

**KiwiSaver Fees Comparison**  
**for the**  
**Financial Markets Authority**

11 July 2019

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# 1 Introduction

## 1.1 Addressee, Purpose and Scope

This report was commissioned by David Brock, Manager, Disclosure, the Financial Markets Authority (FMA), and Gavin Quigan, Principal Adviser, Restricted MIS, FMA, and is addressed to them. It is expected the report will be made available to employees and Board members of the FMA, Treasury, the Ministry of Business, Innovation and Employment (MBIE) and other regulatory authorities.

The scope of the assignment was to:

- *“Find one or more overseas jurisdictions that have a superannuation fund market that is comparable enough to the KiwiSaver market that a comparison of fees to the KiwiSaver market may produce valuable insights;*
- *Or alternatively if your research does not find a comparable superannuation fund market, a country which has a comparable defined contribution managed funds market;*
- *Complete a fee comparison of the identified markets with the KiwiSaver market and potentially also the New Zealand non-KiwiSaver managed fund market (covering the cost to the investor including investment management, registry/administration and trustee fees);*
- *Should there not be an appropriate comparison (or should there be a better way of going about reaching a conclusion), we would be interested in hearing about ways MJW could go about completing the objective.”*

The purpose of this report is to report our findings on comparing the KiwiSaver fees with fees for UK Contract Based superannuation schemes. The selection of UK Contract Based Schemes as a comparator was agreed with the FMA and is discussed in section 2.

## 1.2 Limitation of use

This report should be read in its entirety and should not be used for any purpose other than that for which it was intended. Individual sections of the report could be misleading if considered in isolation from each other. Further, the report must not be provided to, or used by, any parties other than the FMA, Treasury, MBIE and other regulatory authorities without the prior written approval of Melville Jessup Weaver.

These limitations have been provided with the intention of preventing the use of the report for purposes for which it was not intended. MJW will not be liable for the consequences of any third party acting upon or relying upon any information or conclusions contained within this report.

## 1.3 Standards with which the report complies

This report complies with Professional Standard 90 of the NZ Society of Actuaries: General Actuarial Practice effective 31 March 2018.

The date of this report is the 11<sup>th</sup> of July 2019 and it was completed on that date.



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## 2 Determination of comparator – UK Contract Based Schemes

### 2.1 Choice of comparator

To find one or more overseas jurisdictions that have a superannuation fund market that is comparable to the KiwiSaver market Melville Jessup Weaver (MJW) contacted its international alliance partner Willis Towers Watson (WTW) to discuss superannuation markets to explore whether a reasonable comparator could be found. Attention was focussed on European markets because of similar regimes found there.

Various European regimes were considered including the UK, Germany, Poland and Hungary, and the UK was settled on as the best comparator as explained in the next section.

### 2.2 UK pensions

Since 2012 the UK has had an auto-enrolment employer-based superannuation scheme much like KiwiSaver, with a minimum 8% contribution (from April 2019), of which at least 3% must come from the employer<sup>1</sup>.

It is the “contract-based”<sup>2</sup> element of these superannuation arrangements that most resembles KiwiSaver. Contract-based schemes are individual contracts between the member and the pension provider. Member and employer contributions are sent directly to the pension provider. The pension provider is often an insurance company or an investment platform, although there are also a number of specialist independent providers.

About a quarter of UK employees with workplace pensions have a contract-based pension (Office of National Statistics - Employee workplace pensions in the UK: 2018 provisional and 2017 revised results). Of schemes used for automatic enrolment amongst employers, contract-based schemes represent 11% of the schemes used by very small employers (less than 30 employees) and 35% for the rest (The Pension Regulator: Automatic enrolment - Commentary and analysis: April 2017-March 2018).

MJW worked with WTW in the UK to explore availability of data and whether it was feasible to compare employer sponsored contract-based scheme fees to KiwiSaver fees. Although data was not as readily available as it was in New Zealand market, sufficient data could be collated by WTW based on work it had done tendering schemes to make a comparison worthwhile. An important caveat to this method is that the UK data is limited to the tenders that WTW has been involved in, and WTW’s selection of the tenders that contain providers most comparable to the KiwiSaver market. The WTW tenders are limited to the main credible providers noting the number of those providers is contracting and there are few outside of those included in the tenders.

