

KIWISAVER REPORT

FOR THE YEAR ENDED 30 JUNE 2013

Financial Markets Authority

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ABOUT FMA

The Financial Markets Authority (FMA) was established on 1 May 2011 as an independent Crown entity, as part of the Financial Markets Authority Act 2011. We regulate conduct across New Zealand's financial markets under more than 20 separate Acts.

Our purpose is to promote and facilitate the development of fair, efficient, and transparent financial markets. Our mandate is to strengthen public confidence in New Zealand financial markets, promote innovation and grow New Zealand's capital base.

We enforce securities, financial reporting and company law as they apply to financial services and securities markets, and we also regulate securities exchanges, financial advisers and brokers, auditors, trustees and issuers – including issuers of KiwiSaver and registered superannuation schemes.

FMA is committed to supporting and encouraging financial market participants, to help them understand and willingly comply with our expectations and correct any errors or regulatory breaches.

INTRODUCTION

FMA is one of several government agencies with a role in regulating the KiwiSaver sector. We are responsible for the administration, compliance monitoring and enforcement of the KiwiSaver Act 2006 (the Act).

We also have a role in enabling eligible schemes to be registered. FMA carries out reviews of all eligible schemes to ensure the trust deed complies with the requirements of the legislation and that matters covered under the Act are adequately disclosed and fees are not unreasonable.

The KiwiSaver Report for the year ended 30 June 2013 has been prepared in accordance with section 194 of the Act.

The report details the principal matters transacted under the Act during the year ended 30 June 2013, and contains the sixth annual summary of the statistical returns, required to be lodged by KiwiSaver schemes under section 125 of the Act.

REVIEW OF KIWISAVER SCHEMES FOR THE YEAR ENDED 30 JUNE 2013

General overview

KiwiSaver a priority focus

KiwiSaver is one of the four priorities for FMA and effective regulation of the KiwiSaver sector is an important component to achieving our overarching objective of promoting confidence in New Zealand's financial markets. As a result, KiwiSaver has been a key area of focus for us over the last year.

For many New Zealanders, KiwiSaver will be the first investment they make and will represent a large part of their retirement savings and ultimate financial security. KiwiSaver also represents a primary pillar for New Zealand's financial system and the economy more broadly. Participants involved in KiwiSaver management, distribution and oversight must ensure they meet regulatory standards and act with customer interests in mind.

Our activities over the last year have focused on:

- registering new, winding up existing, and overseeing the merger of other KiwiSaver schemes
- conducting a threat assessment of the KiwiSaver sector
- reviewing KiwiSaver offer documents and investment risk
- reviewing restricted KiwiSaver schemes eligibility criteria
- monitoring the default KiwiSaver schemes
- assessing the effectiveness of KiwiSaver trustees
- providing guidance to the KiwiSaver industry
- overseeing the implementation of new legislation.

Statistical highlights

- There were over 2.09 million members enrolled in KiwiSaver schemes as at 31 March 2013.
- There were 45 registered KiwiSaver schemes at year end.
- Total assets invested in KiwiSaver exceeded \$16.56 billion as at 31 March 2013.
- Default schemes have 22.2 percent of the total KiwiSaver membership and 20.5 percent of the total assets invested.
- 22,634 members who turned 65 in the last year became eligible to withdraw from KiwiSaver and withdrew \$351.6 million in funds.
- Member minimum required contributions totalled over \$1,467 million, an increase of 10 percent over the 2012 figures, reflecting an increase of 9.6 percent in the number of members.

KEY ACTIVITIES DURING THE YEAR

Threat assessment of KiwiSaver

Over the past year, FMA has undertaken a threat assessment of the New Zealand KiwiSaver sector and has identified actions that needed to be taken as a result of the risks identified.

Findings from our threat assessment have been incorporated into our ongoing monitoring of KiwiSaver and our activities over the last year have been focused on the following, with work in these areas having already commenced:

- **Investment disclosure risk:** FMA is concerned about whether investment strategies are appropriately disclosed and disclosure documents are understandable.
- **Investment risk management:** FMA is currently focusing on investment risk management (including custody) by managers of KiwiSaver schemes and the oversight of this risk by trustees.

Review of KiwiSaver offer documents

KiwiSaver is often the first investment many individuals make and may represent a large part of their retirement savings. Inadequate or misleading disclosures in offer documents could therefore have a significant impact on their retirement.

The Securities Act 1978 sets out requirements for prospectus and investment statements, including requiring that disclosure documents are not misleading. In June 2012, we released an Effective Disclosure Guidance Note which provided FMA's view on good practice for preparing disclosure documents and explained the approach we intend to take in reviewing prospectuses and investment statements.

As part of our ongoing monitoring of KiwiSaver, we also announced to market participants in November 2012 that we would carry out theme-based monitoring of all KiwiSaver offer documents, to test whether investment strategies were being appropriately disclosed and whether disclosure documents were understandable.

FMA's key objective in carrying out this monitoring was to promote high standards of reporting and increase public confidence in KiwiSaver offer documents.

Our review was conducted across 15 KiwiSaver schemes with total funds under management of \$5 billion, representing 40 percent of the total KiwiSaver market at that time. We reviewed each KiwiSaver scheme's investment statement, prospectus, financial statements, statement of investment policy and objectives (SIPO) where applicable, as well as other publicly available advertising material such as websites (all together referred to as the offer documents).

The review of these offer documents was based on all applicable securities and financial reporting laws in force at November 2012. FMA also considered the Effective Disclosure Guidance Note issued in June 2012 and the KiwiSaver (Periodic Disclosure) Regulations 2013.

During the course of the review, we wrote to a number of issuers to clarify certain disclosure matters. As a result, some issuers reassessed the disclosures in their offer documents and volunteered to make improvements.

The report we published in June 2013 outlined to issuers, their directors and trustees, FMA's views and observations on current market practices and provided comment on the following:

- investment returns
- risk disclosures
- risk management
- directors and senior management
- fund fees and performance fees
- investment objectives and policy
- risk profile questionnaires
- trustee statements in prospectuses
- financial reporting.

In addition, FMA worked proactively with two issuers to achieve compliance to address our concerns about potentially misleading statements in their offer documents.

We will continue to monitor how issuers adapt to our guidance.

Review of KiwiSaver investment risk management

Background

FMA undertook a thematic review of KiwiSaver scheme investment risk management between March and June 2013. This review focused on how trustees monitor retail KiwiSaver scheme managers' management of investment risk. The risk identified is when KiwiSaver scheme managers fail to implement their investment strategies with skill, care and diligence and therefore investments are not made in accordance with the scheme's Statement of Investment Policies and Objectives (SIPO) and trust deed.

While investment strategies are determined by the KiwiSaver scheme manager, the risk is ultimately borne by individual members of KiwiSaver schemes and has the potential to impact the value of their investments.

This risk does not include market risk, i.e. where the manager has acted with skill, care and diligence, but market values have decreased. This market risk is acknowledged as a normal hazard of investing. FMA does not, and cannot, require KiwiSaver trustees, in performing their supervision of KiwiSaver schemes, to remove market risk.

Under the KiwiSaver Amendment Act 2011, KiwiSaver trustees (other than for restricted KiwiSaver schemes) must supervise the manager's function of managing scheme investments and property. The trustee cannot delegate this function. It is the responsibility of trustees, in the first instance, to ensure that managers are investing in appropriate assets and in accordance with the SIPO. However, at the same time managers have a fiduciary obligation to scheme members. Supervision by the trustee does not diminish or remove the manager's obligation.

