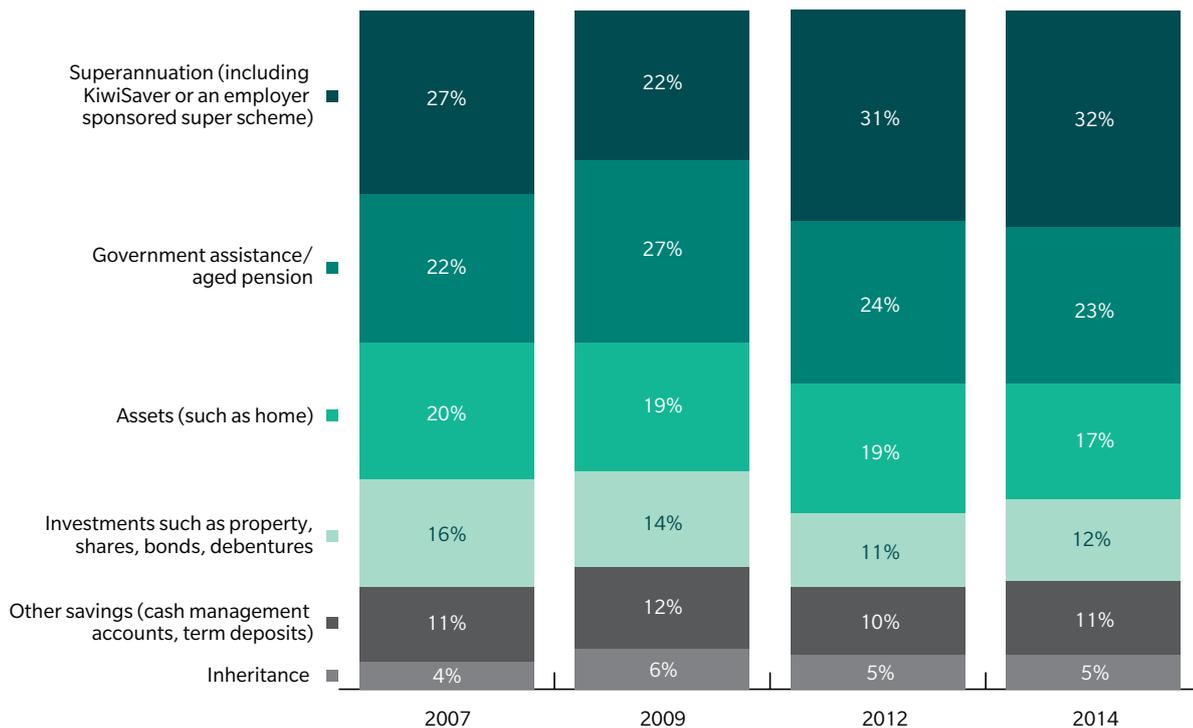
“The employer and government input helps to smooth out any dips in fund values. In short, it just quietly accumulates.”

“It is a seamless way to make some provision towards retirement and is sent from source not from disposable income. Also allows for some flexibility in choosing a fund that suits age and saving style.”

SURVEY PARTICIPANTS ON THEIR PERCEPTION OF COMFORT IN THE ROLE GOVERNMENT AND EMPLOYERS PLAY TO HELP PEOPLE PLAN AND PREPARE FOR RETIREMENT.

Anticipated sources of funding for retirement

Q. People fund their retirement in different ways. We would like you to indicate how you plan to fund your retirement by showing an estimate of percentages that will make up the resources you anticipate will be available to you on retirement.



"I think it's a good easy scheme for people to get involved in. You don't have to do anything, the money is taken out at your employer's end and deposited into your KiwiSaver so you don't notice the money going out.I don't want to get to retirement age and realise I have no money, wouldn't be the nicest feeling being limited to what you can do/buy because you decided not to do anything about your retirement earlier!"

SURVEY PARTICIPANTS ON THEIR PERCEPTION OF COMFORT IN THE ROLE GOVERNMENT AND EMPLOYERS PLAY TO HELP PEOPLE PLAN AND PREPARE FOR RETIREMENT.