It was agreed with the FMA that a comparison of fee structures was warranted under this basis.

<sup>1</sup> <https://www.gov.uk/workplace-pensions>

<sup>2</sup> <https://www.pensionsadvisoryservice.org.uk/about-pensions/pensions-basics/contract-based-schemes>

### 3 Data

The New Zealand data is sourced from the KiwiSaver Fund Finder data and we have relied on that. As noted earlier, the UK data is sourced from WTW. We have relied on the data provided by WTW and are unable to independently verify it. We have attempted to spot check some funds for consistency with the WTW data, but given the nature of the WTW data we are unable to verify it.

#### 3.1 New Zealand data

The New Zealand data is taken from the KiwiSaver Fund Finder<sup>3</sup> data for the March 2019 quarter. The data available for each of the 243 KiwiSaver funds offered by 24 KiwiSaver schemes includes:

- Fund identifier;
- Growth asset allocation percentage (the sum of: Australasian equities, International equities, Listed property, Unlisted property, Unknown and Other);
- Total fees as a percentage of funds under management;
- Total funds under management.

We were separately able to determine whether the investment management is active or passive based on our industry knowledge.

The fees we wish to compare are the total fees as a percentage of funds under management (FUM). In NZ for most funds they charge a fixed dollar fee per member in addition to a fee based on the member's balance. This fixed dollar amount is converted to a percentage by dividing the annual fee amount by \$19,200 (the average member balance using 31 March 2019 data).

The Fund Finder data is periodically updated and revised for new information and therefore the snapshot of the data used in this report may become out of date. We do not expect this to significantly impact the analysis or conclusions drawn.

While we have performed some sense checks, ultimately, we are reliant on the quality of data sourced from Fund Finder.

#### 3.2 UK data

The UK has no equivalent of the Fund Finder data set. The UK data is gathered from two sources. It is a combination of quote data received by WTW for scheme tenders it has run, and Morningstar data.

The quote data is from 2017 and 2018, covers four large tenders where the annual contributions ranged from £5m to £50m and membership from 500 to 2,500. The number of tenderers ranged from four to eight for each tender and included the main participants in the UK market such as Aegon, Aviva, Fidelity, Legal & General, Royal London, Scottish Widows, Standard Life and Zurich. In total the data included 443 fee quotes for funds (noting some funds are included in all four quotes and thus duplicated in the data). The fees quoted represent the fee quoted to the employer by the potential supplier to become the employer endorsed scheme provider. This arrangement is similar to a KiwiSaver employer-chosen scheme. This data was considered comparable to KiwiSaver data but with two caveats:

- KiwiSaver fees apply equally to all scheme members so every member is charged the same fee. The WTW quotes apply to a subsection of a total scheme. In theory the KiwiSaver fees reflect economies of scale for a whole scheme whereas the UK fees included do not and in theory should be higher reflecting that they only apply to a subsection of the fund.

<sup>3</sup> <https://fundfinder.sorted.org.nz/>

- Conversely the quotes received may be purposely low to attempt to win the tender. However, we note the quotes are binding and once a scheme is established the terms are relatively fixed. The fund managers may increase investment management charges, but the provider will maintain the administrative element of the costs at the original level.

Both these factors need to be borne in mind when considering the analysis. In practice the UK fees vary reasonably significantly from scheme to scheme depending on the size of the sponsoring employer and other factors such as average contribution levels, turnover and the extent of additional services required. The tenders included show the terms applicable to larger schemes as these were thought to be more comparable with the KiwiSaver structure where a clearinghouse (the Inland Revenue Department) is used to allocate member contributions to the KiwiSaver accounts.

The Morningstar data was used to add funds under management (FUM) figures and the growth asset allocation into the data. The issues with the FUM data are noted below.

As is common with merged data sets, the completeness is not perfect and the data available is not exactly as is preferred. However, the data was deemed sufficiently robust to inform the relative level of fees between the two countries' schemes.

The UK data contains:

- Fund identifier;
- Whether it is active or passively managed;
- The actual average equity allocation (based over the last six months);
- The total expense ratio (TER) as a percentage of funds under management;
- Total funds under management.

Similarly to NZ, WTW were able to determine whether the investment management is active or passive based on their industry knowledge and fund fact sheets.