Our review

Our focus is on ensuring that KiwiSaver scheme investments are made in accordance with the SIPO and reflect the investment profile of the relevant fund. FMA seeks to control this risk by ensuring that there is adequate supervision of KiwiSaver managers' investment management.

The primary purpose of our review was to determine whether KiwiSaver trustees are adequately supervising managers to ensure they have appropriate investment strategies in place, carry out the necessary research and analysis before investing, manage their investments with skill, care and diligence and implement their investment strategies in accordance with a scheme's SIPO and trust deed.

The results of our review showed that while KiwiSaver trustees have the foundations in place for monitoring managers' investment management, there is still work to be done to develop more comprehensive and robust supervision plans.

Written feedback has been provided to all KiwiSaver trustees as a consequence of the review. It is our intention to issue a guidance note to the market in late 2013 to provide guidance to KiwiSaver scheme trustees around our expectations of their supervision of investment risk management.

Review of restricted KiwiSaver schemes eligibility criteria

Subsequent to 1 October 2012, after the KiwiSaver Amendment Act 2011 came into full force, we reviewed the eligibility criteria specified in the trust deeds of KiwiSaver restricted-entry schemes. The review revealed that a couple of the schemes needed to update their eligibility criteria to ensure they fully complied with the new requirements to be a restricted scheme. FMA negotiated with the trustees of affected schemes and requisite trust deed amendments were made to restrict the new member eligibility criteria.

Exempt employer, complying superannuation fund status

Where a company has exempt employer status, new employees of that company are not subject to the automatic enrolment rules prescribed in the Act.

As at 30 June 2013, 317 private sector employers still held exempt employer status, compared to 326 at 30 June 2012.

As at 30 June 2013, there were 27 schemes which held Complying Superannuation Fund (CSF) status. Of these, 17 were stand-alone employer schemes, the other 10 were multi-employer schemes. Five (10 at 30 June 2012) employers of multi-employer schemes had received relevant participating employer complying fund status. The decrease in CSF employers of master trust schemes is due to one provider continuing to close CSF sub-plans.

Working with Inland Revenue

Inland Revenue is responsible for ensuring KiwiSaver scheme providers meet all the requirements of their Scheme Provider Agreement (SPA) with Inland Revenue. This agreement covers the administration of KiwiSaver member and employer contributions, as well as requiring providers to comply with the KiwiSaver trademark licence and not do anything that would bring KiwiSaver into disrepute.

FMA has an interest in working with Inland Revenue to ensure any issues relating to the management of KiwiSaver schemes are brought to the attention of the scheme's trustees if appropriate, and are dealt with in a timely manner with minimal impact to members.

We have continued to work closely with Inland Revenue over the last year to:

- facilitate the establishment of new KiwiSaver schemes – registering new schemes following confirmation of Inland Revenue's certification that the scheme provider meets all administration requirements of the SPA
- ensure any KiwiSaver scheme wind ups have been managed effectively
- follow up on any member complaints that have been received by the Inland Revenue KiwiSaver call centre and relate to the sale and distribution of KiwiSaver.

Monitoring default schemes

FMA has continued to manage the Default Monitoring Panel which supervises the default KiwiSaver schemes. Over the last year we have actively monitored the purchase of Tower Managed Funds Limited by Fisher Funds Management Limited and the proposed merger of the AXA and AMP default KiwiSaver schemes.

Registration of new KiwiSaver schemes

Over the past year FMA registered two new KiwiSaver schemes. The total number of registered schemes at 30 June 2013 was 45 (compared to 50 last year) and a further four KiwiSaver schemes are in the process of winding up.

Communication and guidance notes

FMA actively engages and communicates with KiwiSaver providers and other market participants to address problems as they arise.

Guidance notes are issued as required under section 127 of the Act. It is our policy to publicly consult on guidance prior to issuing it. The following KiwiSaver guidance notes were issued last year:

- **Sale and Distribution of KiwiSaver – October 2012:** This note provided guidance on FMA's expectations for the sale of KiwiSaver schemes within the requirements and spirit of the Financial Advisers Act 2008, as well as the factors FMA will take into account when considering whether advice is given, and if so, whether the advice is categorised as class or personalised service.

The following documents were issued under the Securities Act:

- **Effective Disclosure – June 2012:** This guidance note was issued for issuers of securities, their directors and advisers. It explains the approach FMA will take in reviewing prospectuses and investment statements for compliance with the law. It also provides our views on good practice for preparing these disclosure documents.
- **Monitoring of KiwiSaver Offer Documents – June 2013:** This report outlines to issuers, their directors and advisers, our views and observations on current market practices and offers some further guidance following on from our earlier guidance note on Effective Disclosure.

The following guidance notes were issued under the Securities Trustees and Statutory Supervisors Act 2011 and accompanying Securities Trustees and Statutory Supervisors Regulations 2011:

- **Monitoring by Securities Trustees and Statutory Supervisors – June 2013:** This note sets out our expectations of how trustees should carry out their monitoring functions effectively.
- **Securities Trustees and Statutory Supervisors – October 2011:** This note provides details of the licensing process and criteria for those persons wishing to apply to FMA for licences as a Securities Trustees and Statutory Supervisor.

These guidance notes are discussed in more detail in other sections of this report.

LEGISLATIVE CHANGE

KiwiSaver Amendment Act 2011 (effective from 1 October 2012)

The KiwiSaver Amendment Act 2011 came into force on 1 May 2011 and required all non-restricted KiwiSaver schemes (retail KiwiSaver schemes) to restructure the governance of their scheme by 30 September 2012 and have in place:

- a manager who is the issuer for the purposes of the Securities Act 1978
- a licensed external trustee.

The effect of this restructuring was that trustees essentially became the frontline supervisor of all retail KiwiSaver schemes' managers, and as such, have the responsibility for holding scheme assets and supervising KiwiSaver scheme managers' performance of their functions.

Securities trustees and statutory supervisor licensing

The Securities Trustees and Statutory Supervisors Act 2011 and accompanying Securities Trustees and Statutory Supervisors Regulations 2011 came into effect on 1 October 2011.

As a result, from 1 October 2011 KiwiSaver trustees were required to be licensed by FMA under the Securities Trustees and Statutory Supervisors Act 2011, with their licences granted by 30 September 2012.

The purpose of this Act is to protect the interests of security holders and enhance investor confidence in the financial markets by:

- requiring persons who wish to be appointed as trustees or statutory supervisors to be capable of effectively performing the functions of trustees or statutory supervisors
- requiring trustees and statutory supervisors to perform their functions effectively
- enabling trustees and statutory supervisors to be held accountable for any failure to perform their functions effectively.

In October 2011, we issued a guidance note for persons wishing to apply to FMA for licences under the Act, to explain the licensing process, specify the licensing criteria, and describe the information we require to determine whether an applicant is capable of effectively performing the functions of a trustee or statutory supervisor.

Licensed securities trustees and statutory supervisors (trustees) play an important role as frontline supervisors of issuers of securities such as KiwiSaver schemes. This is crucial to the monitoring of activities of KiwiSaver scheme managers and the overall effective operation of KiwiSaver schemes.

The Securities Trustees and Statutory Supervisors Act 2011 requires trustees to perform their functions effectively and FMA licenses the trustees and monitors the performance of their functions.

