



# **Evaluation of KiwiSaver Home Ownership Package: Baseline Report**

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**August 2010**

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## Executive Summary

- 1 This document provides baseline information for the evaluation of the KiwiSaver home ownership package. The evaluation will take place during the three year period 2010/11-2012/13.
- 2 The KiwiSaver scheme, announced in Budget 2005, is a work-based savings scheme designed to encourage voluntary saving for retirement and asset accumulation, such as the purchase of a first home.
- 3 The KiwiSaver home ownership package is designed to assist households who face barriers to entering home ownership, such as saving a sufficient deposit. The package consists of two features – the first home deposit subsidy (administered by Housing New Zealand Corporation) and the first home withdrawal (administered by KiwiSaver providers). The package became available on 1 July 2010.
- 4 While all first home purchasers may withdraw some or all of their KiwiSaver funds, the first home deposit subsidy is aimed at modest income households who are buying a lower quartile price home.<sup>1 2</sup> The deposit subsidy is a suspensory loan of \$1,000 for each year of contribution, up to a maximum of \$5,000.

## Evaluation of KiwiSaver home ownership package

- 5 The Corporation is evaluating the KiwiSaver home ownership package (i.e. the first home deposit subsidy and first home withdrawal) over the period 2010/11-2012/13 to:
  - assess its impact and effectiveness from a customer perspective
  - assess the uptake (levels and financial value)
  - identify design features that are working as intended and those that are not
  - assess internal and external stakeholder experiences of implementing the home ownership package
  - identify recommendations to enhance the effectiveness of the home ownership package.
- 6 The purpose of the evaluation activities in 2009/10 was to:
  - provide baseline information for the evaluation of the home ownership package
  - assess the response to KiwiSaver in order to understand the likely scale and pattern of take-up of the home ownership package.
- 7 This report presents the findings of a survey of individuals (KiwiSaver members and individuals who are not KiwiSaver members) (“the survey”) by

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<sup>1</sup> Applicants must have a household income of less than \$100,000 for one or two borrowers, or less than \$140,000 for three or more borrowers.

<sup>2</sup> Regional house price caps apply.

Colmar Brunton which was commissioned by Inland Revenue,<sup>3</sup> and a survey of 25 KiwiSaver providers (“the provider survey”) conducted by the Ministry of Economic Development (MED).

## Evaluation findings

- 8 The survey showed that KiwiSaver members who were not home owners viewed the scheme as a vehicle for saving towards a home. Almost a quarter of these respondents indicated that saving to buy a home was one factor in their decision to join KiwiSaver, while it was the most important factor for 10 percent of respondents.

## Knowledge about the Home Ownership package

- 9 Despite the attraction of KiwiSaver for saving towards a home, the findings from the survey indicate that knowledge about the details of the home ownership package is low. This was confirmed in the provider survey the two largest providers (with 309,000 and 235,000 members).
- 10 While 64 percent of respondents<sup>4</sup> who did not currently own a home were aware of the first home withdrawal, 38 percent of those who were aware of the feature knew only that savings could be withdrawn for a deposit on a first home. Thirty eight percent knew nothing about the details or were unsure.
- 11 Awareness of the first home deposit subsidy was lower with only 34 percent of all respondents and 40 percent of KiwiSaver members aware of it. Knowledge about the details of the subsidy was low among those who were aware of it, with two thirds (65 percent) saying they knew nothing about the subsidy or were unsure.
- 12 The survey did not provide insights into the reasons for respondents’ lack of knowledge about the home ownership package. For example, some respondents may lack financial capacity to buy a home.
- 13 A possible reason for the low level of knowledge about the details of the first home withdrawal among KiwiSaver members may be a lack of information about this feature from some KiwiSaver providers, particularly from the six default providers who have the largest number of members.<sup>5</sup> Fourteen of the 25 providers had previously communicated information about the first home withdrawal feature to their members. Two of the six default providers (with 309,000 and 79,337 members) had not communicated any information about the feature. Two other default providers (with 80,000 and 75,672 members) had communicated information but did not intend to do any further communication prior to its 1 July start.

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<sup>3</sup> 825 people aged 18 to 65 took part in a face to face survey. They consisted of a randomly selected group of members of the general public and a booster sample of additional KiwiSaver members (recruited from Inland Revenue lists). Of the total of 825 respondents, 474 were KiwiSaver members.

<sup>4</sup> These respondents (n=372) were KiwiSaver members and non KiwiSavers who did not currently own a home.

<sup>5</sup> A default provider is one to which members who do not chose a provider are allocated.

## Take up of the home ownership package

- 14 Sixty three of the 89 (72 percent) KiwiSaver members who were aware of the first home deposit subsidy said they would be 'very likely' or 'quite likely' to apply for it. Three percent of these respondents said they would apply under the second chance criteria.<sup>6</sup>
- 15 Despite these intentions, respondents' lack of detailed knowledge about the subsidy may mean that some may not be eligible to receive it. Even after being given prompted information about the deposit subsidy, respondents demonstrated lesser knowledge about the household income cap and regional house price cap compared to other aspects of the subsidy.<sup>7</sup>
- 16 Expected take-up of the first home withdrawal feature was lower with 94 of the 161 KiwiSaver members (56 percent) who were aware of the feature saying they were either 'very likely' or 'quite likely' to access the first home withdrawal (Figure 18).
- 17 The take up percentages in the survey suggest a reasonable level of take up of both features – 72 percent for the first home deposit subsidy and 56 percent for the first home withdrawal. While these percentages are statistically correct, the way they have been calculated disguises the lack of awareness of the home ownership package. The take up questions were asked only of those KiwiSaver members who were potential first home purchasers and were aware of the first home deposit subsidy or first home withdrawal.<sup>8</sup>
- 18 The take up rates can be recalculated using a different base number, namely, the number of KiwiSaver members in the survey who were potential first home buyers (n = 210). This reduces the potential take up rates to 30 percent for the first home subsidy and 45 percent for the first home withdrawal.
- 19 The survey suggests that there will be a slow build up in the number of members who use the home ownership package. The timeframe for take-up was longer term for the majority of respondents. Members who intend to apply for the first deposit subsidy and/or withdraw their funds (first home withdrawal feature) are more likely to do so within a timeframe of five years (42 percent and 41 percent respectively), rather than earlier. Over a quarter (28 percent) said they intend to use the first deposit subsidy within two years of its introduction in July 2010 (Figure 19). Seventeen percent intend to use the first home withdrawal within two years.
- 20 The Corporation has developed a model to forecast the level and timing of demand for the first home deposit subsidy. The findings suggest that the model's forecast of the subsidy's uptake in the immediate term is realistic (315 recipients in 2010/11, 744 recipients in 2011/12). The gradual increase in take up numbers forecasted in the model over the five year period 2010/11 – 2014/15 (peaking at 1,985 in 2014/15) is congruent with the survey findings.

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<sup>6</sup> Members who have previously owned a home, but no longer have a share in a property may be eligible for the home ownership package subsidy if they are in the same financial position as a first home buyer.

<sup>7</sup> Members were asked about their intentions before they were prompted with details of the deposit subsidy.

<sup>8</sup> The base numbers were 161 for the number of members who were aware of the withdrawal, and 89 for the number members who were aware of the subsidy.

## Purpose

- 21 This document provides baseline information for the evaluation of the KiwiSaver Home Ownership package following its introduction on 1 July 2010. The evaluation will take place during the three year period 2010/11-2012/13.

## Background to KiwiSaver

- 22 The KiwiSaver scheme, announced in Budget 2005, is a work based savings scheme designed to encourage voluntary saving for retirement and asset accumulation, such as the purchase of a first home.
- 23 KiwiSaver, which started on 1 July 2007, has a number of features to encourage participation - a government funded \$1,000 “kick-start” and a government contribution of up to \$20 a week (as a member tax credit).<sup>9 10</sup>
- 24 There are three ways for people to join KiwiSaver:
- Individuals who start a new job are automatically enrolled by their employer (unless they are already a member). They have eight weeks to opt out if they do not want to join KiwiSaver.
  - Workers may opt into KiwiSaver by submitting an application through their employer to Inland Revenue.
  - People (such as the self employed) may apply via a KiwiSaver provider of their choice who submits an application on their behalf to Inland Revenue.
- 25 KiwiSaver members who are wage or salary earners are required to make regular and minimum contributions of two percent of their gross salary or wages.<sup>11</sup> Employers are required to contribute two percent of KiwiSaver members’ pay (providing the employee is contributing).<sup>12 13</sup> KiwiSaver funds are locked in until members reach 65 years (except when funds are used to purchase a first home, or if approval is given for a member to withdraw funds for significant financial hardship or serious illness). KiwiSaver members may have a temporary break from contributing to their KiwiSaver account, called a contribution holiday.

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<sup>9</sup> In order to receive the maximum tax credit amount, an individual must have been a member for the full 12 month period (July to June) and contributed more than \$1,042.86 to their KiwiSaver account.

<sup>10</sup> These provisions also apply to other Funds that are KiwiSaver compliant.

<sup>11</sup> This came into effect in April 2009. Prior to this date, members were required to contribute a minimum of four percent of gross salary or wages. Members can contribute at a higher rate than two percent if they chose.

<sup>12</sup> This came into effect in April 2009. Prior to this date, employers were required to contribute a minimum of four percent.

<sup>13</sup> Employers may chose to contribute a higher amount to their workers’ KiwiSaver account.



- 26 Inland Revenue is the central administrator for the KiwiSaver scheme receiving contributions that have been deducted from individuals' pay by employers and passing them onto KiwiSaver providers. The Ministry of Economic Development is responsible for the selection and regulation of KiwiSaver providers. Housing New Zealand Corporation ("the Corporation") is responsible for administering the first home deposit subsidy and second chance criteria (refer paragraph 11).

### **KiwiSaver home ownership package**

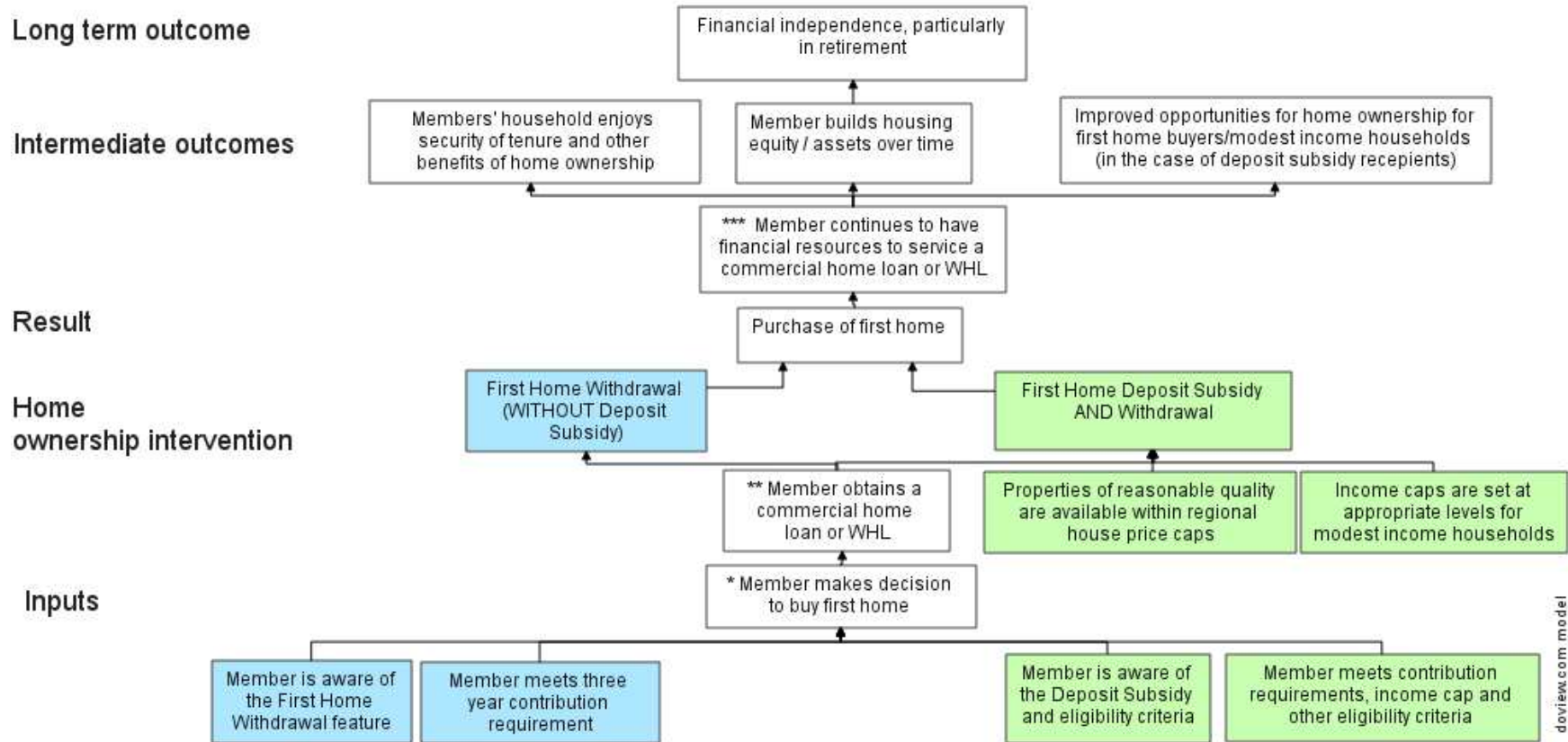
- 27 One of the policy objectives of KiwiSaver is to help create a financial buffer for New Zealand households through the building up of assets, reducing debt dependency and giving people increased financial independence and flexibility, particularly in retirement.
- 28 Home ownership is a significant means of saving for retirement for many New Zealand households. Owning a home provides families with greater financial security, control and independence. The security of tenure associated with home ownership provides additional benefits for households, such as positive health and education outcomes and social cohesion.
- 29 The KiwiSaver home ownership package is designed to assist households who face barriers to entering home ownership, such as saving a sufficient deposit. The package consists of two features to assist first home buyers (and previous home owners who are in a similar financial position to first home buyers) to purchase a home. The two features are the first home deposit subsidy and first home withdrawal. Both options became available from 1 July 2010.

### **Intervention logic**

- 30 Based on a review of policy documents and the findings presented in this report, an intervention logic has been developed for the KiwiSaver home ownership package showing inputs and intended outcomes, shown below. The blue boxes refer to KiwiSaver members who use the first home withdrawal **without** the first home deposit subsidy, and the green boxes refer to KiwiSaver members who use the first home withdrawal **and** the deposit subsidy.
- 31 The boxes containing one or more asterisks are inputs that Housing New Zealand is unable to influence which may impact on the take up of the home ownership package, namely:
- \* Member makes a decision to buy their first home:* A number of factors may influence the decision to enter home ownership such as job security, home loan interest rates, perceived stage of the housing market cycle, and the cost of rents in the private rental market.
- \*\* Member obtains a commercial loan or Welcome Home Loan:* The ability of a KiwiSaver member to obtain a commercial loan is dependent on banks' lending criteria for first home buyers, including deposit requirements.
- \*\*\* Member continues to have financial resources to service a commercial loan or Welcome Home Loan:* It should be noted that this is an input (not an outcome). The sustainability of home ownership requires an ongoing capacity

to service a home loan. People may fall out of home ownership due to relationship breakup, job loss, illness or other financial stress.