The importance of KiwiSaver as an adjunct to the government-funded pension cannot be understated. Today, there are around half as many people aged over 65 years as there are children. Treasury projections show by 2051 we can expect 60% more elderly people than there are children. Furthermore, the projected life expectancy at birth for males is anticipated to increase from 74 years to 81 years and for females from 79.5 years to 85.5 years (given medical advances and the impact of positive changes to lifestyle, such as exercise and nutrition)⁷. In line with this ageing population, Treasury also projects the number of recipients of NZ Super will increase from just over 500,000 in 2010 to 1.3 million by 2050⁸, and the cost of providing NZ Super is expected to double between now and 2050 from 3.4% of GDP in 2007 to 6.9% in 2050 – but with nowhere near a doubling of tax payers to fund it⁹.

In light of ongoing debate regarding the Government's ability to adequately fund an ageing population through retirement, these results suggest that many appreciate the value of the scheme, and the need to be self-sufficient in retirement, at least to some degree.

7 http://www.stats.govt.nz/browse_for_stats/people_and_communities/older_people/pop-ageing-in-nz.aspx

8 <http://www.interest.co.nz/sites/default/files/NZ%20SRI%20challenge%202012%20POV%20FINAL.pdf>

9 Mercer Securing Retirement Incomes: New Zealand's Retirement Incomes Challenge (March 2012)

CONTRIBUTION RATES

Forty five per cent of working New Zealanders either currently contribute or plan to contribute 4% to their KiwiSaver scheme. A further 32% contribute or plan to contribute 3% – a result which varies significantly from the 58% actually doing so as per Inland Revenue¹⁰.

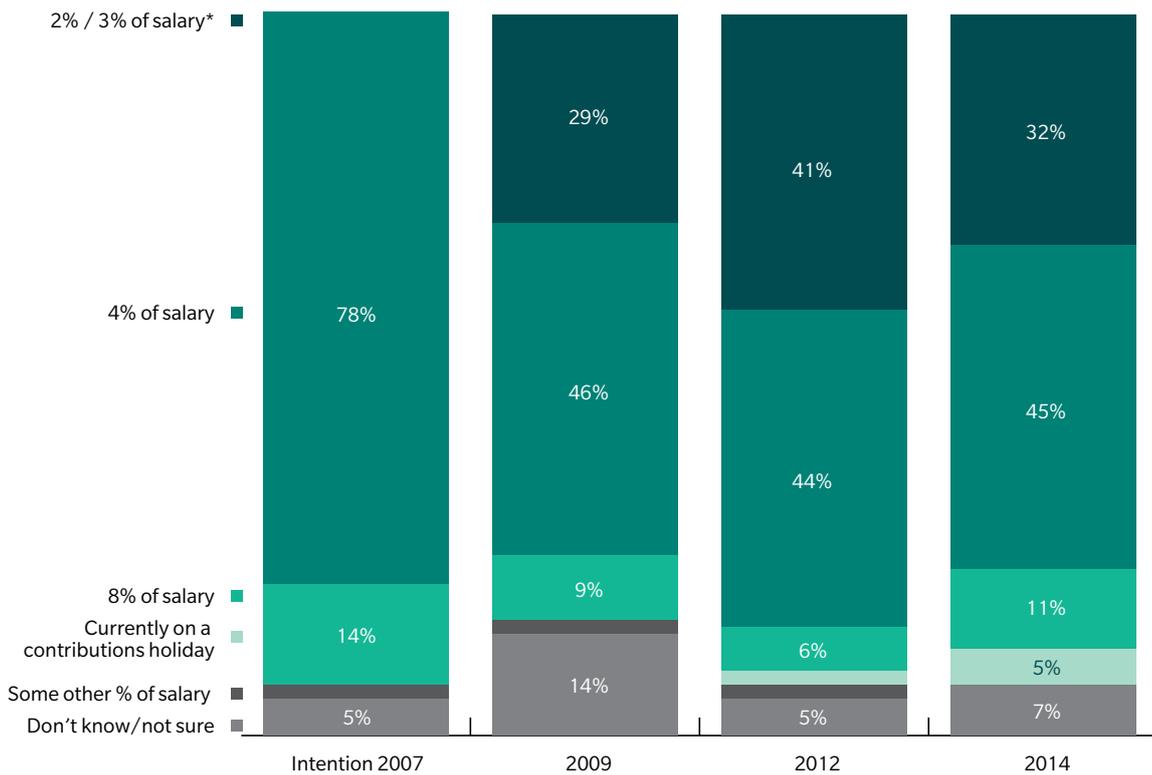
We have seen an increase in the number of New Zealanders who plan to contribute 8% – perhaps an ambitious assumption, although encouraging nonetheless.