The Act explicitly focuses on protecting the interests of investors and enhancing investor confidence. Trustees have been entrusted with a vital role in the financial markets and must conduct themselves in a manner deserving of that trust. Both the market and FMA have high expectations of trustees.

FMA recognises that failure by one or more trustees to perform their functions effectively is likely to have serious consequences for investors who rely heavily on them. Many KiwiSaver scheme investors are inexperienced in investment matters, and as a result, are vulnerable. Any serious consequence for investors will lead to serious adverse consequences for New Zealand's financial markets.

Therefore, the importance of issuing guidance to the market with FMA's expectations of trustees is well recognised. We also issued a further guidance note to trustees in July 2013 on Monitoring by Securities Trustees and Statutory Supervisors, detailing our general expectations of trustees including, where applicable, their role in monitoring KiwiSaver scheme managers.

The guidance note explained our expectations of activities that trustees should undertake in order to carry out their functions effectively and the qualities they should demonstrate when doing this.

FMA's expectation is that trustees' activities should have an investor focus. While they cannot offer a guarantee of investor protection, we expect trustees will plan their monitoring activities so as to identify risks to investors, beyond the level accepted by investors in making the investment, and take the necessary steps to mitigate these wherever possible.

During the year FMA conducted onsite monitoring visits with each KiwiSaver trustee, which included a review of KiwiSaver monitoring practices. Separately, we also had discussions in relation to trustees' supervision of KiwiSaver scheme managers' investment risk.

KiwiSaver Periodic Disclosure Regulations 2013

The KiwiSaver (Periodic Disclosure) Regulations 2013 (the Regulations) were made on 25 March 2013 and came into force on 1 July 2013.

The purpose of the Regulations is two-fold:

- to improve the visibility and transparency of information about KiwiSaver schemes
- to assist the public to more readily and easily compare KiwiSaver schemes.

The objective is to raise the level of public awareness and understanding of the KiwiSaver schemes on offer so that the public can make an informed choice between the different schemes.

The Regulations require all 33 retail KiwiSaver schemes to report certain information on each investment fund within a KiwiSaver scheme. The 12 restricted (employer-sponsored and industry related) KiwiSaver schemes are exempt from the Regulations.

The information that is required to be disclosed must be reported in a uniform and standardised way, using the Regulation's templates for both quarterly (QDS) and annual (ADS) disclosure statements, as well as corresponding electronic Comma Separated Values (CSV) data files.

Some of the key information required to be disclosed is:

- performance and returns
- fees and costs
- the actual and target investment mix of a fund and the top 10 asset holdings
- liquidity and liabilities
- key personnel and conflicts of interest
- material changes to a fund's trade allocation, execution and proxy voting policies
- information about changes to a fund's valuation and unit pricing methodologies.

The KiwiSaver disclosure statements must be made publicly available on the KiwiSaver manager's website and must have a hyperlink to the related electronic CSV data file. Both the disclosure statement and CSV data file are required to be filed with FMA, as well as being made publicly available within 15 working days of quarter end for a QDS, and 60 working days for an ADS. The first QDS is due 21 October 2013 for the quarter ended 30 September 2013.

FMA's role under the Regulations is to ensure KiwiSaver managers comply with the requirements of the Regulations by:

- Providing KiwiSaver managers with details of how the statements (both the ADS/QDS and data files) should be provided to us and making sure we have an electronic/ physical place to receive and file/store all ADS/QDS submitted to FMA.
- Checking that all KiwiSaver schemes required to submit disclosure statements for each of their funds do actually submit them to FMA when due, and make them publicly available through their website.
- Considering what guidance we might need to, or could usefully issue. For example, if we need to clarify how we interpret the requirements of the Regulations or clarify FMA's expectations.
- Considering what additional compliance monitoring is required on an ongoing basis to ensure all information is complete, accurate and not misleading, and providers are complying with the Regulations and meeting FMA's expectations and the legislative requirements.

We are looking to achieve the following under the new regime:

- a high level of compliance from KiwiSaver schemes, with managers having a clear understanding of the requirements of the Regulations and detail of the information required for completion of QDS and ADS, evidenced by consistency in the information and data provided across the sector
- FMA is seen to be effectively managing our legislative monitoring requirements
- any issues identified are dealt with promptly by both FMA and the respective KiwiSaver scheme managers
- greater visibility and transparency of information about KiwiSaver schemes
- better comparability of KiwiSaver schemes.

LOOKING FORWARD

The changing landscape

The Financial Markets Conduct Act (FMC Act) and proposed Regulations will bring about a dramatic change in our landscape. The introduction of these changes is just around the corner and has the potential to significantly impact all KiwiSaver schemes.

Of particular relevance are the proposed new requirements that call for all managers to be licensed by FMA and the introduction of a more streamlined approach to product disclosure for a variety of products including KiwiSaver.

It is intended that there will be a transition period for KiwiSaver schemes and managers to comply with the new requirements, and special provisions will be made for restricted KiwiSaver schemes.

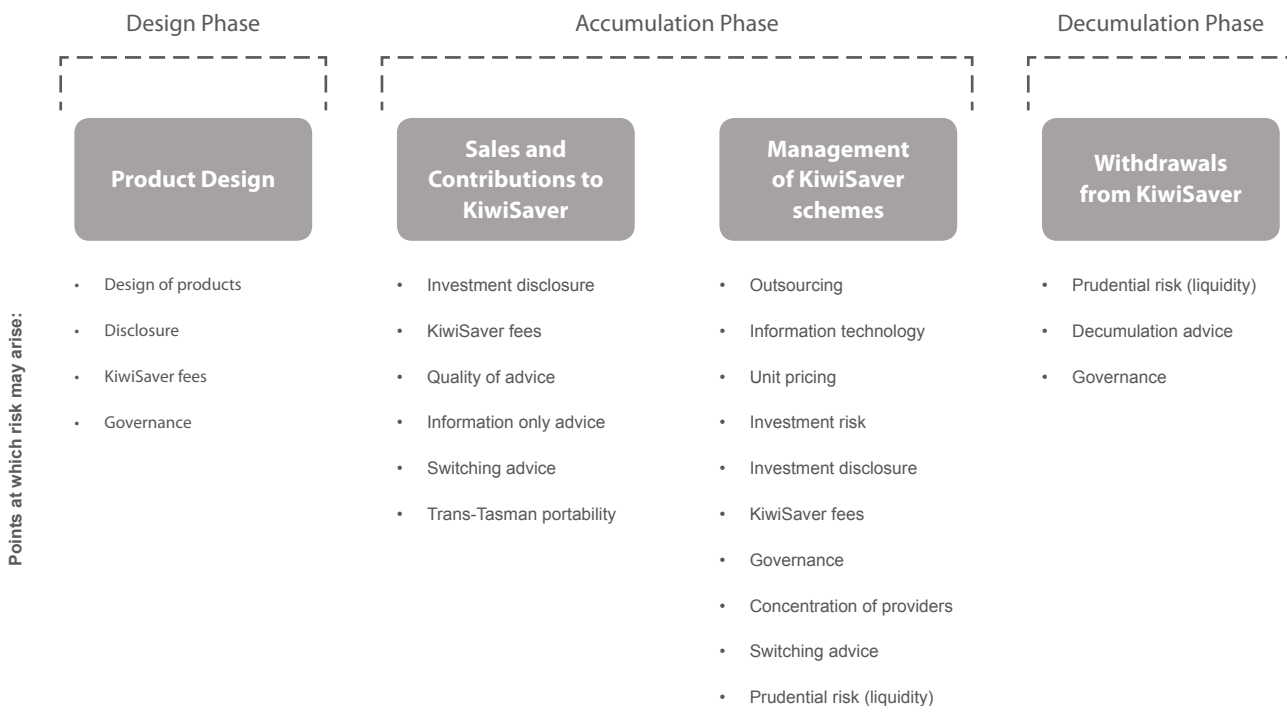
The proposed changes to the landscape may have the potential to trigger a further rationalisation of both retail KiwiSaver schemes and those restricted schemes sponsored by employers in the workplace.