## KiwiSaver home ownership package intervention logic



doview.com model

## First home deposit subsidy

- 32 The first home deposit subsidy is designed to assist first home buyers (and previous home owners who are in a similar financial position to first home buyers) who are able to service a commercial home loan.
- 33 The subsidy is available once members have contributed to KiwiSaver for at least three years. The subsidy is a suspensory loan of \$1,000 for each year of contribution, up to a maximum of \$5,000. The suspensory loan is written off after the buyer has lived in their property for at least six months from the date of settlement.
- 34 To be eligible for the first home deposit subsidy, members must meet all of the following conditions:
- Be aged 18 years or over
  - Have contributed a minimum of four percent of their income to a KiwiSaver or complying superannuation fund up until 31 March 2009, and two percent thereafter<sup>14</sup>
  - Be buying their first home or be assessed by the Corporation that they are in the same position as a first home buyer in terms of income, assets and liabilities<sup>15</sup>
  - Be buying a lower quartile price home
  - Have a household income less than \$100,000 for one or two borrowers, or less than \$140,000 for three or more borrowers (based on gross taxable income)
  - Intend to live in the house for at least six months.
- 35 Regional house price caps enable members to buy lower quartile homes in expensive regions, while preventing people in lower cost regions from using government assistance to buy a more expensive house for that area. The price caps are based on the lower quartile house prices by Territorial Local Authority and are reviewed annually to ensure they reflect market fluctuations.
- 36 The regional house price caps for 2010 are \$400,000 for the higher priced areas of Auckland City, North Shore City, Rodney, Wellington and Queenstown Lakes District and \$300,000 for all other areas.<sup>16</sup>

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<sup>14</sup> Non earning KiwiSaver members (such as full time homemakers) are eligible to apply for the deposit subsidy provided they contribute at a minimum of two percent of the annual minimum wage and make at least one contribution a year for at least three years. Applicants who are beneficiaries are required to contribute a minimum of two percent of their gross benefit for at least three years.

<sup>15</sup> The 'second chance' provision recognises that KiwiSaver members may no longer own a home due to adverse circumstances such as redundancy, illness or relationship break-up. Members who have previously owned a home, but no longer have a share in a property may be eligible for the deposit subsidy and first home withdrawal providing they have not already received either the first home withdrawal or the deposit subsidy, and are in a similar position to first home buyers in terms of assets, income and liabilities.

<sup>16</sup> The regional house caps are GST inclusive.

### **First home withdrawal**

- 37 After at least three years of KiwiSaver membership, contributors who are first home buyers may withdraw all, or part, of their savings towards buying their first home.<sup>17</sup>
- 38 First home withdrawals are administered by KiwiSaver providers. Providers are responsible for making a determination whether the member is a first home buyer (as specified in the KiwiSaver Act 2006). If the member meets the criteria, his/her funds are released to the member's solicitor for the purchase of a home.
- 39 Home buyers who have previously owned a home and who meet 'second chance' criteria may be eligible for the first home withdrawal.<sup>18</sup> The Corporation is responsible for assessing members' eligibility for the second chance criteria.

### **Mortgage diversion feature**

- 40 The mortgage diversion feature which formed part of the original home ownership package was closed to new applicants on 1 June 2009. KiwiSaver members with an existing mortgage diversion can continue to have their contributions diverted to a mortgage if their provider still offers this facility.

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<sup>17</sup> The first home withdrawal excludes the \$1,000 government contribution and member tax credits.

<sup>18</sup> The second chance criteria identify whether the member is in a similar financial position as a first home buyer (in respect of income, realisable assets and liabilities).

## The evaluation

- 41 The KiwiSaver Joint Evaluation Strategy was signed off by Government in December 2006. The strategy provides a framework for each of the implementation agencies (Inland Revenue, Ministry of Economic Development and the Corporation) to evaluate the components of KiwiSaver for which they are responsible. The evaluation objectives and questions for the KiwiSaver Joint Evaluation Strategy are listed in Appendix A.
- 42 The Corporation is evaluating the KiwiSaver home ownership package (i.e. the first home deposit subsidy and first home withdrawal) over the period 2010/11-2012/13 to:
  - assess its impact and effectiveness from a customer perspective
  - assess the uptake (levels and financial value)
  - identify design features that are working as intended and those that are not
  - assess internal and external stakeholder experiences of implementing the home ownership package<sup>19</sup>
  - identify recommendations to enhance the effectiveness of the home ownership package.
- 43 The focus of evaluation activities during the period 2010/11-2011/12 will be to assess the take-up of the package, and how well delivery is working. During 2012/13 the evaluation will assess the effectiveness of the home ownership package against the agreed outcomes.
- 44 Appendix B shows the key questions for the evaluation of the home ownership package (to 2012).
- 45 The following are out of scope of the evaluation:
  - the mortgage diversion feature
  - the effectiveness of the home ownership package in encouraging long term saving and asset accumulation
  - the impact of the package on home ownership rates.

### Evaluation activities 2009/10

- 46 The purpose of the evaluation activities in 2009/10 is to:
  - provide baseline information for the evaluation of the home ownership package
  - assess the response to KiwiSaver in order to understand the likely scale and pattern of take-up of the home ownership package.
- 47 Table one shows the research objectives and questions.

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<sup>19</sup> External stakeholders include Inland Revenue, MED, MSD, Treasury, KiwiSaver providers, trading banks, mortgage brokers, and KiwiSaver members.

**Table 1** Research objectives and questions 2009/10

| Research objectives  | Research questions  |
|--|---|
| To describe the set-up of the KiwiSaver home ownership package to provide information for the on-going development and service delivery of the package | <p>What effect has the home ownership package had on systems, processes and procedures of the organisations involved?</p> <ul style="list-style-type: none"> <li>• Housing New Zealand Corporation (home deposit subsidy and second chance home withdrawal)</li> <li>• KiwiSaver providers (first home withdrawal)</li> </ul> <p>What will be the likely effect of the KiwiSaver home ownership package on compliance costs for providers?</p>  |
| To assess the response to KiwiSaver in order to understand the likely scale and pattern of take-up of the home ownership package                       | <p>What are the early indications of home ownership scale and pattern of take-up?</p> <ul style="list-style-type: none"> <li>• What is the level of awareness of the KiwiSaver home ownership package among non and current KiwiSaver members?</li> <li>• What are the reasons for not intending to use the home ownership features?</li> <li>• How many KiwiSaver members expressed an intention to apply for both or each home ownership product?</li> <li>• What are the demographic characteristics of the KiwiSaver members who intend to access first home withdrawal or the home deposit subsidy or both?</li> <li>• What number of KiwiSaver members will apply for the home deposit subsidy or first home withdrawal facilities under the second chance criteria?</li> <li>• How many KiwiSaver members who intend to access the first home withdrawal feature will also be eligible for the home deposit subsidy?<sup>20</sup></li> </ul> |

**Data used in this report**

- 48 The data about KiwiSaver providers, KiwiSaver members and individuals who are not KiwiSaver members used in this report were collected through research activities commissioned by Inland Revenue and research conducted by the Ministry of Economic Development.
- 49 Colmar Brunton was commissioned by Inland Revenue to conduct a face to face survey of 825 individuals about KiwiSaver (“the survey”). It included questions about awareness of and potential up-take of the home ownership package. Paragraphs 91 and 92 provide more information about the methodology.
- 50 The Ministry of Economic Development conducted a written survey of 25 KiwiSaver providers (“the provider survey”). Questions were included about current and future compliance costs associated with the introduction of the first home withdrawal, as well as questions relating to communications, level of interest and projected pattern of uptake.

<sup>20</sup> The data to answer this question is yet to be analysed.

**Limitations**

- 51 The survey did not allow exploration of the responses of KiwiSaver members who are potential first home buyers about their level of understanding of the home ownership package or their future intentions about its use. Similarly, the provider survey did not allow for clarification of providers' responses.



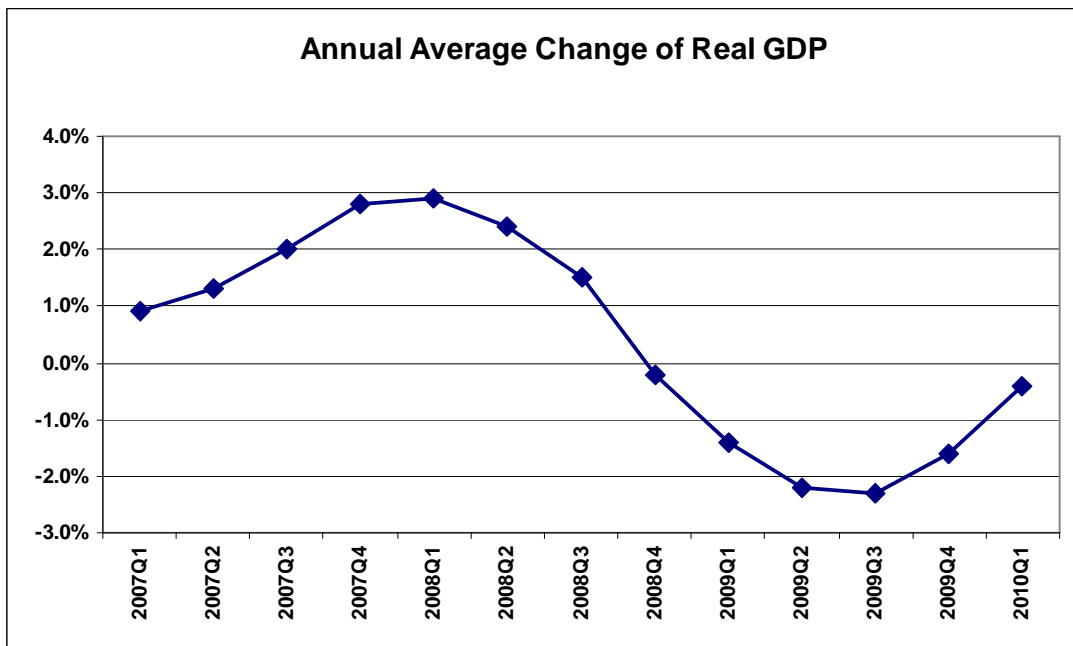
## Housing Environment

52 This section provides an overview of the economic and housing environments from the introduction of KiwiSaver in 2007 until the first draw down of the first home deposit subsidy and home withdrawal in July 2010. This is followed by an examination of key housing indicators during this period of relevance to first home buyers.

### Overview: 2007- 2010

53 After the KiwiSaver scheme's introduction in 2007, the housing market was buoyant. Positive levels of net migration and the availability of finance from commercial lenders for housing investment stimulated housing activity. House prices increased steadily from 2003, peaking towards the end of 2007. Strong house values made home owners feel wealthier, causing some to extract equity from their homes to leverage further investment in the property market or for consumer spending.<sup>21</sup>

54 The New Zealand economy entered recession in early 2008, before the effects of the global financial crisis were felt later in the year.<sup>22</sup> The annual average change of real Gross Domestic Product (GDP) started a downward trend in the second quarter of 2008 which continued until the third quarter of 2009 when recovery began (Figure 1).



Source: Statistics New Zealand

**Figure 1** Annual average change of real GDP 2007- 2010

<sup>21</sup> New Zealand Treasury, *Monthly Economic Indicators. Special Topic: Outlook for the housing market*. February 2008.

<sup>22</sup> New Zealand Treasury, *New Zealand Economic and Financial Overview 2010*. April 2010.

- 55 During 2008 the economic uncertainty, coupled with increased fuel and food prices, and high interest rates had a significant impact on the level of residential investment.<sup>23</sup> A reduction in net migration in the 12 months to January 2008 (arrivals exceeded departures by 4,800 people compared to 14,100 for the 12 months to January 2007) also lowered housing demand.<sup>24</sup> By mid-late 2008 commercial lenders were responding to the recessionary pressures by tightening their home lending criteria, with the majority of banks requiring a 20 percent deposit for first home buyers.
- 56 The effects of the recession on employment were most obvious during 2009 when the annual change of employment figures reached a low of -2.4% in the fourth quarter (Figure 2).



Source: Statistics New Zealand

**Figure 2** Annual change of employment 2007-2010

- 57 Despite the economy's increasing recovery from the global financial crisis during the first months of 2010, the housing market has remained subdued.<sup>25</sup> The ASB Housing Confidence Survey for the three months to April 2010 reported waning optimism and a slowing in housing market activity. In a media release (dated May 2010), the Reserve Bank Governor said householders were choosing to consolidate by building up savings and reducing debt.<sup>26</sup>

<sup>23</sup> New Zealand Treasury. *Pre Election Economic and Fiscal Update*. October 2008; New Zealand Treasury. *New Zealand Economic and Financial Overview 2010*. April 2010.

<sup>24</sup> New Zealand Treasury. *Monthly Economic Indicators. Special Topic: Outlook for the housing market*. February 2008.

<sup>25</sup> The Reserve Bank of New Zealand. *Handling our economic recovery*. 6 May 2010.

<sup>26</sup> *ibid*

- 58 Property values released by Quotable Value in May 2010 were 6.1 percent above the same time in 2009 according to the QV residential property indices for April.<sup>27</sup> The annual change in values was the same as reported in March 2010, reflecting stable values in previous months and at the same time in 2009. Nationally, values remained 3.9 percent below the market peak of late 2007.
- 59 The subdued housing market was attributed in the short term to uncertainty about whether the tax advantages for property investment would be removed in the May 2010 Budget. Expectations of higher short term interest rates as a result of an anticipated increase in the Official Cash Rate (OCR) were also identified as dampening the housing sector.<sup>28</sup>
- 60 The tax changes in the 2010 Budget included property investors losing the ability to claim depreciation on most permanent buildings from 1 April 2011 and the tightening of the rules on tax rates for loss attributing qualifying companies. There were a range of views among commentators about the impact of these tax changes on rent rises and property values. Rent rises of 1.4 to four percent over four years, and a decrease in property values of two to four percent over the next two years were forecast.<sup>29 30</sup>
- 61 The expected increase in the OCR occurred in mid June 2010 with an increase of 0.25 percent from an all time low of 2.50 percent. A further increase of 0.25 percent to 3.0 percent occurred at the end of July. The Reserve Bank Governor indicated that further reviews of the OCR would be considered in light of economic and financial market developments.<sup>31</sup>

## Housing indicators

### Housing affordability

- 62 This section examines the Interest.co Home Loan Affordability series which consists of two measures - the standard home loan affordability index, and the first home buyer home loan affordability index. The data and assumptions underpinning these measures are summarised in Appendix C.

#### Standard home loan affordability index

- 63 The standard home loan affordability index measures the proportion of a household's take-home pay needed to afford the mortgage payment on a median priced house purchased in a specific month. A mortgage is deemed affordable when the mortgage payment is no greater than 40 percent of a household's weekly take-home pay.
- 64 Figure 3 shows the standard home loan affordability index for the period January 2007 – March 2010. Based on a standard household profile, a mortgage on a median home purchased in March 2010 required 40.8 percent

<sup>27</sup> Quotable Value, National Property Statistics. May 2010.