The 3% level of contribution was particularly popular among younger working New Zealanders (aged under 30) and those unprepared for retirement, while the 8% level was more popular amongst males and those currently not in KiwiSaver but plan to join in the next 12 months.

¹⁰ <http://www.ird.govt.nz/resources/5/c/5c208575-1ddb-4751-8c5c-e5ec0f4b383a/kiwisaver-annual-report-2013.pdf>

Percentage of gross salary contributions made to KiwiSaver

Q. You mentioned you either have joined or may join a KiwiSaver scheme in the next 12 months. What percentage of your pre-tax (gross) salary do you currently, or do you plan to contribute to your KiwiSaver scheme as required by legislation?
(Base: Currently in or likely to join a KiwiSaver scheme)



* NB. In 2014, 2% of salary was changed to 3% of salary to reflect legislative changes effective April 2013.

Mercer believes a higher contribution rate than the current minimum 3% is necessary to secure a more sustainable retirement outcome for New Zealanders. It is also necessary to reduce the pressure on future generations and governments to fund an increasing bill from NZ Super. Mercer believes a contribution rate of 8-10%, shared between employers and employees, would allow a KiwiSaver member to enjoy a comfortable retirement and make New Zealand's super system competitive with those in other countries¹¹.

¹¹ *What Next for KiwiSaver: Mercer Deciphers the Debate* (February 2014)

MAKING CONTRIBUTIONS TO KIWISAVER

The most popular method known among KiwiSaver members for making additional contributions was via employers.

One in five (19%) working New Zealanders were unaware of the ability to make any additional contributions to KiwiSaver. This finding should sound alarm bells for the government, employers and KiwiSaver providers because it is an indication of the lack of knowledge and engagement that could ultimately lead to individuals not having enough retirement savings.

KiwiSaver providers and employers alike should educate members and employees on the advantages of KiwiSaver and the ability to change their current contribution levels, which would further assist with enhancing retirement saving balances. Regular information is critical in educating KiwiSaver members with a 'set and forget' mentality.

KIWISAVER IMPACT ON HOUSEHOLD BUDGETS

Sixty four per cent said making contributions to KiwiSaver had a minimal impact at best on their ability to meet regular household expenses. Thirty one per cent said making contributions had no impact at all on their budget.

Those experiencing the greatest 'belt tightening' are unprepared for retirement, aged under 40 and hold a negative attitude towards KiwiSaver. Interestingly, non-participants who plan to join in the next year were more likely to hold the view that making contributions will have a significant impact on household budgets – perhaps a key deterrent for not having already joined the scheme.