Trans-Tasman superannuation portability raises new challenges. While this has the potential to drive significant growth, there are challenges in ensuring members get appropriate advice about whether a transfer is in their best interests.

Proposed activities

FMA's threat assessment of the KiwiSaver sector identified the following risks and some of these will be the focus of future monitoring activities:

THE KIWISAVER LIFECYCLE AND POTENTIAL RISK POINTS



FMA has already undertaken significant regulatory action in order to lift standards in the KiwiSaver sector and address misconduct when it arises. We issued guidance on KiwiSaver Performance Fees in May 2012, Sales and Distribution of KiwiSaver in October 2012, and we have been working to outline our expectations and lift compliance standards amongst KiwiSaver trustees, issuing further guidance in July 2013. In the past FMA has also issued warnings and taken enforcement action where necessary. Further risk-based compliance monitoring work is planned in the future.

The following proposed activities will help to address some of the risks identified above.

Industry concentration

Concentration of providers in the KiwiSaver sector is a key trend. Over the last 15 months we have seen the acquisition of Gareth Morgan Investments by Kiwibank, the merger of the National Bank KiwiSaver Scheme into the ANZ KiwiSaver Scheme and the purchase of Tower Managed Funds Limited by Fisher Funds Management Limited. In July 2013, the AXA and AMP default KiwiSaver schemes applied to FMA to merge. According to Morningstar figures, as at March 2013, the four largest KiwiSaver providers manage almost 76 percent of the KiwiSaver scheme assets, compared with 69 percent from last year. Note, the Morningstar report does not cover all KiwiSaver schemes.

There is a risk that the number of KiwiSaver providers in New Zealand could become even more concentrated in the coming years. FMA has limited ability to influence this, however we will monitor concentration in the sector with a view to identifying any adverse impact on member choice, sales practices and fees.

Unit pricing

Unit pricing errors can have adverse implications for investors. FMA will undertake a review of unit pricing in late 2013, to review how KiwiSaver scheme trustees monitor managers' pricing practices and following this we will issue our general findings to trustees.

Licensing

Under the FMC Act, FMA will have the power to set licence conditions for scheme managers. These licence conditions will address care, diligence, skill and financial resource requirements. We expect KiwiSaver issuers to act with integrity in their dealings with investors and market participants and we encourage them to review the robustness of their operational arrangements, including their controls, monitoring and governance in preparation for future licensing. We will focus on these issues as part of our licensing and risk-based monitoring process during the remainder of 2013 and into 2014.



STATISTICS

Statistical commentary

Membership

As at 31 March 2013 there were over 2.09 million¹ KiwiSaver scheme members. This is an increase of 9.6 percent from the previous year.

Assets invested

Total assets invested exceeded \$16.56 billion at 31 March 2013,² an increase of \$3.83 billion (30 percent on the previous year).

KiwiSaver scheme types and sizes

KiwiSaver schemes fall into three distinct types:

- 'Default' KiwiSaver schemes – these are currently the six schemes that new members are automatically enrolled into if they do not actively choose their own KiwiSaver scheme
- 'retail' schemes open to members of the public
- 'restricted' schemes for specific groups of people either employed in the same company or industry, or other defined group.

Default schemes have 22.2 percent of the total KiwiSaver membership and 20.5 percent of the total assets invested, while other retail schemes make up 76.7 percent of the membership and 77.3 percent of total scheme assets. Other restricted KiwiSaver schemes account for only 1.1 percent of the membership and 2.2 percent of the assets invested.

Four KiwiSaver schemes have over \$1 billion in assets,³ representing over a million members – almost 50 percent of the total membership. The same number of schemes have under \$1 million in assets but represent only a fraction (less than 1 percent) of the membership. Nearly a third (29 percent) of all schemes (13 out of 45 schemes) have between \$200 and \$1 billion in assets invested, representing 48 percent of all assets and 45 percent of the total membership.

¹ See Appendix 2.

² See Appendix 1.

³ See Appendix 9.

Default schemes

The fact that approximately 20 percent of all funds are invested in the six default KiwiSaver schemes and their respective default investment funds was of benefit to members during the recent Global Financial Crisis (GFC), as these funds have a conservative investment strategy. However, it is hoped that members, with the help of KiwiSaver providers, through advice and education, will consider longer term investment options which may be more suited to their risk and age profile.

Member contributions

Member minimum required contributions for the year totalled \$1.467 billion, an increase of 10 percent over 2012, which reflects the increase in member numbers. It is also interesting to see that member voluntary contributions over and above the minimum required increased by 17 percent or \$13.6 million.

In addition there has been an inflow of contributions from other superannuation schemes into KiwiSaver totalling \$40 million, up nearly 150 percent on the \$16 million transferred in the previous year.

Employer contributions

Despite the growth in membership, employer contributions have reduced by nearly 8 percent on the previous year. This is likely to largely be the result of the introduction of Employer Superannuation Contribution Tax (ESCT) on employer contributions from 1 April 2012.

These numbers pre date the mandatory increase in employer contributions, from 2 percent to 3 percent, which came into effect from 1 April 2013.

Crown contributions

The reduction in the Crown subsidised member tax credit has resulted in a significant decrease (60 percent) in the total Crown contributions paid into funds over the last year.

Withdrawals and benefit payments

- *Significant financial hardship* – during the year 7,165 members withdrew funds of \$26.9 million (on a par with the previous year) under the significant financial hardship provisions of the Act. We believe this reflects the continued weaker economic climate following the GFC and possibly also the ongoing effect of the Christchurch earthquakes. Since KiwiSaver's inception 25,025 members have utilised this provision.

- *Permanent emigration* withdrawals or transfers were paid out to 6,254 exiting members totalling \$46 million, up 141 percent on the previous year which saw only 2,903 members exit due to permanent emigration.
- *First home purchase* withdrawals increased by almost \$63 million over 2012 (a 110 percent increase) with 10,733 members withdrawing funds for this purpose.

Transfers between KiwiSaver schemes

Nearly \$850 million in members' account balances were transferred between KiwiSaver schemes in the last year, up 14 percent on transfers in 2012. These transfer numbers include members from a number of smaller KiwiSaver schemes that wound up during the year.

FMA is concerned about whether or not KiwiSaver members have access to financial advice when considering transferring between KiwiSaver schemes or switching funds. This was identified as an issue in our Sales and Distribution of KiwiSaver Guidance Note issued in October 2012.

Membership profile

As was the case in the previous year, there are slightly more female members of KiwiSaver schemes than men (51 percent).³ The largest age group of active choice members, accounting for 19.4 percent of those who actively selected a scheme, is 17 and under,⁴ followed closely by 18-25 year olds who make up a further 16 percent of the membership. For default schemes, the largest age group is 18-25 year olds, making up 20 percent of the members, which is what we would expect to see.