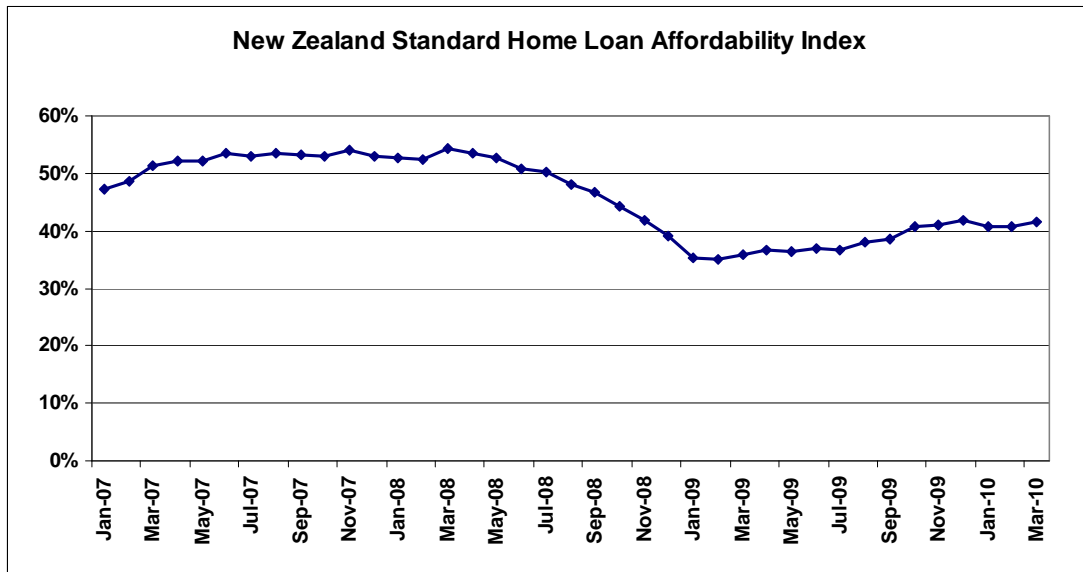
<sup>28</sup> ASB. *NZ Housing Confidence Survey*. 5 May 2010

<sup>29</sup> Budget report. (21 May 2010). The Dominion Post

<sup>30</sup> Experts tip house values to fall to four percent. (22 May 2010). The Dominion Post.

<sup>31</sup> The Reserve Bank of New Zealand. Media Release: *The Reserve Bank raises OCR to 2.75 percent*. 10 June 2010.

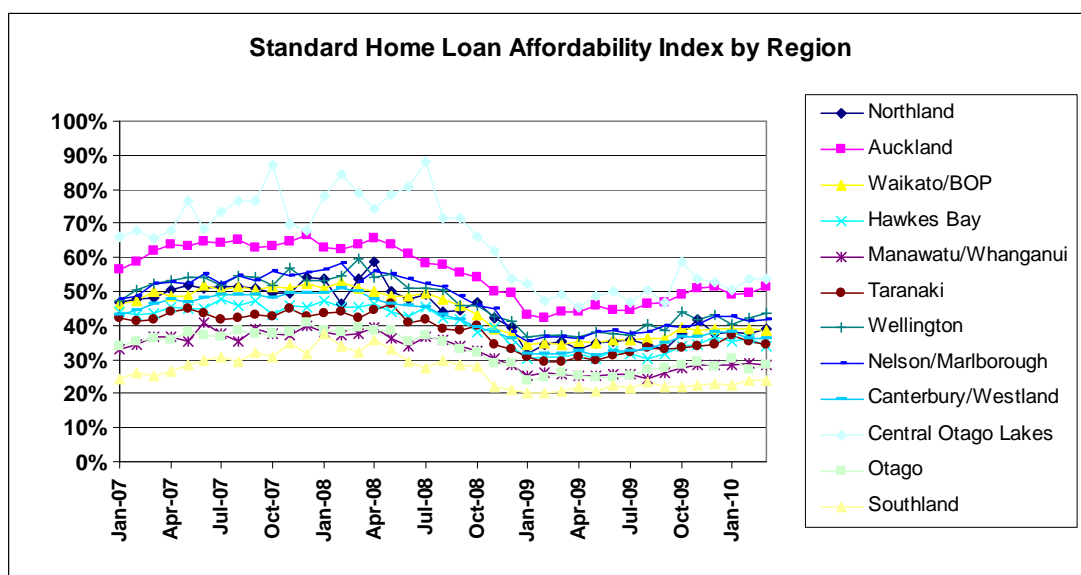
of the median take-home pay to service. This is the same as in January 2010. In April 2009 the percentage required was 36.8 percent and 53.5 percent in April 2008.



Source: [www.interest.co.nz/property](http://www.interest.co.nz/property)

**Figure 3** Standard home loan affordability index January 2007–2010

- 65 Central Otago/Queenstown Lakes has consistently been the least affordable region, with Auckland as the second least affordable region (Figure 4). These regions are followed by Wellington and Nelson/Marlborough. The most affordable region is Southland, followed by Otago and Manawatu/Whanganui.

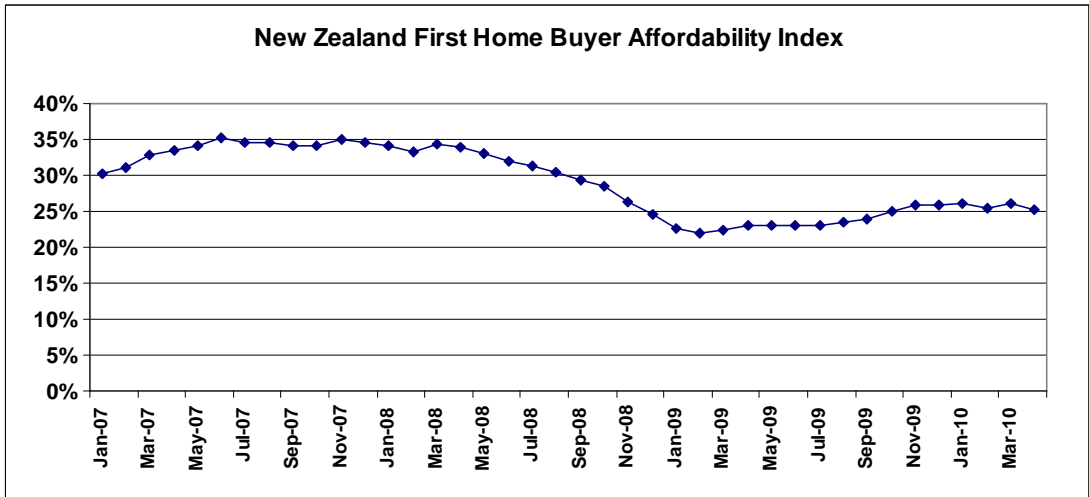


Source: [www.interest.co.nz/property](http://www.interest.co.nz/property)

**Figure 4** Standard home loan affordability index by region 2007–2010

#### First home buyer affordability index

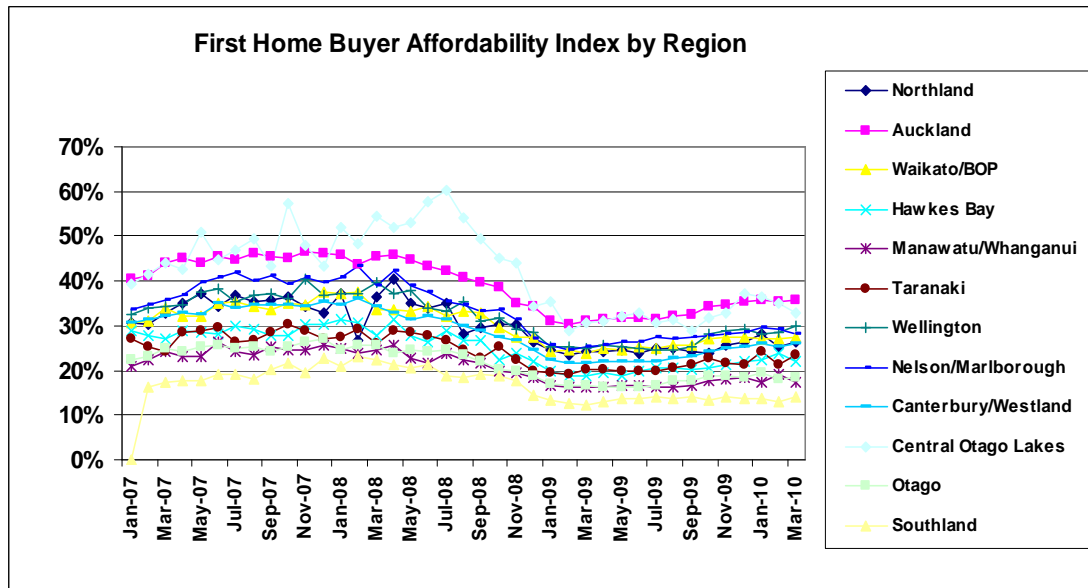
- 66 The first home buyer affordability index measures the proportion of a household's take-home pay needed to afford the mortgage payment on a lower quartile priced house purchased in a specific month. A mortgage is deemed affordable when the mortgage payment is no greater than 40 percent of a household's weekly take-home pay.
- 67 Figure 5 shows the first home buyer affordability index from January 2007 to March 2010. Based on a first home buyer household profile, 25.2 percent of the median take-home pay was required to service a mortgage on a lower quartile home purchased in April 2010. The index peaked in June 2007 at 35.1 percent before decreasing to 22.1 percent in February 2009. Since this date the index has been increasing slowly, staying at between 25 – 26 percent since October 2009.



Source: [www.interest.co.nz/property](http://www.interest.co.nz/property)

**Figure 5** First Home Buyer Affordability Index 2007–2010

68 Figure 6 shows the first home affordability index by region. As at March 2010, the regions from least to most affordable were: Auckland (35.8 percent) Central Otago/Queenstown Lakes (32.7 percent), Wellington (30.0 percent), Nelson/Marlborough (28.2 percent), Northland (26.2 percent), Canterbury (25.9 percent), Waikato/Bay of Plenty (27.3 percent), Taranaki (23.4 percent), Hawkes Bay (22.1 percent), Otago (18.3 percent), Manawatu/Whanganui (17.4 percent) and Southland (14.1 percent).



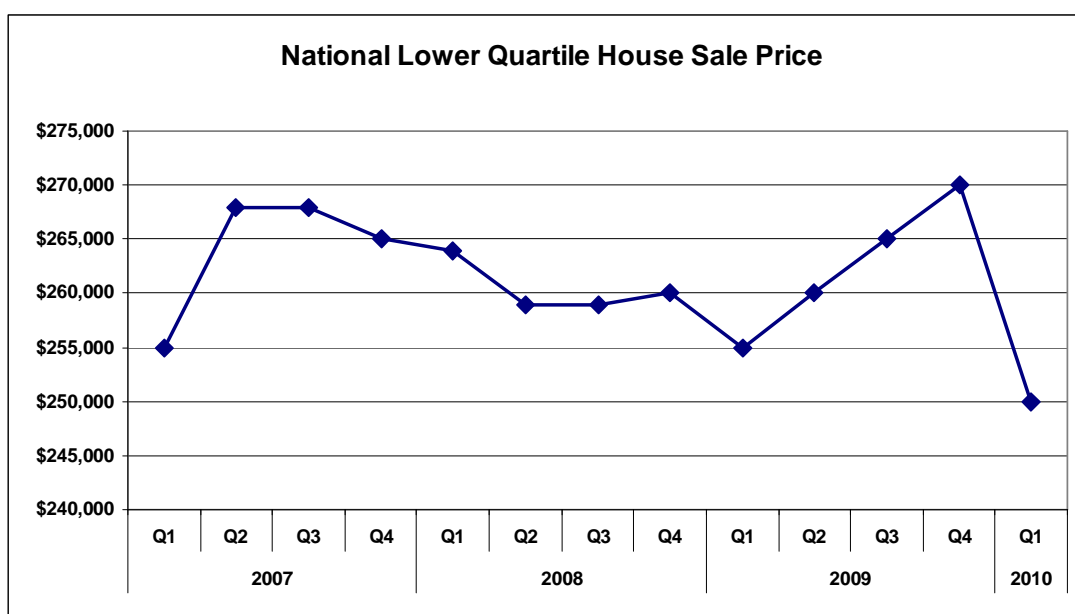
Source: [www.interest.co.nz/property](http://www.interest.co.nz/property)

**Figure 6** First Home Buyer Affordability Index by region 2007–2010

## House prices

### Lower quartile house price sales

- 69 During the period January 2007-December 2009 the national lower quartile house sale price ranged from \$255,000 (in quarter one 2007, and quarters two and four 2009) to \$268,000 (in quarters two and three 2007) as shown in Figure 7. Lower quartile sale prices improved in quarter three 2009 with a price of \$263,000. Exceptionally low fixed mortgage interest rates led to house price rises across all quartiles in the third quarter of 2009.<sup>32</sup>
- 70 Despite the national lower quartile sale price peaking at \$268,000 in mid 2007, by the end of 2009 the sale price (\$255,000) was the same as at the start of 2007.



Source: Quotable Value New Zealand

**Figure 7** National lower quartile house sale price 2007- 2010

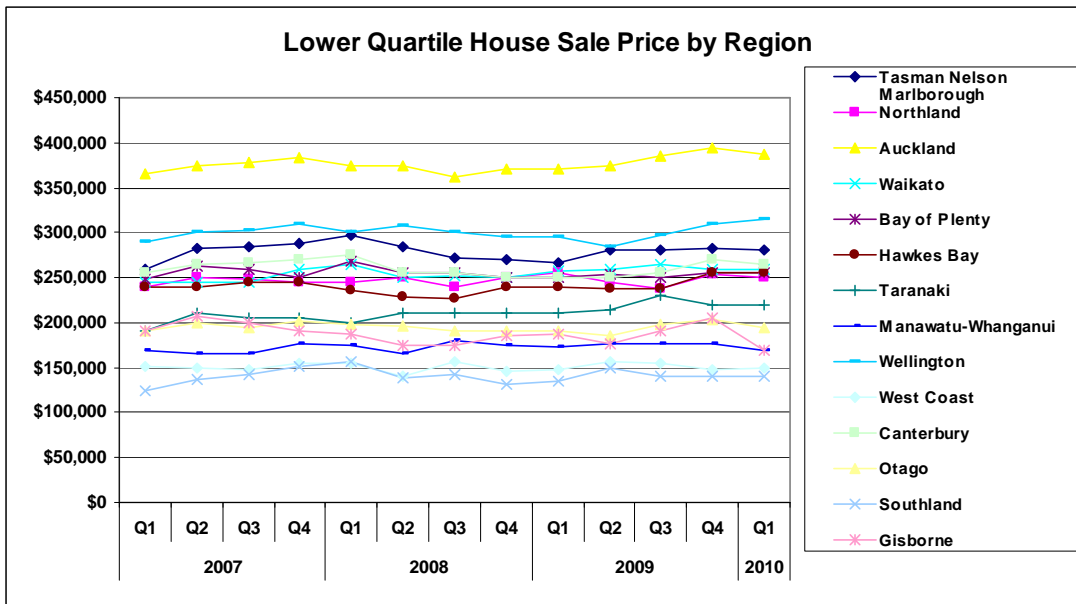
- 71 Figure 8 shows lower quartile house sale prices by region. The Auckland region had the highest lower quartile house sale prices across the period 2007-2009 ranging from \$365,000 in the first quarter 2007 to \$384,500 in the third quarter 2009. The Wellington region had the second highest lower quartile sale prices ranging from \$290,000 in the first quarter 2007 to \$310,000 in the third quarter 2007. This was followed by the Tasman/Nelson/Marlborough region with lower quartile sale prices ranging from \$260,000 in the first quarter 2007 to \$288,500 in the third quarter 2007.
- 72 The Southland region had the lowest lower quartile house sale prices across the period ranging from \$125,000 in the first quarter 2007 to \$156,000 in the first quarter 2008. The West Coast region had the second lowest lower quartile house sale prices, ranging from \$135,000 in the fourth quarter 2009 to

<sup>32</sup> The Treasury. *New Zealand Economic and Financial Overview*. April 2010.