The TER is compared to the New Zealand equivalent of total fees for similar funds in section 4. In the UK market there are generally no fixed dollar charges per member. In the case of the tender data used in this exercise, there were no further additional fees imposed above those seen in the tenders.

In the UK the TER is common, is similar to and the predecessor of "ongoing charges figure" (OCF), an EU wide measure, and is the most comparable to the NZ fee measure. It does not include trading costs or performance fees (the NZ fees do include performance fees). The UK also uses the Annual Management Charge (AMC) which doesn't include costs such as custody and trustee fees and fund accounting and legal costs which the TER and OCF do. The omission of the performance fees from the TER is not thought to be material to the analysis as performance fees are not prevalent in this part of the UK market.

Known issues with the UK data are:

- The total funds under management in some cases are only that provider's assets which are a subset of a bigger pool with a third party fund manager, and also may be the sum of more than one fund from the provider that invests into a fund provided by the third party fund manager. So, in some cases it is an understatement or overstatement of the assets under management.
- The TER has been obtained from fee levels quoted to WTW for a number of specific scheme tenders for relatively large schemes as opposed to being the TER the UK fund actually experienced. However, the TERs were quoted for real schemes that have since been placed in the market and therefore are reflective of what providers offer for these types of funds.

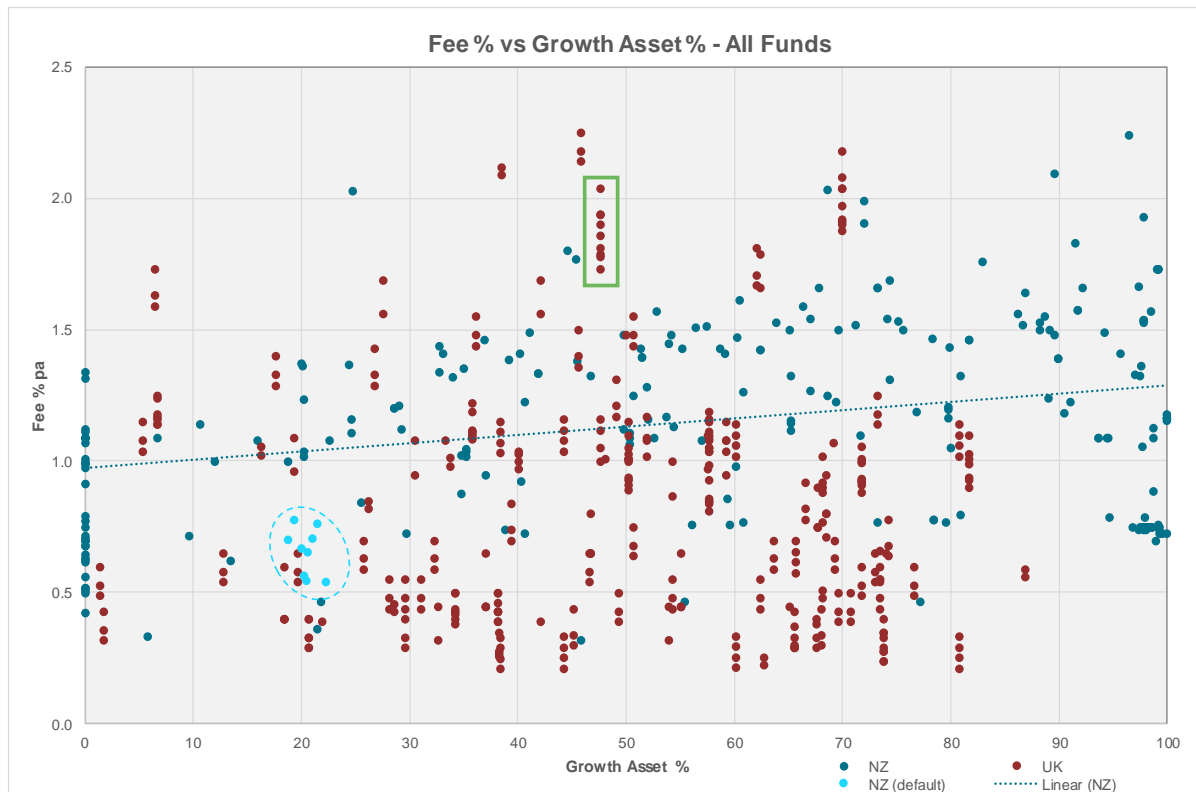
A noticeable feature of the UK data is how many of the funds invest into other fund managers' funds.