Across all schemes, there are now over 322,000 members (just over 15 percent of the total membership) aged 17 or under.⁵ It is believed that a large percentage of these members currently make no contributions.

Members age 65 and over

KiwiSaver members who turned 65 in the last year and who have been a scheme member for at least five years have been able to withdraw their KiwiSaver balances from 1 July 2012. This is the first year these withdrawals, referred to as 'end payment date withdrawals', have become payable since the inception of KiwiSaver. There have been 22,634 members withdraw from KiwiSaver under this category. Members who have become entitled to withdraw savings after turning 65 have withdrawn a total of \$351.6 million.

Employer preferred KiwiSaver schemes

Under section 46 of the Act an employer can notify the Commissioner of Inland Revenue that they have chosen a preferred KiwiSaver scheme, which all their eligible employees will be automatically enrolled in, unless they actively choose to join another scheme. As at 31 March 2013, 17,138 employers had chosen a preferred KiwiSaver scheme.

Switches between investment funds

6,593⁶ members switched out of default investment products during the year, transferring \$74.92 million into other investment fund options. 40 percent of these member accumulated funds were transferred into a conservative investment option, 36 percent into a balanced option, 19 percent into a growth option and the balance was invested into cash (4 percent) and share funds (1 percent).

Overall funds of \$344 million were switched between investment funds.

Contributing and non-contributing members

From the statistics in Appendix 2 it is possible to define the percentage of contributing members. There are 1,125,509 contributing members, which represents 53.7 percent of the total number of members. The other 46.3 percent, regarded as non-contributors,⁷ will include a significant number of those under 17 and some self-employed. While many self-employed members may not make regular contributions during the year, they may choose to make lump sum contributions close to the end of their tax year in order to secure the maximum tax credit entitlement.

This is on a par with the previous year where 55 percent of the total number of members (some 1,051,820 members) were contributing.

³ See Appendix 3.

⁴ i.e. members who have actively selected their KiwiSaver scheme, rather than being placed in a default scheme.

⁵ See Appendix 3.

⁶ See Appendix 7 for switches between investment funds.

⁷ The definition of a non-contributing member is a member who has not made a contribution in the previous two months.

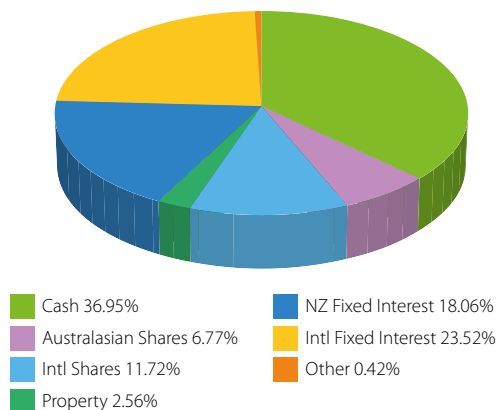
Statistical Appendices

Appendices 1 to 11 contain the aggregation of the 31 March 2013 statistical returns required to be completed in accordance with the KiwiSaver Regulations 2006. Appendices 1 to 8 mirror the form identified in Schedule 1.

Investment portfolios average benchmark asset allocations

The below pie chart shows the average benchmark investment asset allocation for the six default KiwiSaver schemes' default funds.

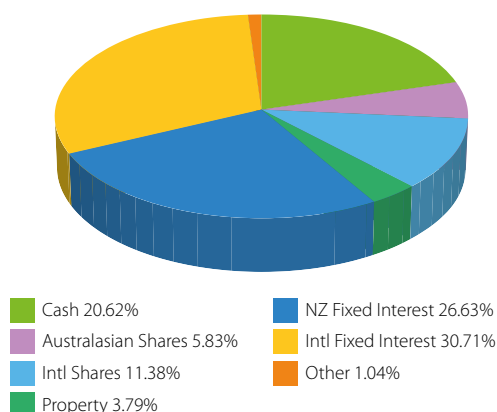
DEFAULT PORTFOLIO



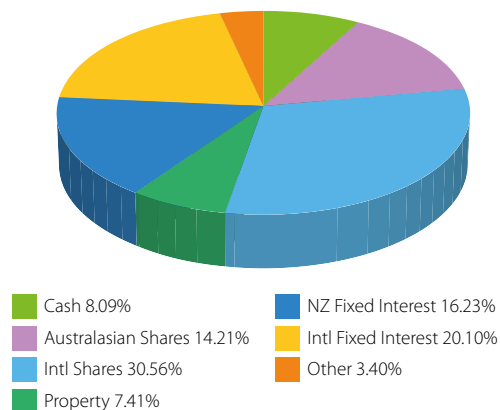
The following pie charts show the average benchmark investment asset allocations of the top 10 (measured by scheme assets) KiwiSaver schemes' respective Conservative, Balanced and Growth funds.

Appendix 6 provides a summary of investment funds across all KiwiSaver schemes. It shows the number of members and total value invested in each fund.

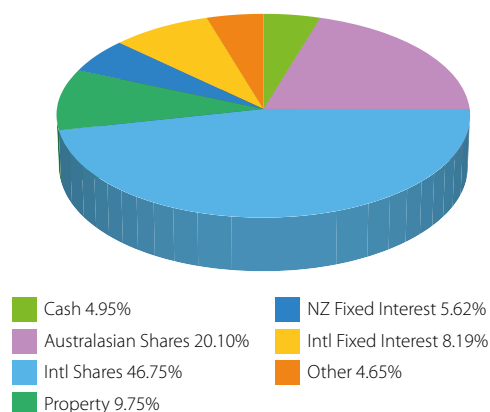
CONSERVATIVE PORTFOLIO



BALANCED PORTFOLIO

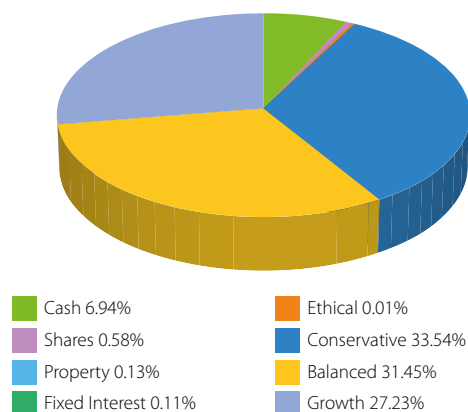


GROWTH PORTFOLIO



Member preference can also be demonstrated by taking the same 10 KiwiSaver schemes and showing the general asset classes and the single sector funds.