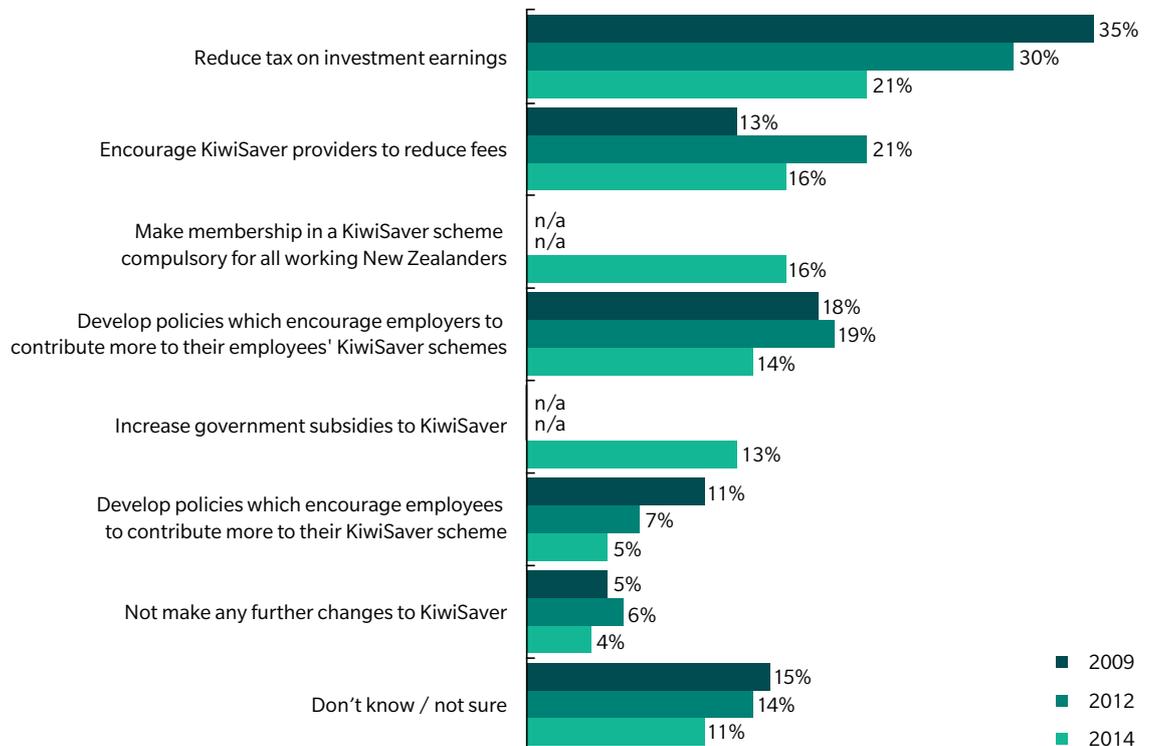
CONFIDENCE IN GOVERNMENT POLICY

We sought to understand New Zealanders views on potential future KiwiSaver policies. For the most part, New Zealanders would like to see the Government reduce tax rates on investment earnings and encourage KiwiSaver providers to reduce their fees.

In 2014, for the first time, Kiwis were asked their thoughts on making membership in a KiwiSaver scheme compulsory for all working New Zealanders – 16% supported the idea.

Preferred future actions

Q. Thinking about the future of KiwiSaver, which one of the following, if any, do you believe the NZ Government should undertake in the next 12 months?



WHAT NEW ZEALANDERS WANT IN THEIR RETIREMENT SAVINGS SCHEMES

We asked working New Zealanders to think beyond KiwiSaver and rate their knowledge of retirement savings systems more generally and consider the most important features. New Zealanders want to understand more about retirement savings and there is significant room for improvement in our nation. These insights into New Zealanders' expectations should help direct the government and KiwiSaver providers in further developing a system that helps New Zealanders improve their retirement savings and income.

Only 20% of New Zealanders rated their level of knowledge about retirement savings schemes and ways to save for retirement highly. Interestingly, more than a half (52%) expressed a desire to have a greater level of knowledge (either strong or sophisticated).

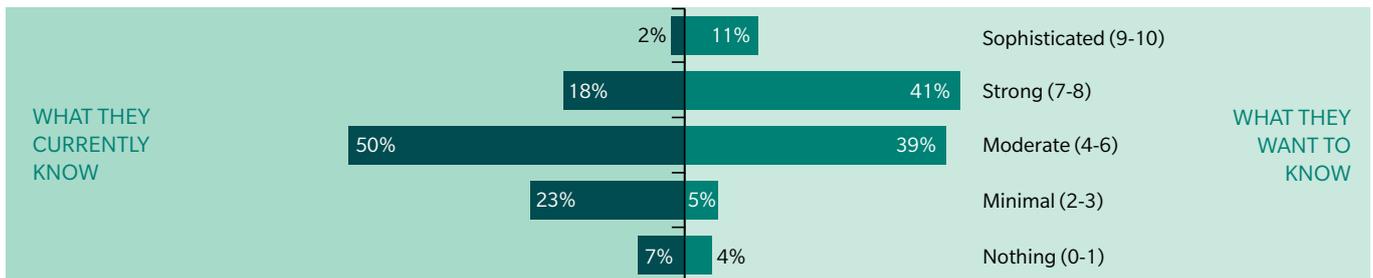
The challenge is not to simply provide more information but for all players (KiwiSaver providers, the Government and employers) to provide meaningful information, in formats and language that appeal to a range of audiences and encourage planning for retirement.