\$157,500 in the third quarter 2008. The Manawatu-Whanganui region had the third lowest, ranging from \$155,000 in the fourth quarter 2009 to \$176,000 in the fourth quarter 2007.

73 During the two years January 2007 to December 2009 lower quartile house sale prices have remained relatively stable across all fourteen regions. Despite reaching a peak of \$310,000 in quarter four 2007, the lower quartile house price in Wellington at the end of 2009 was \$290,000, the same as at the start of 2007. The Northland region experienced the largest growth in lower quartile house sale prices over the period, from \$240,000 at the start of 2007 to \$254,500 at the end of 2009.

74 Two regions experienced decreases in lower quartile house sale prices over this two year period. The West Coast region had the largest decrease from \$152,000 at the start of 2007 to \$135,000 at the end of 2009, a drop \$17,000. The Manawatu-Whanganui region experienced the second largest decrease of \$15,000 from \$170,000 at the start of 2007 to \$155,000 at the end of 2009.



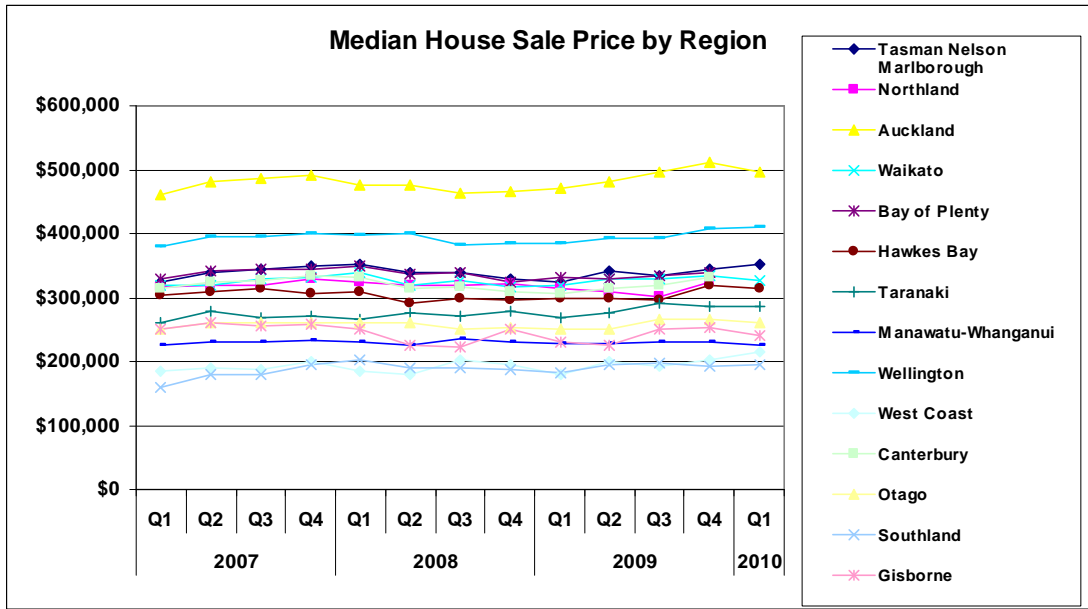
Source: Quotable Value New Zealand

Figure 8 Lower quartile house sale prices by region 2007-2010

### Median house price sales

75 The national median house sale price followed a similar pattern to the lower quartile house sale price (Figure 9). The lowest median sale price of \$346,000 occurred in quarter one 2007 and the highest median price of \$362,000 in quarter three 2007, with a slightly smaller peak of \$360,000 in quarter three 2009. Despite an increase of \$17,000 during this two year period, by the end of 2009 the median sale price (\$345,000) was almost identical to the median price at the start of 2007 (\$346,000).



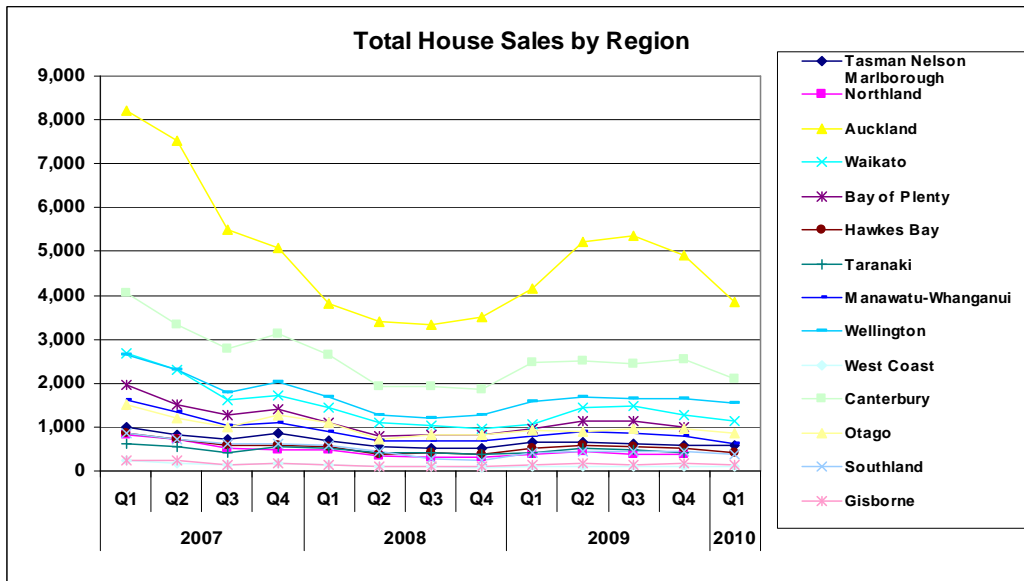


Source: Quotable Value New Zealand

Figure 9 National median house sale price 2007- 2010

**House sales**

76 Total national house sales have been in decline since the beginning of 2007 (Figure 10). There was some recovery in the fourth quarter of 2007, and during late 2008 to early 2009 which may be attributed to the typical pattern of house sale activity during the spring and summer months.

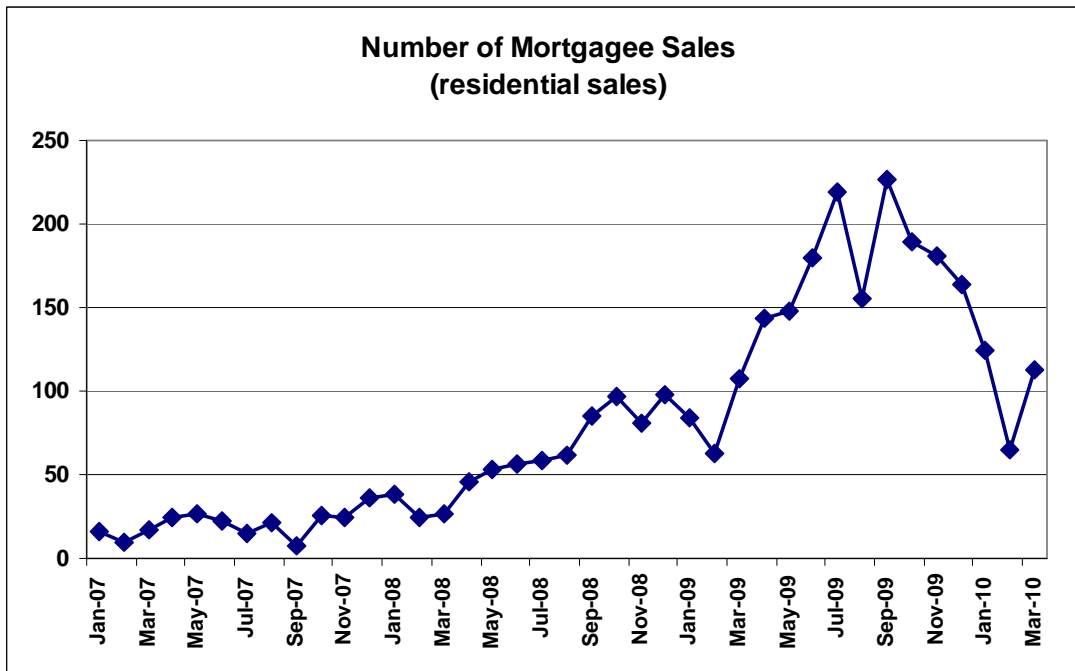


Source: Quotable Value New Zealand

Figure 10 National Total of House Sales 2007- 2010

## Mortgagee sales

77 The number of mortgagee sales (TPS count<sup>33</sup>) was on an upward trend from 2007 to mid 2009 (Figure 11). Sales peaked in July 2009 (219 sales) and again in September 2009 (227 sales) before decreasing in February 2010 to a similar level as February 2009 (65 and 63 sales respectively). Sales showed a similar number in March 2010 compared to the level in March 2009 (113 and 107 respectively).



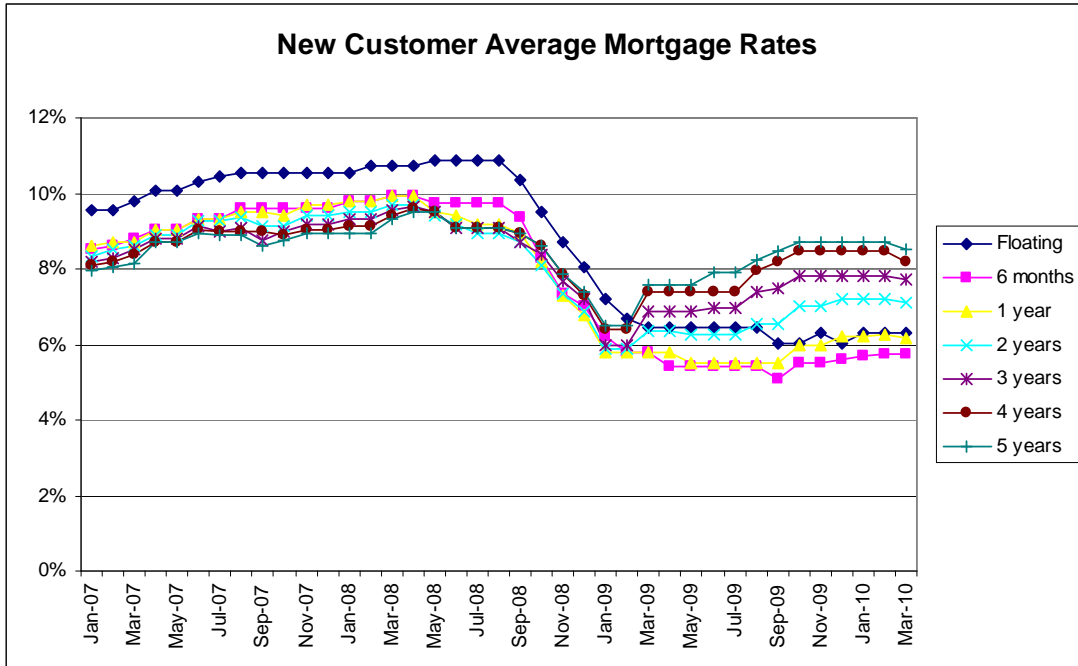
Source: HNZA

Figure 11 Number of mortgagee sales by month 2007 – 2010

## Interest rates and deposit requirements

78 Figure 12 shows the average mortgage rates for new customers charged by commercial lenders during the period January 2007 – March 2010. Floating and fixed term interest rates increased steadily until peaking in April – May 2008 with an average floating rate of 10.72 percent and fixed rates of 9.95 percent for six and 12 month terms, 9.7 percent for two years, and 9.5 percent for five years. The next six months saw all rates reduce steadily, bottoming out in January-February 2009. Since this date, average rates for floating mortgages and six, 12 and 24 month terms have remained around five and six percent, while longer term mortgages have risen to between seven and eight percent.

<sup>33</sup> Transfer of Power of Sale (TPS) is when a mortgagee exercises the power to sell a property to recover the loan amount as a result of the borrower defaulting the mortgage payment.



Source: RBNZ

**Figure 12** New customer average mortgage rates 2007 – 2010

- 79 As noted above, interest rates are expected to rise in the second half of 2010 as a result of increases in the OCR from its historically low level of 2.5 percent to more usual levels.<sup>34</sup>
- 80 Following the change in lending criteria by most of the major banks in late 2008, a deposit of around 20 percent still appears to be required for first home buyers. Exceptions include lenders who have a guarantee from someone with sufficient equity in an existing property to cover the shortfall of the deposit. Where banks lend over 80% of the property's value, a low equity premium applies based on the amount borrowed.

<sup>34</sup> The Reserve Bank. *Handling our economic recovery*. May 2010

# Deposit Subsidy Demand Forecast Model

## The model

- 81 The Deposit Subsidy Demand Forecast Model (“the model”) is designed to forecast the potential capital required to fund deposit subsidy draw-downs.
- 82 The approach of the model is to construct a bottom-up estimate of the potential demand for each household type and income band based on their estimated borrowing capacity. To forecast this demand, the model estimates the eligible population of KiwiSaver members, the propensity of this group to buy a first home as well as the willingness and capability of this group to buy a home that meets the eligibility of the scheme. The model estimates the likely demand for the deposit subsidy for each year for the 25 – 34 year and 35 – 45 year age groups.
- 83 The model combines data from multiple sources including:
- Statistics NZ data on the population demographics and household income of the private renter market
  - RBNZ data on consumer debt and Inland Revenue forecasts of KiwiSaver membership
  - QVNZ lower quartile house price data.
- 84 The capacity to service debt is a key requirement of the model and this is based on potential home owners need to satisfy bank housing loan criteria. The model calculates potential purchasers’ capacity to service debt using credit criteria information from the banks.
- 85 The model identifies the pool of KiwiSaver members who are eligible for the deposit subsidy in any given year, and assumes that 15 percent of this pool will take up the deposit subsidy to buy a home. This take-up estimate has been used in models for other home ownership schemes administered by the Corporation. It is a “lower side” estimate of renter capacity to service debt and renter propensity to buy a home.
- 86 The model was reviewed in June 2008 by external reviewers, and the following recommendations were incorporated into the model design.
- Updating to reflect the tax rate change in the 2008/09 Budget.
  - Updating to reflect the KiwiSaver membership forecasts in the 2008/09 Budget.
  - Adding the ability to withdraw employer contributions.
  - Alignment of the borrowing capacity assumptions to reflect bank lending criteria for both debt servicing capacity and deposits for high loan value ratio (LVR) lending.
  - Assume average levels of consumer debt based on average credit card borrowing.
  - Assume average interest rate for home loans.

- Requirement to pay a lenders' mortgage insurance premium that may be up to one to two percent of the loan amount.
  - Removing redundant code or calculation sections.
  - Simplifying the model structure by eliminating process steps.
- 87 Additional updates to the model have included updating monthly living allowance figures and reducing employer contributions from four to two percent.
- 88 The requirement of a 20 percent deposit required by commercial banks for a first home loan substantially reduced the original estimated take-up numbers in the first two years.
- 89 The model has three key limitations. They are:
- It assumes the composition of KiwiSaver renter participants is the same as that of the general renter population.
  - It does not take into account the joint application of three people or more, due to a lack of data about this potential applicant group. This could underestimate the uptake number.
  - It assumes that current model membership numbers and the likely subsidy level are linked by the "average time in the scheme". It will be more useful to model the use of the subsidy by cohorts based on the year of joining KiwiSaver than by using an average time in the scheme.