PORTFOLIO ALLOCATION – EXCLUDING DEFAULT MEMBERS





APPENDICES

APPENDIX 1

KiwiSaver schemes in force as at 31 March 2013 – Income and expenditure summary

	Default (\$000)	Active (\$000)	Total (\$000)
<i>Opening balance of scheme assets at start of annual return year</i>	2,920,547	9,814,799	12,735,346
Categories of income for annual return year			
Member contributions at section 64 contribution rate	355,005	1,112,215	1,467,220
Employer contributions	204,626	592,000	796,626
Crown contributions (section 226) and fee subsidies	179,484	485,396	664,880
Transfers of members' accumulations into scheme from other KiwiSaver schemes	4,661	820,057	824,718
Transfers of members' accumulations into scheme from registered superannuation schemes	1,878	38,592	40,470
Lump sum contributions	4,497	116,415	120,912
Other voluntary contributions over section 64 contribution rate	4,012	90,094	94,106
Income from investment of scheme assets	230,659	1,311,802	1,542,461
Other income	2,507	15,254	17,761
<i>Total income from annual return year</i>	987,329	4,581,825	5,569,154
Categories of expenditure for annual return year			
First home purchase withdrawals	24,248	95,938	120,186
Mortgage diversion withdrawals	24	440	464
KiwiSaver end payment date withdrawals	40,709	310,922	351,631
Withdrawals on death	2,596	16,531	19,127
Serious illness withdrawals	2,358	8,195	10,553
Withdrawals or transfers on permanent emigration	11,209	34,965	46,174
Significant financial hardship withdrawals	5,926	20,975	26,901
Transfer of members' accumulations out of the scheme into other KiwiSaver schemes	365,432	480,864	846,296
Amounts required to be paid under other enactments	1	360	361
Invalid Enrolments	2,995	1,400	4,395
Administration fees	16,420	47,692	64,112
Investment management fees	13,299	87,485	100,784
Trustee fees	836	2,983	3,819
Insurance Premiums	0	0	0
Taxation	33,674	101,603	135,277
Other scheme expenses	310	9,248	9,558
<i>Total expenditure for annual return year</i>	520,037	1,219,601	1,739,638
<i>Closing balance of scheme assets at end of annual return year</i>	3,387,839	13,177,023	16,564,862

Note:

1. The statistical returns are unaudited and may not include all transactions.
2. Some providers currently have an inability to differentiate between types of transfers, therefore there are discrepancies in transfers to and transfers from KiwiSaver Schemes. There are also timing differences.
3. Opening balances do not agree with last years Report, closing balances due to the change to accrued accounting.
4. In the current year 10,733 members withdrew for the purposes of first home purchase (17,744 members since inception).
5. In the current year 7,165 members withdrew funds due to significant hardship (25,025 members since inception).

APPENDIX 2

KiwiSaver schemes in force as at 31 March 2013 – Membership summary

	Default	Active	Total
<i>Number of contributing members at start of annual return year</i>	255,054	796,766	1,051,820
Categories of entries of members for annual return year			
New members (other than transfers from other schemes)	77,802	139,705	217,507
Members restarting contributions at end of section 104 contribution holidays	2,734	4,238	6,972
Members restarting contributions after stopping contributions for any other reason	29,718	92,468	122,186
Members transferring into scheme from other KiwiSaver schemes	432	126,953	127,385
Members transferring into scheme from registered superannuation schemes	47	798	845
<i>Total entries for annual return year</i>	110,733	364,162	474,895
Categories of membership exits for annual return year			
KiwiSaver end payment date exits	2,688	19,946	22,634
Deaths	372	1,867	2,239
Permanent emigration exits	1,635	4,619	6,254
Transfers out of scheme into other KiwiSaver schemes	53,707	72,570	126,277
Other permanent exits	217	974	1,191
Invalid enrolments	2,040	772	2,812
Members starting section 104 contribution holidays	7,204	18,242	25,446
Member stopping contributions for other reasons	41,937	172,416	214,353
<i>Total temporary and permanent exits for annual return year</i>	109,800	291,406	401,206
<i>Number of contributing members at end of annual return year</i>	255,987	869,522	1,125,509
Non-contributing members on section 104 contribution holidays			
Number of members on section 104 contribution holidays at start of annual return year	29,171	38,235	67,406
Members starting section 104 contribution holidays	7,204	18,242	25,446
Members ending section 104 contribution holidays and restarting contributions	2,734	4,238	6,972
Members ending section 104 contribution holidays but not restarting contributions for any reason	767	2,336	3,103
<i>Number of members on section 104 contribution holidays at end of annual return year</i>	32,874	49,903	82,777
Other non-contributing members (not on section 104 contribution holidays)			
Number of other non-contributing members (not on section 104 contribution holidays) at start of annual return year	163,049	627,936	790,985
Members stopping contributions without section 104 contribution holidays	42,704	174,752	217,456
Members restarting contributions after having stopped contributions without section 104 contribution holidays	29,718	92,468	122,186
<i>Number of other non-contributing members (not on section 104 contribution holidays) at end of annual return year</i>	176,035	710,220	886,255
Total number of members at end of annual return year	464,896	1,629,645	2,094,541

Note:

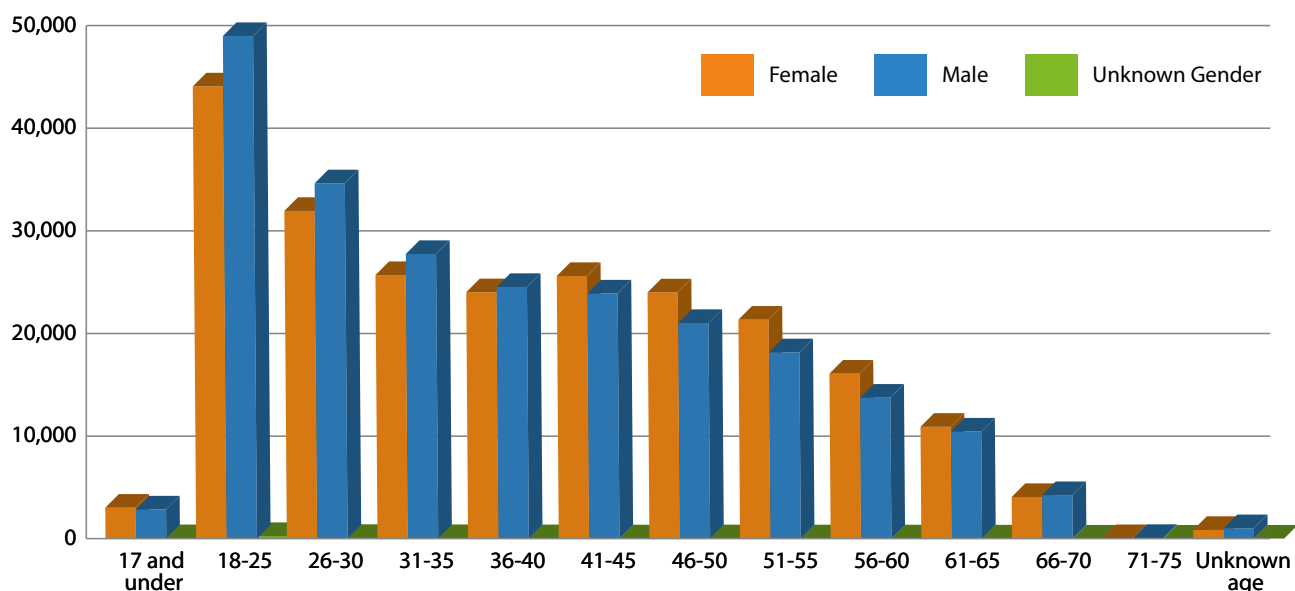
1. Some providers currently have an inability to differentiate between types of transfers, therefore there are discrepancies in transfers to and transfers from KiwiSaver Schemes. There are also timing differences.