## 4 Findings

### 4.1 All usable data

The following graph shows all the NZ data and the usable UK data plotted as fee percentage per annum versus the growth asset percentage of the fund. The UK data has 369 (out of the 443 possible) data points. The missing UK data points are because there was no growth asset percentage available.

Note that this combines both active and passive management funds.

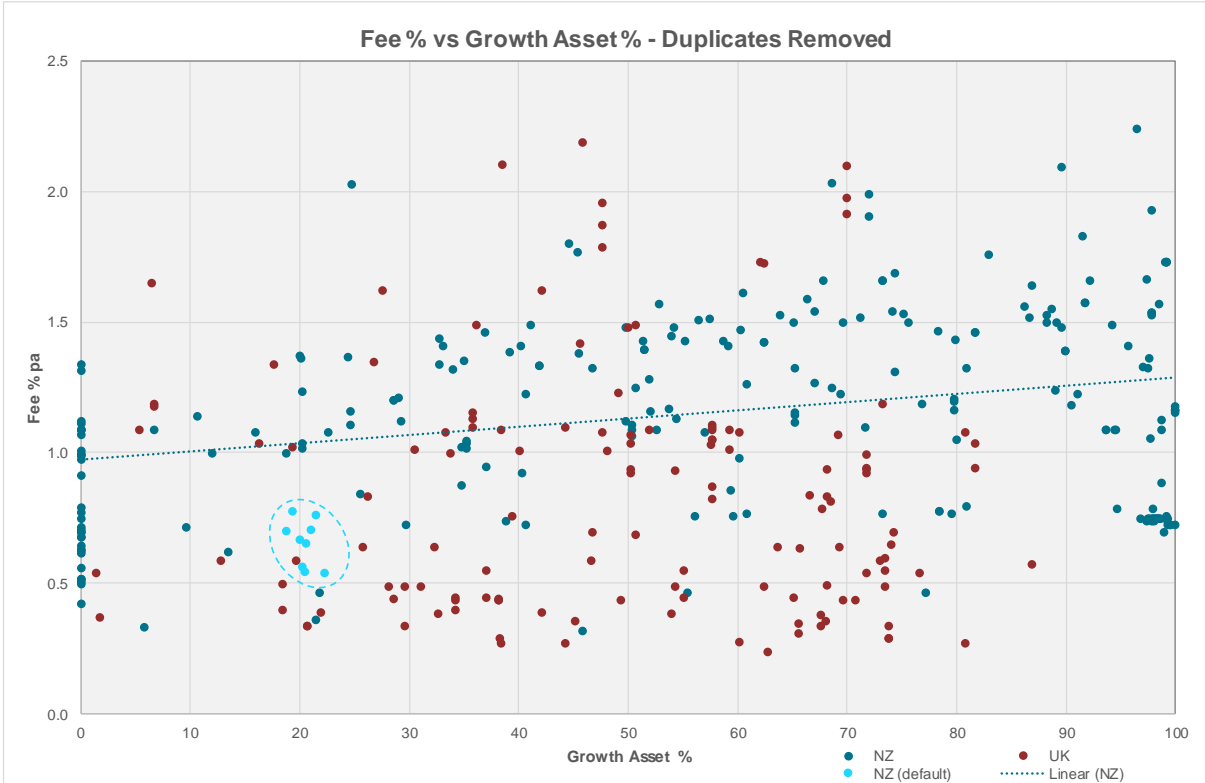


A feature of the UK data is the same fund appearing with differing fees (appears as a vertical “line”). In the graph above an example is circled in green. That is the Jupiter Merlin Income Portfolio quoted by three providers across the four tenders. The growth asset allocation is 47.6% and the fees range from 1.73% to 2.04%.

A linear regression line is shown for the NZ data because the NZ fees tend to increase with the increase in growth asset allocation and it helps with giving some perspective to the data.

We have highlighted the KiwiSaver default funds (light blue).