Current rating of knowledge of retirement savings schemes and ways to save for retirement

Q: Using a scale of 0 to 10, how would you rate your current level of knowledge about retirement savings schemes and ways to save for retirement?

Aspirational rating of knowledge of retirement savings schemes and ways to save for retirement

Q: Using a scale of 0 to 10, how would you **like** to rate your level of knowledge about retirement savings schemes and ways to save for retirement?



The most important features of a retirement savings scheme, according to working New Zealanders, are:

- strong investment returns,
- competitive fees, and
- access to easy and readily understood communication material.

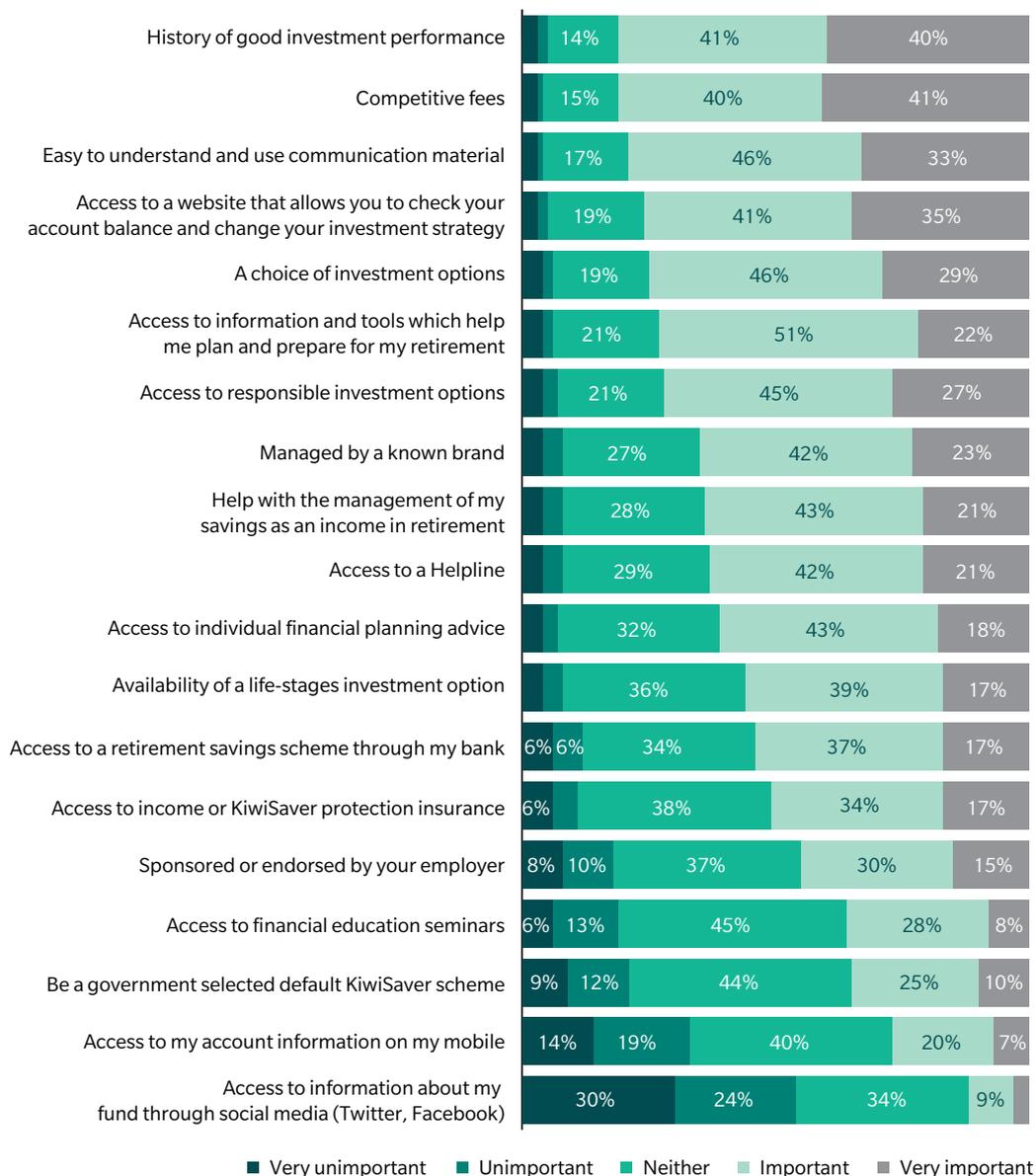
Seventy three per cent of working New Zealanders also viewed access to information and tools that help with planning and preparing for retirement as an important feature of a retirement savings system. This insight further validates the Government's recent mandate to KiwiSaver providers to offer investor education and advice to their members.