## Estimated take up

- 90 Table 2 shows the number of KiwiSaver members who are expected to take up the first home deposit subsidy for each of the years 2010/11-2016/17. The recipient numbers shown in Table 2 are households rather than individuals because two or more people can receive the deposit subsidy to buy the same house.

**Table 2** Projected take up and cost of the first home deposit subsidy

|                                    | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| <b>Recipient household numbers</b> | 315     | 744     | 1,361   | 1,947   | 1,985   | 1,746   | 1,128   |
| <b>Initial Outlays (\$mil)</b>     | 1.5     | 4.6     | 8.3     | 14.7    | 14.9    | 13.4    | 9.3     |

# Findings

## Survey of individuals

- 91 This section describes the findings relating to the home ownership package from the report “KiwiSaver Evaluation: Survey of Individuals” (referred to as ‘the survey’) by Colmar Brunton (June 2010).<sup>35</sup> The report presents the findings of a survey of 825 people aged 18 to 65 years about topics such as decision making about KiwiSaver membership, investment habits, retirement planning, savings and debt, and the home ownership package.
- 92 The face to face survey was conducted in January to March 2010 with 557 randomly selected members of the general public and a booster sample of an additional 268 KiwiSaver members. Of the 825 respondents, 474 were KiwiSaver members. A full account of the methodology and profile of respondents is contained in the Colmar Brunton report.

## Decision making about KiwiSaver

- 93 Of the 474 KiwiSaver members who were surveyed, 24 percent indicated that saving to buy a home was one factor in their decision to join KiwiSaver. Saving for a home was the most important decision making factor for 10 percent of respondents.

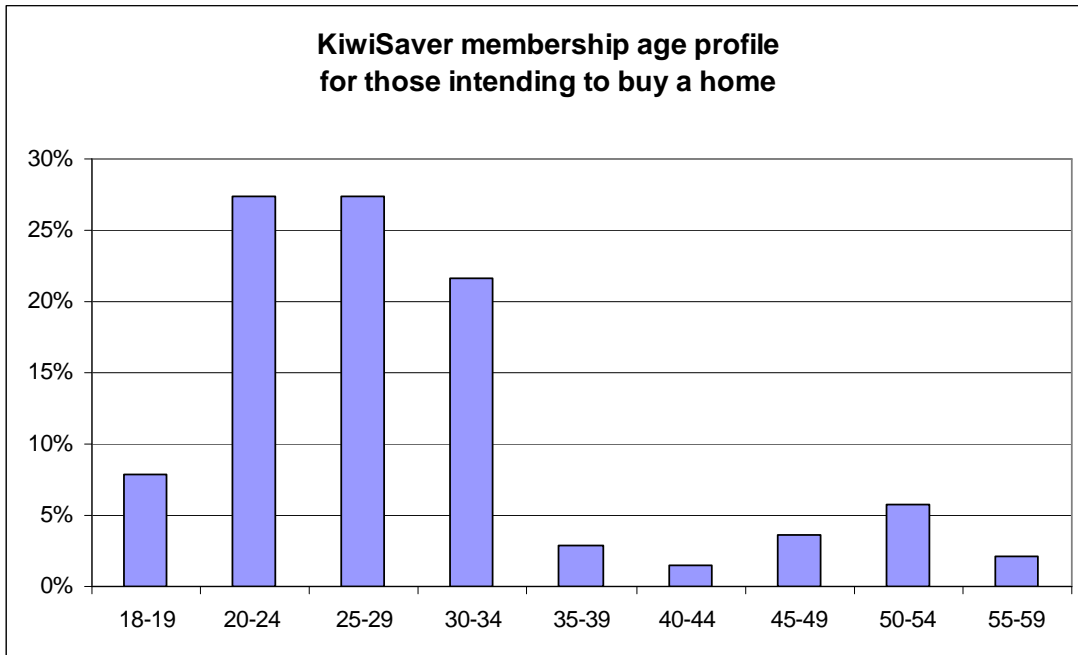
## Awareness of home ownership package

- 94 Three hundred and seventy two (45 percent) respondents did not currently own a home.<sup>36</sup> Of these, just under half (45 percent) said they were either ‘very likely’ or ‘quite likely’ to buy a home in the next five years.
- 95 Survey data indicates that those KiwiSaver members who do not currently own a home and who indicated that they intended to buy a home within the next five years were concentrated in three age cohorts between 20-34 years (76 percent) (see Figure 13).

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<sup>35</sup> Used by permission.

<sup>36</sup> The respondents who did not currently own a home either had never owned a home or had previously owned a home. These respondents did not include those who had transferred ownership of a home to a trust.



**Figure 13** KiwiSaver membership age profile for those intending to buy a home

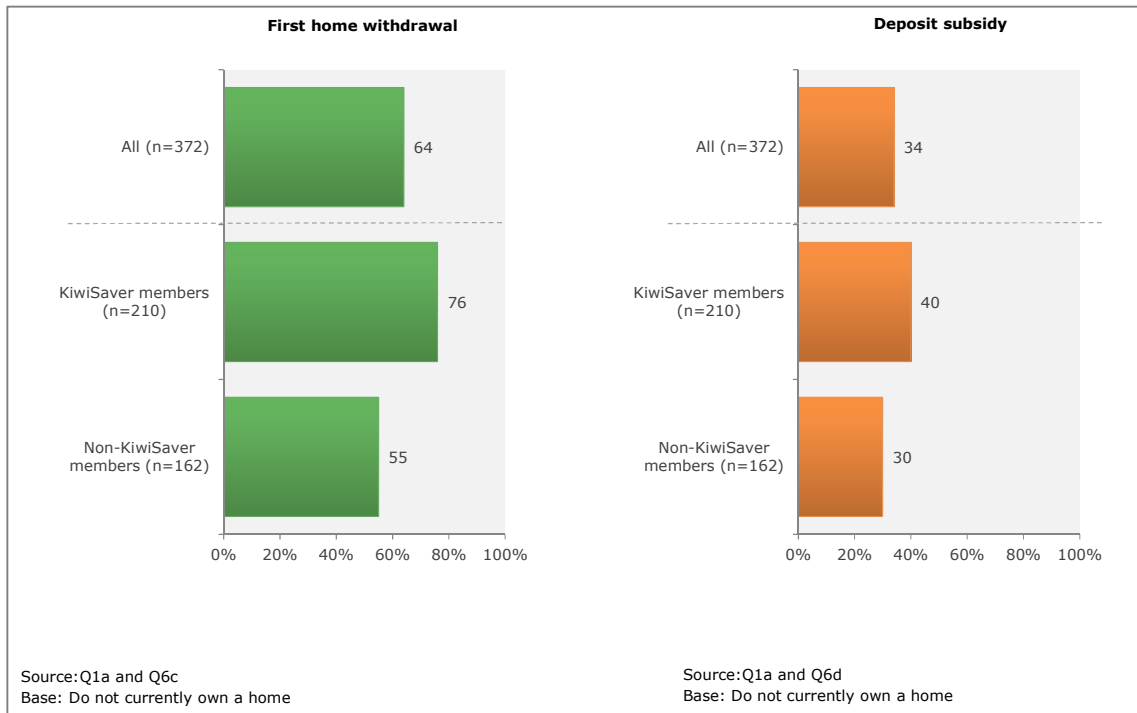
96 The following demographic groups are represented in higher proportions among those who are (very or quite) **likely** to buy a home in the next five years compared to those who are (very or quite) **unlikely** to buy a home in the next five years:

- Those who live with a partner (56 percent of those who are likely to buy a home live with a partner compared to 37 percent of those who are unlikely to buy a home)
- Households where both partners are in full time employment (37 percent compared to 19 percent)
- Combined annual income of \$30,001 to \$80,000 (57 percent compared to 28 percent)
- Those with post-secondary school qualifications (50 percent compared to 35 percent)
- Employed full time (52 percent compared to 32 percent)
- Households in which there are two partners and one of them is a KiwiSaver member (19 percent compared to 9 percent).

97 The 372 respondents who did not currently own a home were asked about their awareness of the home ownership package.

#### First home withdrawal feature

98 Sixty four percent of respondents who did not currently own a home were aware of the first home withdrawal feature (Figure 14). Awareness was higher among KiwiSaver members (76 percent).



Source: Colmar Brunton

**Figure 14** Awareness of first home withdrawal and deposit subsidy features

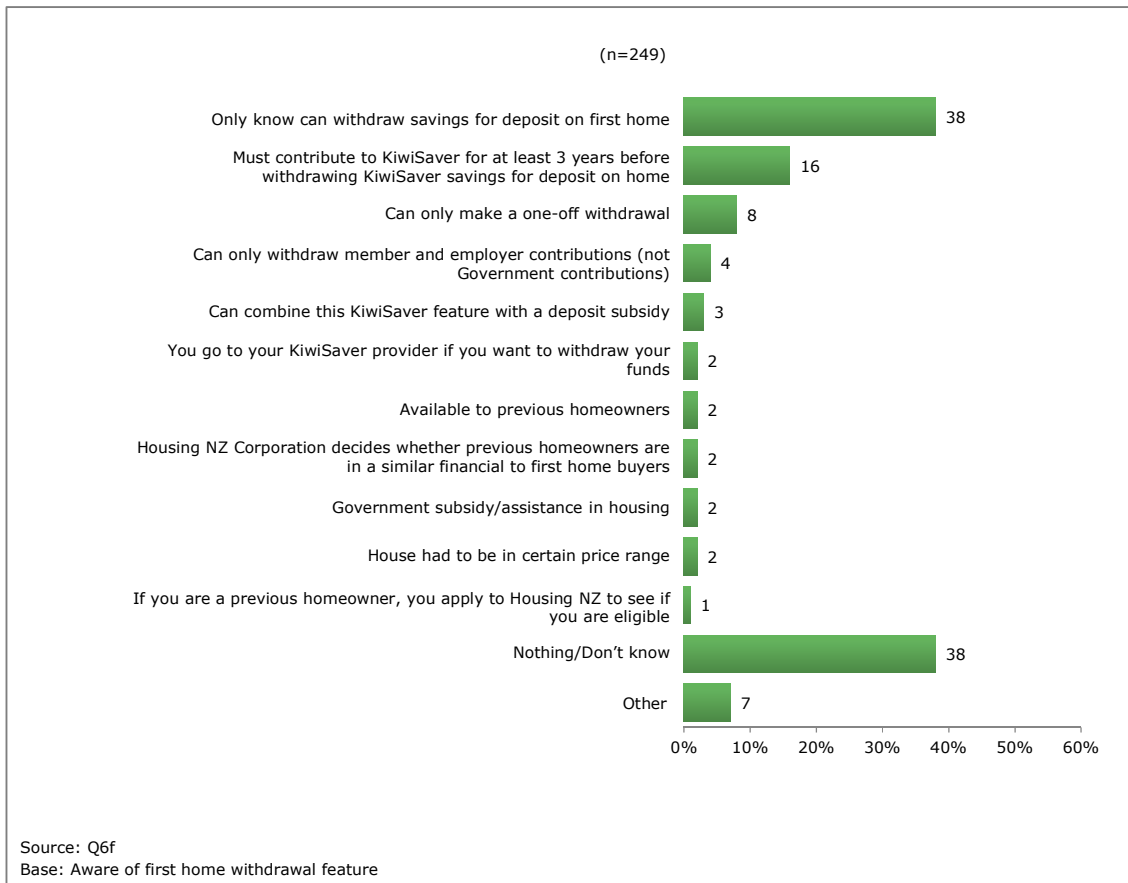
- 99 Table 3 shows demographic differences (that are statistically significant) between those who were aware of the first home withdrawal feature and those who were not aware of the feature. Among those who were aware of the first home withdrawal feature, there were relatively high proportions of New Zealand Europeans, those with no children, KiwiSaver members, those with 'very good' or 'excellent' health and those in full-time employment.
- 100 Conversely, among those who were not aware of the first home withdrawal feature, there were relatively high proportions of non-KiwiSaver members, Maori, Pacific people, those with children, and those not employed and not available for work.



**Table 3** Awareness of First Home Withdrawal feature

| Defining characteristics                      | Aware of first home withdrawal feature<br>(n=249)<br>% | Not aware of first home withdrawal feature<br>(n=119)<br>% |
|---|--|--|
| New Zealand Europeans                         | 73   | 58   |
| Those with no children                        | 65   | 53   |
| KiwiSaver members                             | 49   | 27   |
| 'Very good' or 'excellent' health             | 76   | 66   |
| Full time employment                          | 47   | 28   |
| Non-KiwiSaver members                         | 51   | 73   |
| Maori   | 12   | 25   |
| Pacific people                                | 10   | 21   |
| Those with children                           | 35   | 47   |
| Those not employed and not available for work | 17   | 28   |

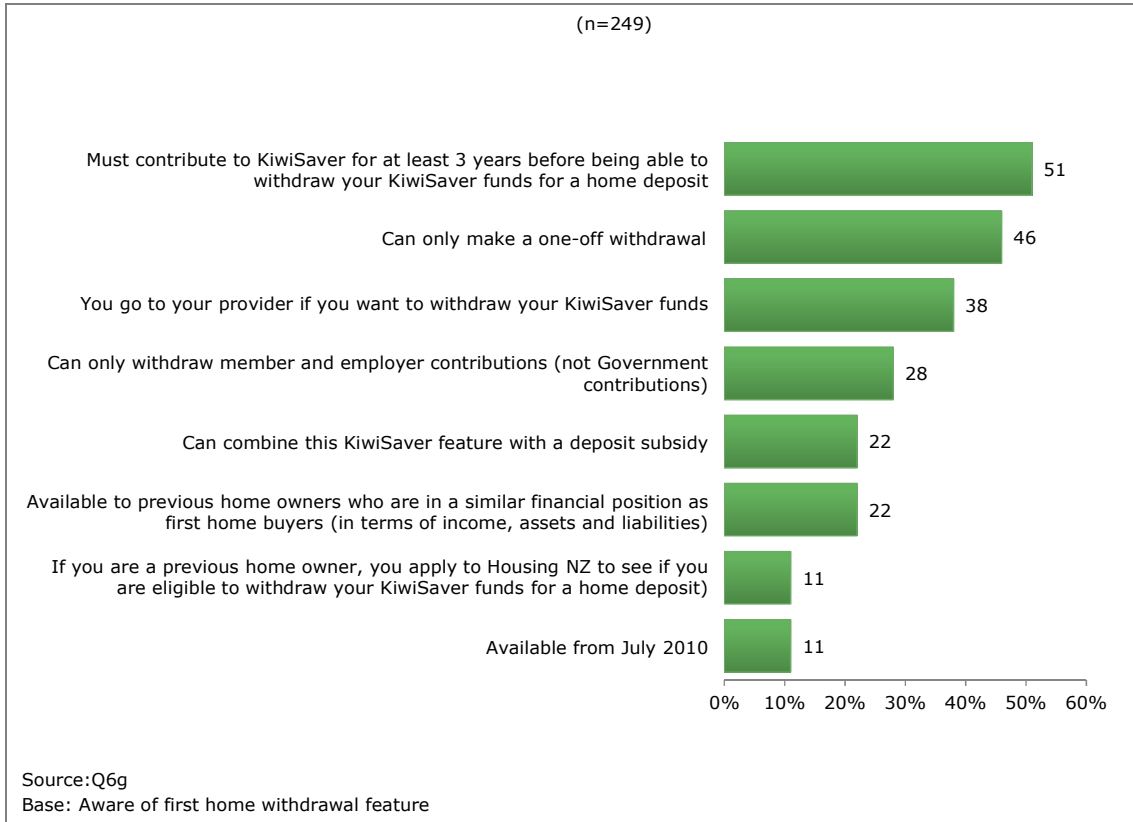
101 The 249 respondents who were aware of the first home withdrawal feature were asked questions about the details of the feature (without prompting with possible answers). Respondents' knowledge was limited (Figure 15). Thirty eight percent knew **only** that they could withdraw savings for a deposit on their first home, while 38 percent said they knew nothing about the details or were unsure. The three year saving requirement (16 percent) and the one-off withdrawal rule (8 percent) were the most commonly mentioned details. Two percent of respondents had the mistaken impression that the withdrawal was subject to a house price range. For each aspect of knowledge, there were no differences in level of knowledge between KiwiSaver members and respondents who were not in KiwiSaver.