Overleaf, to show the effect of the same fund appearing potentially multiple times, we have replotted the data with the same UK fund only appearing once with its average TER.





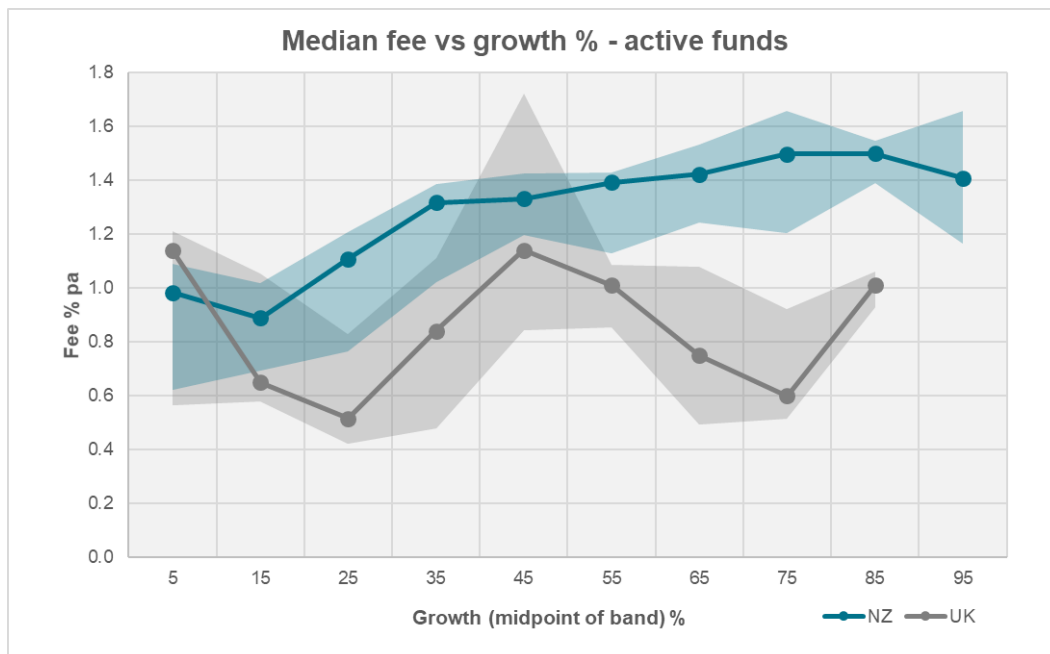
## 4.2 Average Fee

The following tables show the average fee (the simple mean) by growth asset percentage band for the UK and NZ. The graphs show the median fee and the 25<sup>th</sup> and 75<sup>th</sup> percentiles. The table and graph on this page are for actively managed funds, over the page the table and graph are for passively managed funds.

The 369 included data points for the UK are where there was a growth asset percentage. We also performed these calculations with the duplicate funds removed but the results were virtually identical.

### Average fee - active funds

Growth	Count		Average fee		difference
	UK	NZ	UK	NZ	
0% - 10%	19	28	1.01	0.87	0.14
10% - 20%	13	8	0.82	0.87	-0.06
20% - 30%	24	21	0.70	1.04	-0.35
30% - 40%	41	13	0.88	1.20	-0.32
40% - 50%	46	12	1.22	1.26	-0.04
50% - 60%	54	21	0.96	1.30	-0.35
60% - 70%	64	20	0.93	1.40	-0.47
70% - 80%	39	17	0.69	1.47	-0.78
80% - 90%	13	17	0.95	1.50	-0.54
90% - 100%	0	33	-	1.43	-
<b>Total</b>	<b>313</b>	<b>190</b>	<b>0.92</b>	<b>1.25</b>	<b>-0.32</b>