Shedding a little light on New Zealanders' investment preferences, our research revealed most (72%) rate responsible investment options and more than half (56%) rate a lifecycle investment option as important features of a retirement savings scheme. Sixty four per cent also believe providing help with the management of savings as an income throughout retirement is an important feature of a savings scheme.



Importance features in retirement savings schemes

Q. Thinking about the features of a retirement savings scheme, on a scale of 0 to 10 where 0 is very unimportant and 10 is very important, please rate how important you consider each of the following features to be.



APPENDIX: ABOUT THE SURVEY PARTICIPANTS

LOCATION	%
Auckland	36%
Canterbury	14%
Wellington	13%
Waikato	7%
Bay of Plenty	6%
Manawatu-Wanganui	5%
Otago	4%
Northland	3%
Hawke's Bay	3%
Taranaki	3%
Marlborough	1%
Nelson	1%
Tasman	1%
West Coast	1%
Southland	1%

AGE	%
18 - 24 years	12%
25 - 34 years	20%
35 - 44 years	23%
45 - 54 years	24%
55+ years	21%

LIFE STAGE	%
Young (under 34) single person living alone or sharing accommodation in a house / flat	15%
Young couple (either married or living together) with no children	10%
Young family: Couple or single parent with children	8%
Middle (35-54) single person living alone or sharing accommodation in a house / flat	11%
Middle couple (either married or living together) with no children	9%
Middle family: Couple or single parent with children	22%
Mature couple (either married or living together) with no children / no children living at home	13%
Mature couple (either married or living together) with children living at home	3%
Mature (55+) single or widowed person	6%

GENDER	%
Male	53%
Female	47%

EDUCATION	%
Up to some Year 13	28%
TAFE / trade qualification	24%
Undergraduate university degree	28%
Postgraduate university degree	20%

INDUSTRY	%
Education	14%
Government	9%
Health care and medical	9%
Retail	7%
Information technology	7%
Manufacturing	6%
Hospitality and recreation	6%
Construction and engineering	5%
Transport and storage	5%
Finance and insurance	4%
Tradesworker	4%
Business, industry or professional associations	3%
Agriculture	3%
Business services	2%
Community service	2%
Communications	2%
Chemical, oil, gas and coal	1%
Printing and publishing	1%

OTHER	%
Have a mortgage / paying off home	40%
Rent / pay board / rent free	36%
Own home	22%
Other	2%

CHILDREN ENROLLMENT	%
<i>(Base: have children)</i>	<i>(n=379)</i>
Yes – All children are enrolled in KiwiSaver	37%
Some but not all children are enrolled in KiwiSaver	9%
No – No children are enrolled in KiwiSaver	50%
Don't know / not sure	4%



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