APPENDIX 3

KiwiSaver schemes in force as at 31 March 2013 – Age and gender profile of members

Age at end of annual return year	Default members			Total default members
	Female	Male	Unknown gender	
17 and under	3,026	2,841	41	5,908
18-25	44,223	49,140	251	93,614
26-30	32,048	34,736	65	66,849
31-35	25,775	27,826	49	53,650
36-40	24,094	24,600	38	48,732
41-45	25,682	23,963	25	49,670
46-50	24,076	21,078	32	45,186
51-55	21,412	18,212	26	39,650
56-60	16,136	13,775	23	29,934
61-65	10,938	10,462	13	21,413
66-70	4,071	4,244	4	8,319
71-75	50	54	0	104
Unknown age	851	1,012	4	1,867
<i>Total number of members</i>	232,382	231,943	571	464,896

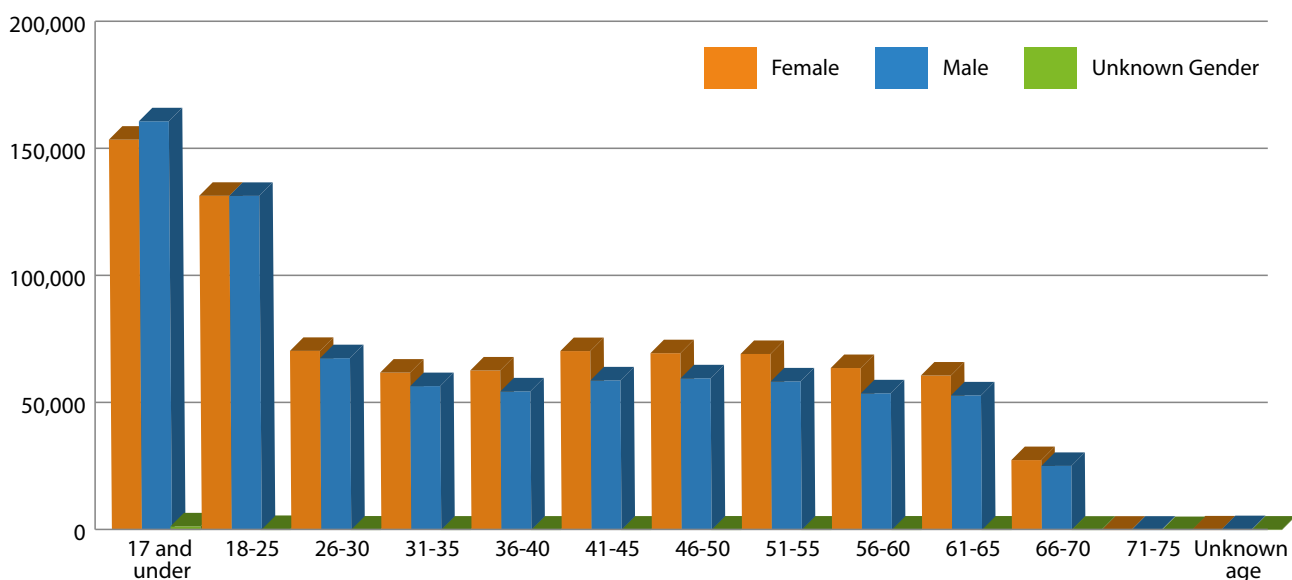
DEFAULT MEMBERS AGE AND GENDER PROFILE



KiwiSaver schemes in force as at 31 March 2013 – Age and gender profile of members

Age at end of annual return year	Active members			Total active members
	Female	Male	Unknown gender	
17 and under	153,885	161,129	1,457	316,471
18-25	131,759	131,721	423	263,903
26-30	70,625	67,745	200	138,570
31-35	62,065	56,737	178	118,980
36-40	62,910	54,669	183	117,762
41-45	70,548	59,005	185	129,738
46-50	69,717	59,816	207	129,740
51-55	69,402	58,600	189	128,191
56-60	63,860	53,895	201	117,956
61-65	60,913	53,088	207	114,208
66-70	27,579	25,287	155	53,021
71-75	152	152	0	304
Unknown age	252	361	188	801
<i>Total number of members</i>	843,667	782,205	3,773	1,629,645

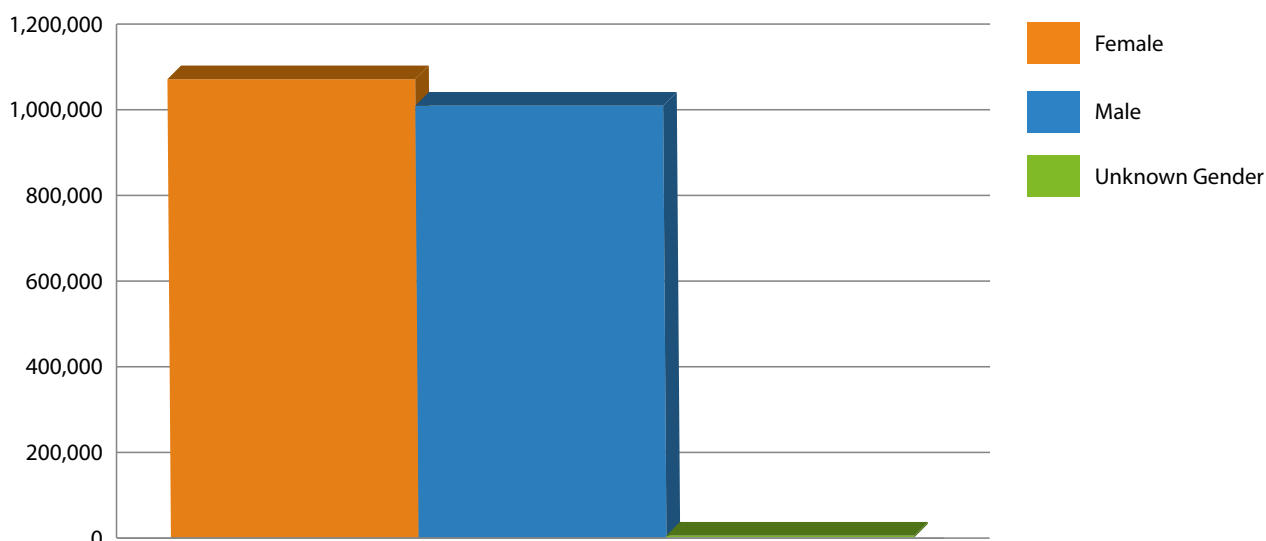
ACTIVE CHOICE MEMBERS AGE AND GENDER PROFILE



KiwiSaver schemes in force as at 31 March 2013 – Age and gender profile of members

Age at end of annual return year	Total members			Total members
	Female	Male	Unknown gender	
17 and under	156,911	163,970	1,498	322,379
18-25	175,982	180,861	674	357,517
26-30	102,673	102,481	265	205,419
31-35	87,840	84,563	227	172,630
36-40	87,004	79,269	221	166,494
41-45	96,230	82,968	210	179,408
46-50	93,793	80,894	239	174,926
51-55	90,814	76,812	215	167,841
56-60	79,996	67,670	224	147,890
61-65	71,851	63,550	220	135,621
66-70	31,650	29,531	159	61,340
71-75	202	206	0	408
Unknown age	1,103	1,373	192	2,668
<i>Total number of members</i>	1,076,049	1,014,148	4,344	2,094,541

GENDER PROFILE ALL MEMBERS



APPENDIX 4

KiwiSaver schemes in force as at 31 March 2013 – Profile of new default and other members

	Number of Members	Scheme assets held for those members (\$)
Default members allocated to scheme by Commissioner under section 51 in annual return year	78,059	138,162,024
Other new members entering scheme in annual return year (including transfers from other schemes and active choice members)	62,346	205,526,851

Note:

1. Some providers have included members who have since opted out whilst others have not.

APPENDIX 5

KiwiSaver schemes in force as at 31 March 2013 – Summary of non-contributing members (not on section 104 contribution holidays)

	Number of Default Members	Scheme assets held for those members (\$)	Number of Active Members	Scheme assets held for those members (\$)
Number of non-contributing members (not on section 104 contribution holidays) at start of annual return year	163,049	580,467,686	626,720	1,584,874,417
Number of non-contributing members (not on section 104 contribution holidays) at end of annual return year	176,035	726,692,305	710,220	2,245,131,412

Note:

Non-contributing member –

- A member for whom no contributions have been received in the previous two months or
- Where the member does not contribute via the IRD, the member has failed to meet their contracted contribution frequency.