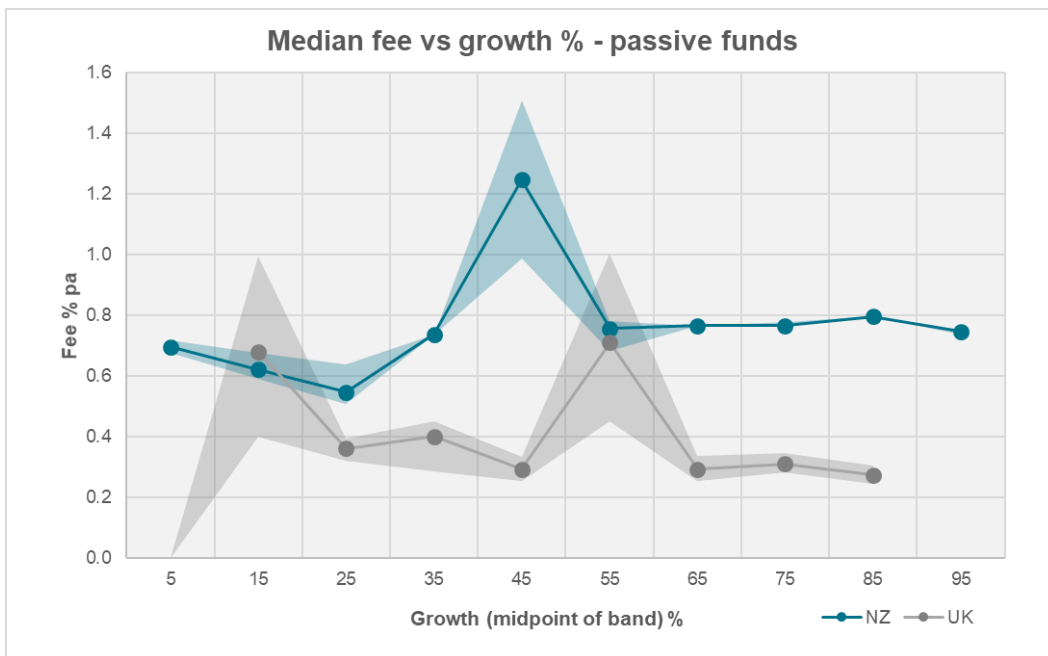


The shaded band is between the 25<sup>th</sup> and 75<sup>th</sup> percentiles. The median is the plotted line.

The NZ curve shows fees increase with the increasing allocation to growth assets. The UK curve has a less intuitive shape which may be due to the higher FUM around the 25% and 75% growth asset allocation points which may lead to increased scale and competition at those allocation levels.

**Average fee - passive funds**

Growth	Count		Average fee		difference
	UK	NZ	UK	NZ	
0% - 10%	0	9	-	0.67	-
10% - 20%	4	0	0.71	-	-
20% - 30%	4	3	0.35	0.58	-0.23
30% - 40%	19	1	0.43	0.74	-0.30
40% - 50%	5	2	0.30	1.25	-0.95
50% - 60%	4	4	0.74	0.71	0.03
60% - 70%	10	1	0.30	0.77	-0.47
70% - 80%	6	5	0.32	0.71	-0.40
80% - 90%	4	1	0.27	0.80	-0.52
90% - 100%	0	27	-	0.75	-
<b>Total</b>	<b>56</b>	<b>53</b>	<b>0.41</b>	<b>0.74</b>	<b>-0.33</b>



The shaded band is between the 25<sup>th</sup> and 75<sup>th</sup> percentiles. The median is the plotted line.