Source: Colmar Brunton

**Figure 15** Unprompted knowledge of first home withdrawal feature

- 102 After these unprompted questions, respondents were given a list of facts about the first home withdrawal feature and asked whether they had heard about each fact. Figure 16 shows that respondents were more likely to have heard about the three year contribution requirement (51 percent), the one off withdrawal rule (46 percent) and the providers' role in withdrawing funds (38 percent).
- 103 KiwiSaver members were more likely to be aware (than not aware) of the three year contribution requirement and the option to combine the withdrawal with the deposit subsidy. Conversely, respondents who were not KiwiSaver members were more likely to be **not** aware of the three year contribution requirement and the option to combine the withdrawal with the deposit subsidy.



Source: Colmar Brunton

**Figure 16** Prompted knowledge of first home withdrawal feature

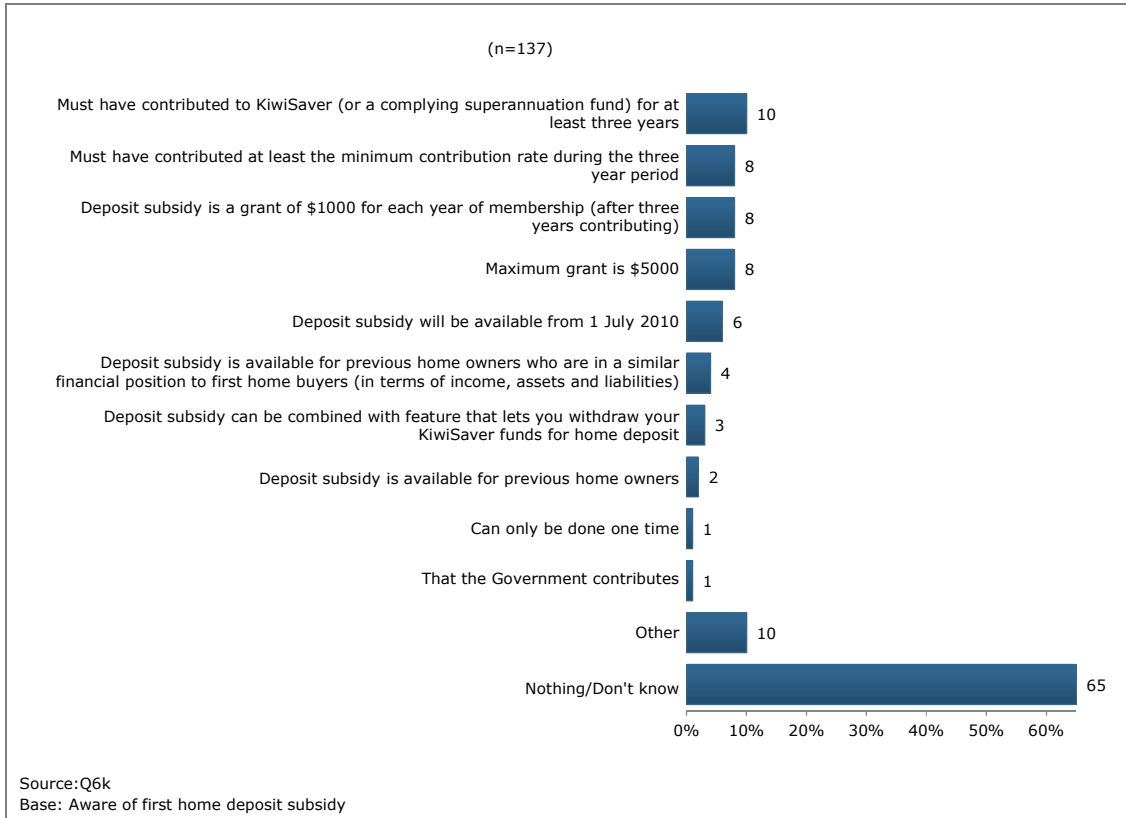
### First home deposit subsidy

- 104 Awareness of the first home deposit subsidy was low with only 34 percent of all respondents who did not currently own a home being aware of it (Figure 14). Forty percent of KiwiSaver members were aware of the subsidy.
- 105 Table 4 shows demographic differences (that are significant) between those who were aware of the first home deposit subsidy and those who were not aware of the feature. Among those who were aware of the subsidy, there were relatively high proportions of people with post secondary school qualifications, KiwiSaver members, people with a combined annual income of over \$50,000, and people aged 30 to 39 years.
- 106 Conversely, among those who were not aware of the first home deposit subsidy feature, there were relatively high proportions of non-KiwiSaver members, 18 to 29 year olds, people for whom a school qualification was their highest educational qualification or those with no educational qualifications, and people with a combined annual income of up to \$30,000.

**Table 4** Awareness of First Home Deposit Subsidy

| <b>Defining Characteristics</b>   | <b>Aware of first home deposit subsidy feature<br/>(n=137)<br/>%</b> | <b>Not aware of first home deposit subsidy feature<br/>(n=232)<br/>%</b> |
|---|--|--|
| Those with post secondary school qualifications   | 52   | 37   |
| KiwiSaver members   | 48   | 36   |
| Those with a combined annual income of over \$50,000                                      | 45   | 27   |
| Those aged 30 to 39 years   | 40   | 20   |
| Non-KiwiSaver members   | 52   | 64   |
| 18 to 29 year olds  | 40   | 57   |
| School qualification is highest qualification or those with no educational qualifications | 35   | 58   |
| Those with a combined annual income of up to \$30,000                                     | 32   | 43   |

107 The 137 who were aware of the first home deposit subsidy feature were asked about their knowledge of this feature. Without prompting, respondents' knowledge was very limited with two thirds (65 percent) saying they knew nothing about it or were unsure (Figure 17). The three year contribution was mentioned most frequently (10 percent). All other aspects were mentioned by fewer than 10 percent of respondents.

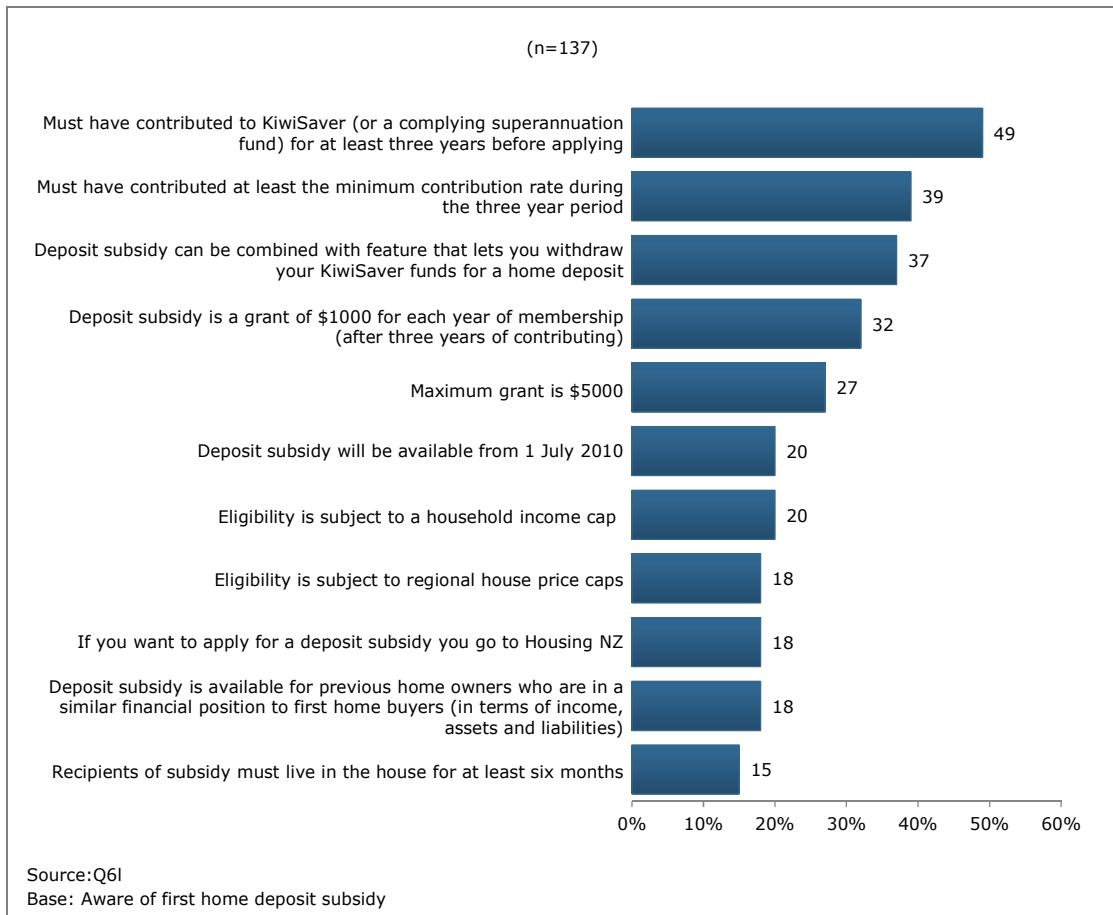


Source: Colmar Brunton

**Figure 17** Unprompted knowledge of first home deposit subsidy

108 With prompting, respondents were more likely to know about the three year contribution requirement (49 percent), the minimum contribution requirement (39 percent) and the option to combine the subsidy with the first home withdrawal (37 percent) (Figure 18).

109 KiwiSaver members were more likely to be aware (than not aware) of the three year contribution requirement and the amount of \$1,000 for each year of membership. Conversely, respondents who were not KiwiSaver members were more likely to be **not** aware of the three year contribution requirement and the amount of \$1,000 for each year of membership.



Source: Colmar Brunton

**Figure 18** Prompted knowledge of first home deposit subsidy

### Intentions to apply for the first home withdrawal

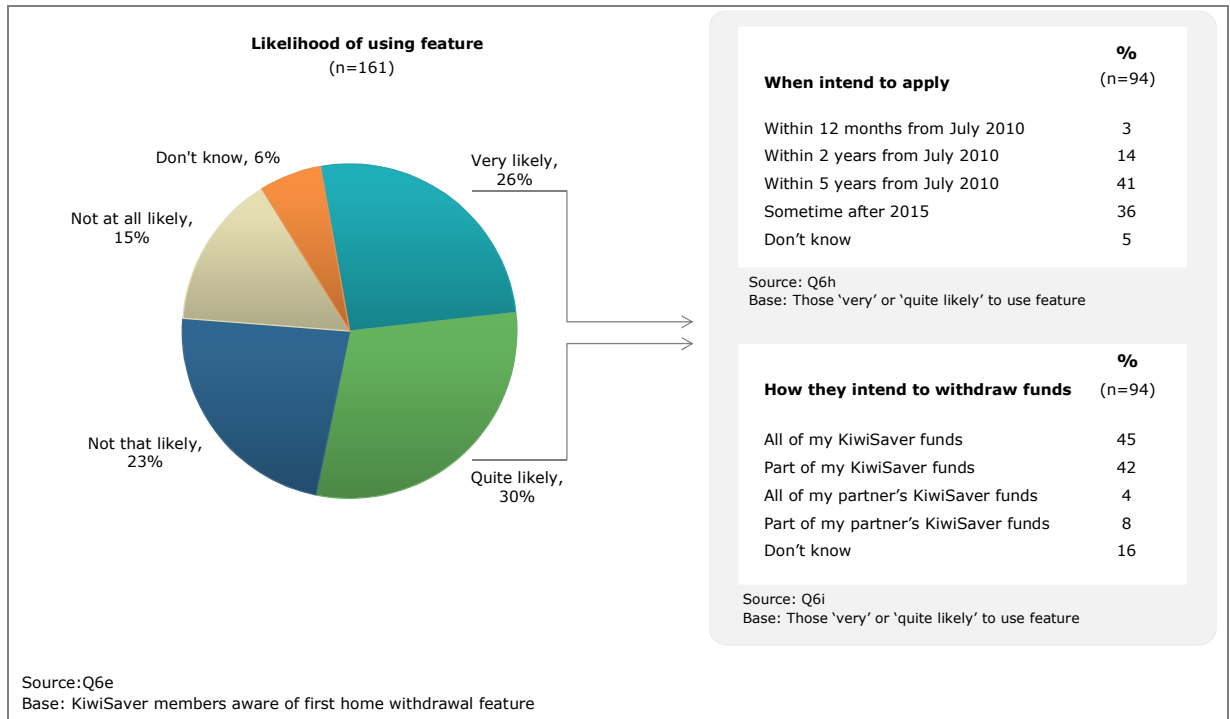
110 The 161 KiwiSaver members who were aware of the first home withdrawal were asked about how likely they would be to apply to withdraw their KiwiSaver savings to buy a home.<sup>37</sup> Ninety four (56 percent) said they were either 'very likely' or 'quite likely' to apply for the first home withdrawal (Figure 19). These respondents were then asked when they were likely to apply and how they intended to withdraw funds.

111 Few (three percent) intended to apply within 12 months of its introduction in July 2010 or within the following two years (14 percent). An additional forty one percent said they would apply within five years, and a further 36 percent would apply sometime after 2015.

112 Intentions about how much of their KiwiSaver funds they would use were split, with 45 percent intending to withdraw all of their funds and 42 percent

<sup>37</sup> These questions were asked before the respondent was prompted with details about the first home withdrawal and first home deposit subsidy.

intending to withdraw part of their funds. Few respondents planned to withdraw all or part of their partner's funds (four percent and eight percent respectively).



