

What is the key for KiwiSaver?

As KiwiSaver continues to grow it is naturally attracting more attention from investors, the fund management industry and media commentators. This will only intensify as investor fund balances get larger.

One example was the recent report comparing KiwiSaver providers and funds at the end of June. The report compared performance, estimated costs and how much money was in each fund. Unfortunately, such surveys invariably lead to irrelevant comparisons between funds and fund managers for all the wrong reasons. Headlines followed such as “KiwiSaver money pours into poor performers.” The focus was generally on the fact that some funds which had attracted the most \$ from investors were among the poorest performers. The clear inference was that this was a bad thing when in reality it makes little difference at this point.

As a retirement savings vehicle KiwiSaver is all about investing for the long term. It is about performance over the next 10, 20 or 40 years not the past 2. It is also about the growth in an individual's KiwiSaver account not the fund. With small account balances that is currently driven more by the level of combined contributions.

The key issues for investors concerned about their future wealth are how much they are saving, whether they are in the right type of fund for their circumstances and the robustness of the fund manager's investment process. Service, support, total costs and transparency of information are also important. Unfortunately you won't get this type information from a performance survey and it can be very difficult to uncover.

Because of the ability to easily move KiwiSaver accounts there is a risk investors will make poor investment decisions based on irrelevant information. Anecdotally it appears managers are already experiencing 20-25% turnover of members as they flit from one fund to another. Ultimately this will be a cost borne by investors.

Why there is such high turnover at the moment is an interesting question. Traditionally the way to gather funds in the NZ market has been to trumpet past performance and rely on a large institutional brand or alternatively be fronted by a cult personality. KiwiSaver seems to have started off on the same path but with members so diverse in terms of age (1/3rd are under 25), savings, ethnicity, interests and attention span perhaps we are already seeing this might not be sufficient for providers to be successful going forward.