### 4.3 FUM weighted fee

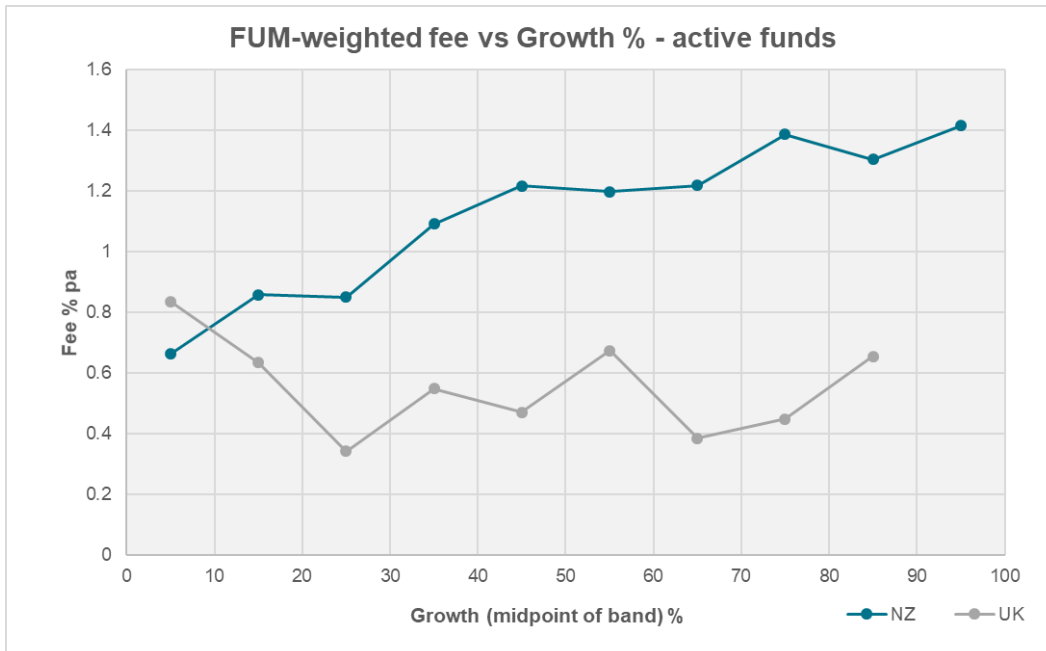
The following tables and graphs show the fee weighted by funds under management (FUM) by growth asset percentage band for the UK and NZ. The table and graph on this page are for actively managed funds, over the page the table and graph are for passively managed funds.

The 323 included data points for the UK are where there was a growth asset percentage and FUM figure in the data. Again we also performed these calculations with the duplicate funds removed but the results were virtually identical.

The NZ data used 240 funds because there are three funds with no FUM.

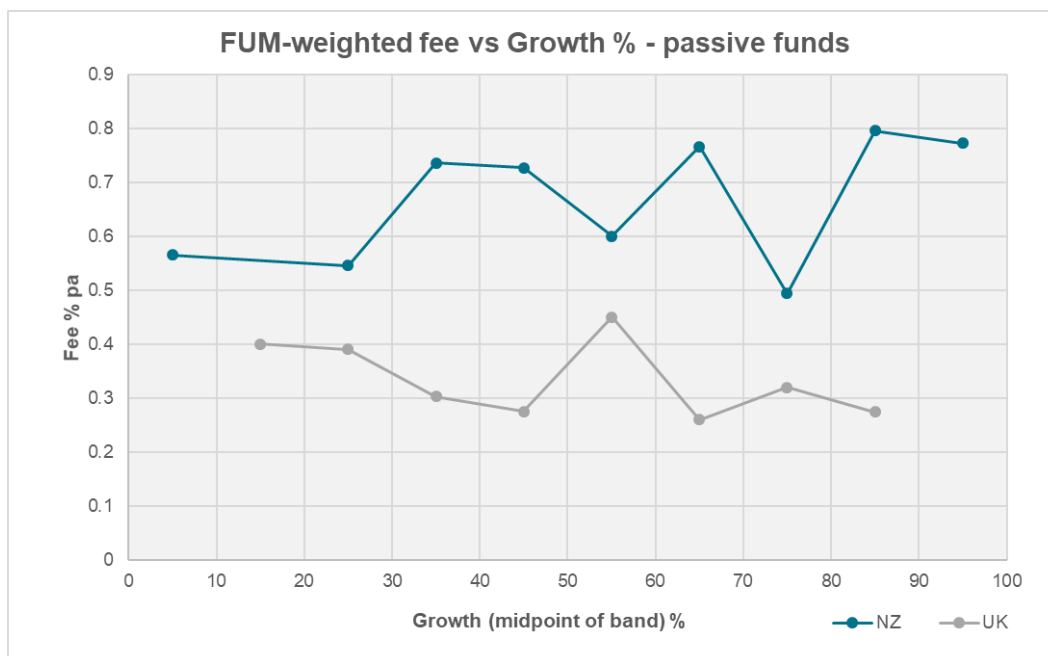
#### FUM-weighted average fee - active funds