Source: Colmar Brunton

**Figure 19** Intentions to apply for first home withdrawal feature

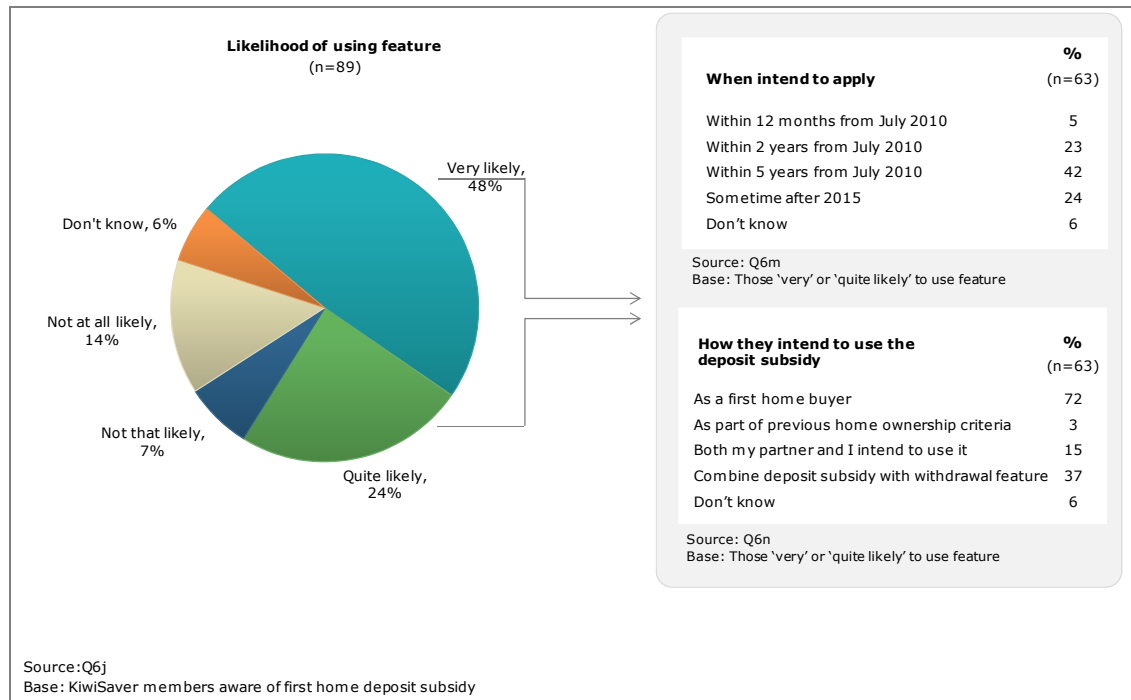
### Intentions to apply for the first home deposit subsidy

113 The 89 KiwiSaver members who were aware of the first home deposit subsidy were asked about how likely they would be to apply for it. Sixty three (72 percent) of these respondents said they were either 'very likely' or 'quite likely' to apply for the subsidy (Figure 20). The small sample size does not allow demographic analysis of this group.

114 The sixty three respondents who said they were either 'very likely' or 'quite likely' to apply for the subsidy were then asked when they expected to apply and how they intended to use it. Over a quarter (28 percent) said they intended to use it within two years of its introduction in July 2010. An additional 42 percent said they would apply within five years, and a further 24 percent would apply sometime after 2015. Respondents who were 'very likely' to apply for the subsidy intended to do so sooner than those who were 'quite likely' to apply. Forty percent of those who were 'quite likely' to apply intended to do so within two years compared to only six percent of those who were 'quite likely' to apply.

115 Respondents were given a number of options about how they might apply for and use the subsidy and asked to choose one or more options. Seventy two

percent of respondents said they would apply as a first home buyer, while three percent said they would apply using the second chance criterion. Fifteen percent said both they and their partner intended to apply for the subsidy. Over a third of respondents (37 percent) said they would combine the deposit subsidy with the home ownership withdrawal.



Source: Colmar Brunton

**Figure 20** Intentions to apply for first home deposit subsidy

### Intentions to use both features

116 One hundred and fifty seven KiwiSaver members said they were 'very likely' or 'quite likely' to use one of the features. Of these, 49 (31 percent) said that they intended to use both features.

### Reasons for not using either the first home withdrawal or deposit subsidy

117 Sixty eight respondents were aware of the either the first home withdrawal and/or the deposit subsidy, but said they were unlikely to use one or both features. Table 5 shows the reasons given by respondents (respondents may have provided more than one reason). The most frequent reasons were greater importance being placed on retirement savings (28 percent), and insufficient money for a home deposit and/or mortgage payments (25 percent).



**Table 5** Reasons for not using one or both home ownership features

| <b>Reasons for non use</b>  | <b>%<br/>(n=68)</b> |
|---|---------------------|
| Retirement nest egg more important than a deposit for a house             | 28                  |
| Lack of money required for home deposit/mortgage payments                 | 25                  |
| - Not enough money for deposit  | 13                  |
| - Not enough money to make mortgage payments                              | 12                  |
| Will have sufficient money for a deposit without using my KiwiSaver funds | 6                   |
| My age/too old for a mortgage   | 1                   |
| Miscellaneous   | 19                  |
| - Other   | 11                  |
| - No plan/no intention of buying a house                                  | 8                   |
| Missing information   | 13                  |
| Don't know  | 16                  |

## Results of KiwiSaver provider survey

- 118 Twenty five KiwiSaver providers responded to a written survey conducted by the Ministry of Economic Development about the implementation of KiwiSaver in early 2010.<sup>38</sup> Questions relating to the home ownership package were included in the survey.

### Compliance costs

- 119 For nine providers the cost of introducing the first home withdrawal was less than \$20,000, while for eight providers the cost was \$20,000 - \$100,000. Three providers said there was no cost because the systems were set up as part of their original systems design. Three providers did not know the cost. Two providers did not incur costs because management of their KiwiSaver fund is contracted out.
- 120 The introduction of the first home withdrawal has had greatest impact on administration, reporting requirements and legal costs. There has been little, if any increase in software development, systems integration, marketing and staff resource costs.
- 121 Eight providers estimated the annual ongoing cost of administering the first home withdrawal as being less than \$20,000, while six providers estimated ongoing costs as being \$20,000 - \$100,000. Six providers were uncertain about the cost.<sup>39</sup> A respondent from a default provider said that the level of uptake will be key factor in determining on-going costs. Providers expect increases in administration, reporting requirements and legal costs. They expect little, if any, increases in software development, systems integration, marketing and staff resource costs.

### Communicating the first home withdrawal

- 122 Four of the six default providers and 10 of the 19 active choice providers have previously communicated the first home withdrawal to their members.<sup>40</sup> The channels used were personal contact with clients (13 providers), the provider's website (11 providers), mail outs (four providers), and inclusion in investment and other information (four providers).
- 123 Two of the six default providers and nine of the 19 active choice providers intended to communicate details about the first home withdrawal to their members before its introduction on 1 July 2010, while an additional five providers had not decided.<sup>41</sup> Of the 11 providers who intended to communicate the first home withdrawal, all intended to advertise on their website, nine will use a newsletter/mail out and eight will use personal contact with clients. Four

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<sup>38</sup> Six of the providers are default providers (i.e. KiwiSaver members who do not chose a provider are allocated a default provider) and 19 are active choice providers. The number of KiwiSaver members in the default providers ranges from 75,672 to 309,000 members. The membership numbers of the active choice providers range from 56 to 125,100 members.

<sup>39</sup> The remaining five providers either did not answer this question or responded 'not applicable'.

<sup>40</sup> The two default providers who have not communicated the first home withdrawal to their members have 309,000 and 79,337 members.

<sup>41</sup> Two default providers do not intend to communicate details of the first home withdrawal to their members before 1 July. These providers have 80,000 and 75,672 members.

providers intended to use all three of these channels, seven providers will use two channels and two providers will use one channel.

### Level of member interest and uptake

- 124 Providers were asked about the level of interest shown by their KiwiSaver members in the first home withdrawal and the deposit subsidy in the previous 12 months (Table 6). The level of interest varied across providers which may reflect the number and demographics of their members. While the respondents from two active choice providers commented that interest to-date in the home ownership package was “negligible” and “low”, another respondent said: “enquiries have been constant since KiwiSaver started.”
- 125 Respondents from the two largest default providers (with 309,000 and 235,000 members) said that their members’ understanding about the home ownership package was low. One of these respondents advised: “we are spending a lot of time on the phone educating people regarding their options.”

**Table 6** Level of member interest in home ownership package

| Level of member interest | Number of providers <sup>42</sup> |                            |
|--------------------------|-----------------------------------|----------------------------|
|                          | First home withdrawal             | First home deposit subsidy |
| Fewer than 10 members    | 8                                 | 10                         |
| 10 - 100 members         | 9                                 | 8                          |
| 100 – 500 members        | 4                                 | 2                          |
| > 500 members            | 1                                 | 1                          |

- 126 Providers were also asked to estimate the take-up of the home ownership package (Table 7).<sup>43</sup> The estimated take-up rates were relatively low, particularly for the first home deposit subsidy. Respondents from two default providers and one active choice provider said they expected few people would qualify for the home deposit subsidy given the number of criteria that apply.

<sup>42</sup> Four respondents either were unable to identify the level of interest or estimate uptake, or did not supply this information.

<sup>43</sup> No timeframe was specified to providers for their response to this question.

**Table 7** Estimated level of member uptake of home ownership package

| Estimated level of member uptake | Number of providers <sup>44</sup> |                            |
|----------------------------------|-----------------------------------|----------------------------|
|                                  | First home withdrawal             | First home deposit subsidy |
| Fewer than 10 members            | 7                                 | 9                          |
| 10 - 100 members                 | 7                                 | 7                          |
| 100 – 500 members                | 7                                 | 4                          |
| > 500 members                    | 0                                 | 0                          |

## Housing New Zealand set up of the home ownership package

- 127 This section describes the set up of the home ownership package by Housing New Zealand.
- 128 Work on developing the KiwiSaver home ownership policy began in 2004. Around 50 staff have worked part-time on developing the operational details of the policy and developing the operational systems, including IT. This work has been organised into five work streams: policy, administration, communications, finance and IT. Overall coordination has been provided by a Project Manager who has worked on the project 30-50 percent of his time. In the six months leading up to the 1 July start the amount of his time on the project has been 50 percent.
- 129 While the administration of the first home withdrawal is the responsibility of KiwiSaver providers, the Corporation has kept providers up to date with policy decisions as they have occurred. This has included presentations at KiwiSaver provider forums. The Corporation has also briefed key audiences about the home ownership package, such as real estate agent companies and mortgage brokers.
- 130 Two full time and one part time staff will administer the deposit subsidy and the second chance criteria for the first home withdrawal. A major part of their work will be establishing the eligibility of applicants for the home deposit subsidy. A key informant expressed the view that establishing the eligibility of applicants who are wage and salary earners with a broken employment and/or discontinuous contribution history may be resource intensive.

<sup>44</sup> No timeframe was specified to providers for their response to this question.

**Table 8** Costs associated with the set up of the home ownership package 2009/10  
(excluding staff costs other than project manager)

|                             | <b>2009/10<sup>45</sup></b> |
|-----------------------------|-----------------------------|
| Personnel                   | 22,148                      |
| Travel                      | 14,367                      |
| Professional fees           | 1,013                       |
| Consultants/<br>contractors | 44,590                      |
| <b>TOTAL</b>                | <b>\$82,118</b>             |

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<sup>45</sup> As at 31 May 2010.

## Discussion

- 131 One of the evaluation objectives was to assess the likely scale of take-up of the home ownership package. This section discusses the findings of the survey of individuals and the provider survey about KiwiSaver members' interest, knowledge and likely take up of the home ownership package.
- 132 The second evaluation objective was to describe the set up of the home ownership package in order to inform the ongoing delivery of the package. This section discusses the main findings from the provider survey.

### Interest in and knowledge of the home ownership package

- 133 The survey of individuals showed that KiwiSaver is viewed as a vehicle for saving towards a home. Almost a quarter of the survey respondents indicated that saving to buy a home was one factor in their decision to join KiwiSaver, while it was the most important factor for 10 percent of respondents.
- 134 Despite the attraction of KiwiSaver for saving towards a home, the survey showed that knowledge about the details of the home ownership package was low. This was confirmed by the two largest KiwiSaver default providers (with 309,000 and 235,000 members).

### First home withdrawal feature

- 135 Although awareness of the first home withdrawal among KiwiSaver members was high (76 percent of KiwiSaver respondents were aware of this feature), knowledge about the details of the feature was low. There were no significant differences in the level of knowledge about the details of the feature between KiwiSaver members and respondents who were not members.
- 136 The survey findings did not provide insights into the reasons for respondents' knowledge level. For example, some respondents may lack financial capacity to buy a home so have no need for information about the home ownership package.
- 137 Another possible reason may be the result of a lack of information about this feature from some providers to their members, particularly from the default providers who have the largest number of members. Fourteen of the 25 providers had previously communicated information about the first home withdrawal feature to their members. Two of the six default providers (with 309,000 and 79,337 members) had not yet communicated information. Two other default providers (with 80,000 and 75,672 members) had communicated information about the feature but did not intend to do any further communication prior to its 1 July start.

### First home deposit subsidy

- 138 KiwiSaver members' awareness of the first home deposit subsidy was lower with only 40 percent aware of this feature. The reasons for this low level of awareness are not known. Some KiwiSaver providers suggested that the number of criteria that apply to the subsidy make it difficult to understand.

## Take up of the home ownership package

- 139 As at March 2010, purchasing a lower quartile home was affordable in all regions when two adults in a household are employed.<sup>46</sup> Twenty five percent of the median take home pay was required to service a mortgage on a lower quartile home purchased in April 2010 (see Figure 5).
- 140 First home buyers may decide to withdraw some or all of their KiwiSaver funds to buy a home after 1 July 2010 before house prices start to increase again. The current subdued housing market may provide 'good value' purchases for people wanting to enter home ownership. The anticipated increase in housing interest rates may also influence members' decision making.
- 141 Alternatively, members who joined when KiwiSaver began and who are eligible for the first home deposit subsidy may decide to continue to save for another two years, increasing the amount of the deposit subsidy from \$3,000 to its maximum of \$5,000. Other factors may influence members' decisions about first home purchase such as job security. Despite improvements in employment levels in the first quarter of 2010, people may want a greater sense of job security before committing themselves to buying their first home.
- 142 Other members may not have saved sufficient funds in their KiwiSaver account in the last three years for a deposit and/or may have insufficient income to service a mortgage. These were reasons cited by 16 of 68 KiwiSaver members in the survey who were aware of the home ownership package but did not intend to use it.
- 143 The results of the provider survey suggest that take-up rates may be small, particularly for the first home deposit subsidy. Three providers expected few of their members would qualify for the home deposit subsidy given the number of criteria that apply.
- 144 Sixty three of the 89 KiwiSaver members (72 percent) who were aware of the first home deposit subsidy said they would be 'very likely' or 'quite likely' to apply for it.<sup>47</sup> However given respondents' lack of detailed knowledge about the subsidy, it is possible that some of these members who intend to apply may not be eligible. Even after being given prompted information about the deposit subsidy, respondents demonstrated lesser knowledge about the household income cap and regional house price cap compared to other aspects of the subsidy.
- 145 Expected take up of the first home withdrawal feature was lower with 94 of the 161 KiwiSaver members (56 percent) who were aware of the feature saying they were either 'very likely' or 'quite likely' to apply for the first home withdrawal.
- 146 The expected take-up percentages in the survey suggest a reasonable level of take up of both features. While these percentages are statistically correct, the

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<sup>46</sup> The first home buyer affordability index from Interest.co is based on a household where there is one full time male median income and 50% of a female median income, plus Working for Families income support they are entitled to receive under the programme. The standardised household is assumed to have one five year old child.