APPENDIX 6

KiwiSaver schemes in force as at 31 March 2013 – Investment fund summary

INVESTMENT FUNDS	Number of members in each investment fund	Amount in each investment fund (\$'000)
Default	464,896	3,387,841
Totals	464,896	3,387,841
Active Default	162,114	1,074,559
Conservative	501,799	3,100,405
Balanced	440,653	3,787,476
Growth	616,565	3,892,534
Single sector funds		
Cash	489,873	745,960
Shares	26,523	131,127
Fixed Interest	4,252	22,838
Property	3,726	19,674
Socially Responsible	7,987	31,136
Other	52,320	371,276
Totals	2,305,812	13,176,985

Note:

1. The statistical returns are unaudited and may not include all transactions.
2. Some members will be invested in more than one Investment Fund.

APPENDIX 7

KiwiSaver schemes in force as at 31 March 2013 – Switches out of default investment product into other investment funds

SWITCHES IN ANNUAL RETURN YEAR	Number of members out of default investment product	Number of members into other funds	Amount (\$) out of default investment product	Amount (\$) into other funds
<i>Switches out of default investment product under instrument of appointment</i>	6,593		74,917,751	
<i>Switches into other investment funds</i>				
Conservative		2,111		29,459,960
Balanced		2,758		27,282,038
Growth		1,901		14,289,925
Single sector funds				
Cash		500		3,046,521
Shares		158		839,107
Fixed Interest				
Property				
Other				
<i>Total of switches into other investment funds</i>	6,593	7,428	74,917,751	74,917,551

KiwiSaver schemes in force as at 31 March 2013 – Switches between investment funds

INVESTMENT FUNDS	Switches into investment funds in annual return year		Switches out of investment funds in annual return year		Net change in amounts (\$)
	Number of switches	Amount (\$)	Number of switches	Amount (\$)	
Active default	717	7,371,471	1,979	12,530,979	-5,159,508
Conservative	8,089	80,604,130	6,541	56,082,108	24,522,022
Balanced	13,855	133,510,307	12,927	128,927,867	4,582,440
Growth	9,802	69,408,133	12,324	109,833,414	-40,425,281
Single sector funds					
Cash	3,762	32,397,479	1,819	17,029,418	15,368,061
Shares	1,881	5,484,553	1,371	5,752,099	-267,545
Fixed Interest	572	2,129,363	361	1,722,381	406,982
Property	783	4,956,702	284	1,217,591	3,739,110
Socially Responsible	145	620,339	429	3,134,222	-2,513,883
Other	960	7,639,045	978	7,951,081	-312,036
<i>Total of switches between funds</i>	40,566	344,121,522	39,013	344,181,160	-59,638

APPENDIX 8

KiwiSaver schemes in force as at 31 March 2013 – Profile of switches between investment funds

How many switches between investment funds made in annual return year	Number of members who made those switches	
	Default	Active
1 switch	6,593	31,712
2 switches		1,518
3 switches		346
4 switches		198
5 switches or more		83

APPENDIX 9

KiwiSaver schemes in force as at 31 March 2013 – Analysis according to size of scheme assets

ASSETS GROUPING	Number of Schemes	Total Assets \$m	Total Membership
Under \$1m	4	2.15	358
\$1m to under \$2.5m	2	3.23	450
\$2.5m to under \$10m	8	39.96	6,503
\$10m to under \$25m	2	33.13	2,327
\$25m to under \$50m	4	125.54	10,280
\$50m to under \$100m	5	389.60	31,979
\$100m to under \$200m	3	473.81	51,769
\$200m to under \$1,000m	13	8,009.27	961,582
\$1,000m and over	4	7,488.14	1,029,293
<i>Totals</i>	45	16,564.83	2,094,541

Notes:

1. The data has been obtained from statistical returns made by the trustees of KiwiSaver schemes 'registered' under the KiwiSaver Act 2006.
2. Some totals may not add exactly, due to rounding.

APPENDIX 10

KiwiSaver schemes in force as at 31 March 2013 – Analysis by nature of scheme

NATURE OF SCHEME	Number of Schemes	Total Assets \$m	Total Membership
Default schemes (6)		3,388	464,896
Retail (active choice)	33	12,818	1,607,226
Restricted schemes	12	359	22,419
<i>Totals</i>	45	16,565	2,094,541

Notes:

1. Default Schemes' statistics are only in respect of members and assets in the Default investment fund option.
2. Retail (Active Choice) total assets and total membership figures include that portion of the Default schemes where members have actively chosen to participate.
3. The data has been obtained from statistical returns made by the trustees of KiwiSaver schemes 'registered' under the KiwiSaver Act 2006 relating to the members and beneficiaries of those schemes.
4. Some totals may not add exactly, due to rounding.

APPENDIX 11

KiwiSaver schemes in force as at 31 March 2013 – Analysis according to nature of scheme and size of scheme assets

NUMBER OF SCHEMES:				
Assets Grouping		Retail (see note 1)	Restricted Schemes	Total
Under \$10m		5	9	14
\$10m to under \$50m		5	1	6
\$50m to under \$100m		4	1	5
\$100m to under \$200m		3		3
\$200m to under \$1,000m		12	1	13
\$1,000m and over		4		4
<i>Total, all groups</i>		33	12	45
TOTAL ASSETS (\$ MILLIONS):				
Assets Grouping	Default	Retail	Restricted Schemes	Total
Under \$10m		16.98	28.36	45.34
\$10m to under \$50m		140.15	18.52	158.67
\$50m to under \$100m		391.70	90.46	482.16
\$100m to under \$200m		595.81		595.81
\$200m to under \$1,000m	3,387.84	5,287.15	221.37	8,896.36
\$1,000m and over		6,386.48		6,386.48
<i>Total, all groups</i>	3,387.84	12,818.27	358.71	16,564.82
TOTAL MEMBERSHIP:				
Assets Grouping	Default	Retail	Restricted Schemes	Total
Under \$10m		5,465	1,846	7,311
\$10m to under \$50m		11,120	1,487	12,607
\$50m to under \$100m		31,205	6,696	37,901
\$100m to under \$200m		60,535		60,535
\$200m to under \$1,000m	464,896	625,329	12,390	1,102,615
\$1,000m and over		873,572		873,572
<i>Total, all groups</i>	464,896	1,607,226	22,419	2,094,541

Note:

1. Default Schemes are included.
2. Default Schemes' statistics are only in respect of members and assets in the Default investment fund option.
3. Retail (Active Choice) total assets and total membership figures include that portion of the Default schemes where members have actively chosen to participate.
4. The data has been obtained from statistical returns made by the trustees of KiwiSaver schemes 'registered' under the KiwiSaver Act 2006 relating to the members and beneficiaries of those schemes.
5. Some totals may not add exactly, due to rounding.