Growth	Count		Weighted fee		difference
	UK	NZ	UK	NZ	
0% - 10%	19	28	0.84	0.66	0.17
10% - 20%	13	8	0.63	0.86	-0.22
20% - 30%	22	19	0.34	0.85	-0.51
30% - 40%	37	13	0.55	1.09	-0.54
40% - 50%	41	12	0.47	1.22	-0.75
50% - 60%	50	21	0.67	1.20	-0.52
60% - 70%	52	20	0.38	1.22	-0.83
70% - 80%	34	17	0.45	1.39	-0.94
80% - 90%	10	17	0.65	1.30	-0.65
90% - 100%	0	33	-	1.42	-
<b>Total</b>	<b>278</b>	<b>188</b>	<b>0.40</b>	<b>1.14</b>	<b>-0.74</b>



**FUM-weighted average fee - passive funds**

Growth	Count		Weighted fee		difference
	UK	NZ	UK	NZ	
0% - 10%	0	8	-	0.57	-
10% - 20%	2	0	0.40	-	-
20% - 30%	1	3	0.39	0.55	-0.16
30% - 40%	15	1	0.30	0.74	-0.43
40% - 50%	5	2	0.27	0.73	-0.45
50% - 60%	2	4	0.45	0.60	-0.15
60% - 70%	10	1	0.26	0.77	-0.51
70% - 80%	6	5	0.32	0.49	-0.17
80% - 90%	4	1	0.27	0.80	-0.52
90% - 100%	0	27	-	0.77	-
<b>Total</b>	<b>45</b>	<b>52</b>	<b>0.29</b>	<b>0.67</b>	<b>-0.38</b>



## 4.4 Selected comparisons

To illustrate the data at a more granular level, we have selected three predominantly active funds from each country within each of the common categories: Growth, Balanced, Conservative and shown the NZ Default category. We have chosen funds with larger FUM, similar levels of growth asset allocations and tried to choose a mix of providers.

### Select fund info - active funds

Fund	FUM	NZ Funds				UK Funds	
		Growth %	TER % pa	TER % pa	Growth %	FUM	Fund
<b>Growth Funds</b>							
ANZ KiwiSaver - Growth	\$2.96b	79.8	1.20	0.50	70.7	£2.26b	Aegon - Balanced Lifestyle
Fisher Funds KiwiSaver - Growth	\$1.80b	73.2	1.66	0.66	73.4	£0.16b	Aviva - Ballie Gifford Balanced
Kiwi Wealth KiwiSaver - Growth	\$1.41b	90.5	1.18	0.59	86.8	£1.03b	Scottish Widows - Newton Managed
<b>Balanced Funds</b>							
ANZ KiwiSaver - Balanced Growth	\$1.98b	65.2	1.15	0.44	67.9	£22.12b	Standard Life - Managed
Westpac KiwiSaver - Balanced	\$1.49b	60.1	0.98	0.37	65.5	£6.92b	Legal & General - Managed
AMP KiwiSaver - Balanced	\$0.95b	62.4	1.42	0.55	62.4	£0.52b	Aegon - BlackRock Balanced
<b>Conservative Funds</b>							
Kiwi Wealth KiwiSaver - Conservative	\$0.73b	16.0	1.08	0.60	18.4	£0.07b	Fidelity - MultiAsset Defensive
Mercer KiwiSaver - Conservative	\$1.09b	21.4	0.77	0.40	20.7	£10.98b	Aegon - Universal Balanced
Westpac KiwiSaver - Conservative	\$2.52b	25.6	0.84	0.46	28.6	£0.06b	Scottish Widows - Defensive
<b>NZ Default Funds</b>							
AMP KiwiSaver - Default	\$1.38b	22.2	0.54	0.45	32.6	£0.33b	Royal London - Defensive Managed
ANZ KiwiSaver - Default	\$1.10b	20.6	0.66	0.40	20.7	£8.17b	Aegon - Universal Lifestyle
Booster KiwiSaver - Default	\$0.07b	20.1	0.57	1.40	17.6	£0.01b	Aegon - SE Cirilium Conservative

Where multiple TERs apply, the highest TER has been used.

## 4.5 Comment

This report is an initial high-level analysis of KiwiSaver fees compared to fees in a comparable market. The analysis shows KiwiSaver fees appear higher than fees for the comparable UK market.

In our view the initial conclusion that KiwiSaver fees are apparently higher than fees for the comparable UK market warrants further investigation to better understand this outcome and whether it can be further evidenced and if so, also attempt to understand the drivers of the difference.