<sup>47</sup> Members were asked about their intentions before they were prompted with details of the deposit subsidy.

way they have been calculated disguises the lack of awareness of the home ownership package. The take up questions were asked only of those KiwiSaver members who were potential first home purchasers and were **aware** of the first home deposit subsidy or first home withdrawal.

- 147 The percentage take up rates in the survey used base numbers of 161 for the number of KiwiSaver members who were aware of the withdrawal, and 89 KiwiSaver members who were aware of the subsidy. However if the base number of 210 is used (210 being the number of KiwiSaver members who are potential first home buyers – see Figure 13), the potential take up rates reduce to 45 percent for the first home withdrawal feature and 30 percent for the first home subsidy feature (Table 9).

**Table 9** Potential take up rates of home ownership features

| Home ownership feature     | Potential take up rates of home ownership features  |  |
|----------------------------|---|--|
|                            | Report of survey of individuals (calculation based on KiwiSaver members who are potential first home buyers and are aware of feature) | Calculation based on KiwiSaver members who are potential first home buyers |
| First home withdrawal      | 56% (n=161)   | 45% (n=210)  |
| First home deposit subsidy | 72% (n=89)  | 30% (n=210)  |

- 148 The survey suggests that there will be a slow build up in the number of members who use the home ownership package. The timeframe for take-up was longer term for the majority of respondents. Members who intend to apply for the deposit subsidy and/or withdraw their funds are more likely to do so within a timeframe of five years (42 percent and 41 percent respectively), rather than earlier. Over a quarter (28 percent) said they intend to use the deposit subsidy within two years of its introduction in July 2010. Seventeen percent intend to use the first home withdrawal within two years.
- 149 The findings from the survey suggest that the Deposit Subsidy Demand Model's projected take up of 315 in 2010/11 is realistic. The gradual build of take up numbers in the model over a five year period (peaking at 1,985 in 2014/15) is congruent with the survey findings.

### Delivery of the first home withdrawal feature

- 150 For 17 of the 25 KiwiSaver providers who responded to the provider survey, the home ownership package involved set up costs of up to \$80,000. The ongoing costs for KiwiSaver providers to deliver the first home withdrawal is dependent on the number of KiwiSaver members who apply for this feature. Eight KiwiSaver providers expect compliance costs to be up to \$20,000, while six providers expect costs of between \$20,000 and \$80,000. Ongoing compliance costs require further investigation once the first home withdrawal has been in operation for a period of time.



## Appendix A: KiwiSaver evaluation objectives and key evaluation questions

(Source: Terms of Reference for the Evaluation of KiwiSaver Mortgage Diversion, First Home Withdrawal and Deposit Scheme, April 2009)

|   |  |
|---|--|
| <p><b>Objective A</b></p> <p>To assess the early implementation and delivery of KiwiSaver as a whole and the various components to inform the early and on-going development and service delivery of KiwiSaver</p>  | <ol style="list-style-type: none"> <li>1. What has been the effect of KiwiSaver changes to systems, processes and procedures on those involved? <ul style="list-style-type: none"> <li>• delivery agencies (IR, MED, Housing New Zealand)</li> <li>• employers (SMEs/corporates)</li> <li>• providers (Default/other)</li> </ul> </li> <li>2. How effective are KiwiSaver processes and procedures at delivering the schemes to customers?</li> <li>3. How prepared are potential savers to participate in KiwiSaver?</li> <li>4. Did potential savers feel able to make decisions or not? If not, why not?</li> <li>5. What has worked well or hasn't worked as well as intended in the experience of savers and non-savers; employers (SMEs/corporates); scheme providers (Default/other); and Staff (IR, MED, Housing New Zealand) involved in the implementation of KiwiSaver?</li> <li>6. What impact is KiwiSaver having on those involved in administering the system?</li> </ol> |
| <p><b>Objective B</b></p> <p>To assess the appropriateness of the key design features of KiwiSaver to achieve the desired affect of encouraging a long-term savings habit and asset accumulation:</p> <ul style="list-style-type: none"> <li>• Selection &amp; recruitment of providers</li> <li>• Provision of information</li> <li>• Work-based scheme</li> <li>• PAYE alignment</li> <li>• Automatic enrolment</li> <li>• Conversion from existing schemes</li> <li>• Deductions at source</li> <li>• Government incentive</li> <li>• Choice of provider &amp; saving level</li> <li>• Default provider</li> <li>• Contribution holiday</li> <li>• Withdrawal for home ownership</li> <li>• Home ownership subsidy<sup>48</sup></li> </ul> | <ol style="list-style-type: none"> <li>1. Which features are working well, which aren't, for whom and why? <ul style="list-style-type: none"> <li>• (potential) savers</li> <li>• employers (SMEs and larger employers)</li> <li>• fund providers</li> <li>• delivery agencies (IR, MED, HNZC)</li> </ul> </li> <li>1. Are the design features that were identified as incentives/ disincentives working as expected?</li> <li>2. Are any additional design features required?</li> <li>3. Does KiwiSaver offer the flexibility savers need for asset management over time and in response to changing circumstances?</li> <li>4. What is happening to existing savers when they change jobs?</li> <li>5. Are employers providing additional contributions? Is this an additional incentive to participation?</li> </ol>   |

<sup>48</sup> Not mentioned in final KiwiSaver Joint Evaluation Strategy and Budget paper reference BN/06/181

|  |  |
|--|--|
|  | <p>6. What are the compliance cost implications for employers? How does this relate to the administrative cost?</p>  |
| <p><b>Objective C</b></p> <p>To assess the response to KiwiSaver in order to understand the scale, pattern and appropriateness of take-up</p>                | <ol style="list-style-type: none"> <li>1. What are the take-up numbers?</li> <li>2. What is the profile of those <ul style="list-style-type: none"> <li>• enrolling automatically</li> <li>• opting-in or opting-out</li> <li>• accessing homeownership drawdown or subsidy?</li> </ul> </li> <li>3. Does take-up reflect expectations?</li> <li>4. Who is/isn't making choices about the contribution level and funds? Why?</li> <li>5. What are the factors that influence decisions and take-up rates?</li> <li>6. Does having multiple jobs or changing jobs affect participation in KiwiSaver?</li> <li>7. Of those opting out, what are they doing instead, if anything?</li> <li>8. What are early indications telling us about home ownership assistance participation? <ul style="list-style-type: none"> <li>• What is the level of awareness of KiwiSaver and of the home ownership assistance among (potential) KiwiSaver participants?</li> <li>• How many KiwiSaver savers are intending to apply for home ownership assistance post 2010?</li> <li>• How many (%) of the people who draw down savings for first home purchase are approved for the deposit subsidy?</li> </ul> </li> <li>9. How many savers are opting for contributions holidays? What are the reasons behind their choices?</li> <li>10. How many and who are the people exiting the scheme? What are their reasons?</li> </ol> |
| <p><b>Objective D</b></p> <p>To assess the impact KiwiSaver is having on under/non-savers' saving habits and long-term asset accumulation for retirement</p> | <p><b>Shorter term</b></p> <ol style="list-style-type: none"> <li>1. What is the scale of participation over time, including draw down savings for first home purchase?</li> <li>2. What is the pattern of saving, e.g. <ul style="list-style-type: none"> <li>• Contribution levels</li> <li>• Continued saving</li> <li>• Opt-out (migration, etc)</li> <li>• Participation before home</li> </ul> </li> </ol>   |

|   |  |
|---|--|
|   | <p>ownership assistance draw-down</p> <ul style="list-style-type: none"> <li>• Final draw-down of savings</li> <li>• Value of savings, draw-down, housing deposit subsidy</li> <li>• Other saving activities (Debt levels)</li> <li>• Contributions from employers</li> </ul> <p>3. Would savers have joined another scheme if KiwiSaver didn't exist? Have Savers withdrawn contributions from other schemes in order to save with KiwiSaver?</p>   |
|   | <p><b>Longer term</b></p> <p>4. Are attitudes towards saving for retirement changing?</p> <p>5. Are saving patterns changing more generally?</p> <p>6. Are individuals aware of the financial literacy messages of the financial education through the workplace campaign?</p> <p>7. What's the value of the amount being saved?</p> <p>8. Are KiwiSaver savings generating a real economic benefit to savers, in terms of</p> <ul style="list-style-type: none"> <li>- ability to purchase a first home</li> <li>- income in retirement</li> </ul>            |
| <p><b>Objective E</b></p> <p>To assess the impact of KiwiSaver on competitive superannuation markets and financial sector</p> | <p>1. What's the profile of providers in comparison with the sector?</p> <p>2. What are the compliance costs for KiwiSaver fund providers?</p> <p>3. Has the nature of the sector changed and how?</p> <p>4. Have providers experienced loss of savings or savers from other schemes as individuals have joined KiwiSaver? What has been the impact of any shift?</p> <p>5. Has there been an impact on financial advisors/intermediaries? What is the nature of any impacts?</p> <p>6. What has been the influence on providers/funds of the fee subsidy?</p> |

## Appendix B: KiwiSaver Home Ownership Package evaluation questions 2009 – 2012

(Source: Terms of Reference for the Evaluation of KiwiSaver Mortgage Diversion, First Home Withdrawal and Deposit Scheme, April 2009)

| Year                 | Key evaluation questions   |
|----------------------|--|
| 2009/10              | <ul style="list-style-type: none"> <li>• Demographic profile of KS savers</li> <li>• What is the level of awareness of the HO assistance among potential KS participants / KS savers?</li> <li>• How effectively is the HO assistance (i.e. mortgage diversion, first home withdrawal and deposit subsidy) being communicated to potential KS audiences?</li> <li>• How many KS are intending to apply for mortgage diversion (post 1 July 2008), deposit subsidy and first home withdrawal (post 2010)?</li> </ul>  |
| 2010/11 -<br>2011/12 | <ul style="list-style-type: none"> <li>• What features (i.e. regional house caps, withdrawal for HO, income caps, deposit subsidy, mortgage diversion) are working well, not working well, for whom and why?</li> <li>• How many KS participants are applying for one, two or all three KS HO assistance components?</li> </ul> <p><b>First home withdrawal:</b></p> <ul style="list-style-type: none"> <li>- How many (%) of total KS participants draw down savings for first home purchase?</li> <li>- What are the characteristics (demographic, socio-economic) of this group?</li> <li>- What is the length (years) of participation in KiwiSaver before draw down occurs?</li> <li>- What is the value (median, range) of the draw down amount?</li> </ul> <p><b>Deposit subsidy:</b></p> <ul style="list-style-type: none"> <li>- How many (%) of total KS participants apply for the deposit subsidy?</li> <li>- How many (%) of the people who draw down savings are approved for the deposit subsidy?</li> <li>- How many (%) of the people who draw down savings for first home purchase apply for the deposit subsidy?</li> <li>- How many (%) of the people who draw down savings are approved for the deposit subsidy?</li> </ul> <p><i>Approved applications for the deposit subsidy:</i></p> <ul style="list-style-type: none"> <li>- What are the characteristics (demographic, socio-economic) of the people who are approved for the deposit subsidy?</li> <li>- What is the extent of the alignment of the profile of deposit subsidy recipients with the intended target group?</li> <li>- What is the value (range, median) of approved deposit subsidies?</li> </ul> <p><i>Declined applications for the deposit subsidy:</i></p> <ul style="list-style-type: none"> <li>- Of the declined applications for the deposit subsidy <ul style="list-style-type: none"> <li>o What number (%) do not meet the income cap?</li> <li>o What number (%) do not meet the regional price cap?</li> <li>o What number (%) do not meet the 4% average savings contribution for the first three years of KiwiSaver participation?</li> </ul> </li> </ul> <ul style="list-style-type: none"> <li>- To what extent is the deposit subsidy attracting people to KiwiSaver?</li> <li>- Are the regional house caps set at the appropriate levels for the intended target group?</li> <li>- Are the income caps set at the appropriate level for the intended target group?</li> </ul> |

## **Appendix C: Interest.co Home Loan Affordability series**

Assumptions and data of the Interest.co Home Loan affordability series are as follows.

### *Weekly Income (source change)*

From the July 2007 Report onward, the source on which estimates of weekly income are based is the LEEDS (Linked employer-employee data survey) data from Statistics New Zealand. For more information follow the link [www.interest.co.nz/HLA/changes.asp](http://www.interest.co.nz/HLA/changes.asp)

The standard home loan affordability report is based on the LEEDS data for the 30-34 age group.

Income tax rates from IRD are used to calculate a take-home pay (which is the LEEDS-based data net of the specific income tax rate).

### *Home Loan (Median house price less a 20% deposit)*

Mortgage repayments are based on the value of the home loan, paid weekly for 25 years, using the two year bank average interest rate. The home loan is assumed to be a standard table mortgage, where both interest and principal is repaid in a fixed weekly payment made in arrears. The repayment is calculated using the tools at [www.interest.co.nz/calculator](http://www.interest.co.nz/calculator).

### *Mortgage Rates*

Average mortgage interest rates are sourced from [www.interest.co.nz](http://www.interest.co.nz). These averages are for banks only as banks have 90%+ of the mortgage market. Affordability calculations are done for mortgages at the floating rate and one year through to the five fixed-rate terms. In this report, the two-year fixed mortgage interest rate is used. This is, and has been the most popular term. However, the market is shifting to longer term rates, and the index reviews allow for keeping track of affordability issues as this shift happens.

### *House price data*

Median house prices are as reported by the Real Estate Institute of New Zealand. Although the REINZ series is more volatile than the QV equivalent, there is a highly positive correlation between the two series. The REINZ series is more current and offers an earlier indication of market trends.

### *Saving Rates*

Average savings interest rates are sourced from [www.interest.co.nz](http://www.interest.co.nz). These averages are for banks only, and use the 90 day term deposit rate. Saving calculations take into account the individuals marginal tax rates as defined by IRD.

### *Household affordability*

Household affordability is calculated in the same way as individual affordability except instead of individual income, household income is used. The household income for a standard-buyer household is made from 1 full time male median income, 50% of a female median income, both in the 30-34 age range, plus the Working For Families income support they are entitled to receive under that program. This standardised household is assumed to have one 5 year old child.

### *A first-home buyer*

An individual in the 25-29 year old age group who buys the lower-quartile priced house with a deposit as calculated below.

#### *Deposit - First home buyer index*

As house prices vary by region to a larger extent than wages, we refrained from using a simple 10% deposit-90% mortgage rule to emulate a first home buyer. Instead, to capture the disparity between incomes and house prices we estimate the deposit as a function of savings – that is 20% of weekly income saved for 4 years, plus interest earned at a 90 day deposit interest rate.

#### *Home Loan (Lower quartile house price less the deposit)*

Mortgage repayments are based on the value of the home loan, paid weekly for 25 years, using the 2 year bank average interest rate. The home loan is assumed to be a standard table mortgage, where both interest and principal is repaid in a fixed weekly payment made in arrears. The repayment is calculated using the tools at [www.interest.co.nz/calculator](http://www.interest.co.nz/calculator).

#### *Mortgage Rates*

Average mortgage interest rates are sourced from [www.interest.co.nz](http://www.interest.co.nz). These averages are for banks only as banks have 90%+ of the mortgage market. Affordability calculations are done for mortgages at the floating rate and one year through to the five fixed-rate terms. In this report, the two-year fixed mortgage interest rate is used. This is, and has been the most popular term. However, the market is shifting to longer term rates, and the index reviews allow for keeping track of affordability issues as this shift happens.