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KiwiSaver Switching Behaviour

KiwiSaver Member Stories

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Executive Summary

The FMA commissioned PwC's behavioural science team to examine KiwiSaver switching behaviour during the height of COVID-19 market volatility, with data provided by 11 KiwiSaver providers. The PwC [report](#) found younger people were more likely to switch, those who switched were more likely to have their KiwiSaver with a bank provider, are less likely to have received financial advice and may lack understanding on how KiwiSaver works as an investment product.

We interviewed three New Zealanders who switched their KiwiSaver funds to create case studies to further support findings from the PwC report. We sought to understand the experiences of those who switched and what their motivations and experiences were. The case study participants were aged 24, 27 and 45.

Common themes from the case studies were:

- Provider communications through generic email or social media encouraging investors to 'stay the course' didn't impact the case studies' decision to switch.
- There is a limited understanding of what the different KiwiSaver fund types mean.
- The case study participants are comfortable using mobile banking apps or their KiwiSaver app to make financial decisions. They check their KiwiSaver balances often. This frequent checking of balances made them more aware of balance fluctuations which could have influenced their decision to switch.
- A lack of 'friction'¹ in the online fund switching process made changing funds easy.
- Working towards a deposit for a first home is a key motivator for younger investors to contribute.
- Friends and family are a valued source of financial advice for young members we spoke to.

It is important to note case studies are a non-statistical research method and the findings are not representative of all KiwiSaver investors who switched their fund in early 2020.

¹ 'Friction' refers to the effort associated with taking an action. This can work in two ways: removing friction can help to make an action easier, thereby increasing uptake, while conversely adding friction can be a way to discourage undesirable behaviour.

Background and Approach

Background

As the financial markets regulator, we wanted to understand the motivations and reasons for high switching behaviour observed during COVID-19 related volatility. We commissioned specialists from PwC's behavioural science team to analyse switching data provided to us by 11 KiwiSaver providers, this report can be found [here](#).

To support the PwC report, we conducted three case studies to provide additional insights on the experiences of New Zealanders who switched their KiwiSaver funds in response to seeing their balance drop.

Approach

One-on-one phone interviews were conducted in April 2021 with three KiwiSaver investors who switched their funds during the period of market volatility last year. Participants were recruited via social media. Some quotes from case studies have been lightly edited for clarity.

Due to the non-statistical research method and small sample size used in this research, the findings presented in this report are not representative of all KiwiSaver members who switched. The majority of KiwiSaver members did not switch their fund.

Identifiable information of each interviewee has been removed to protect their identities.

Case Studies

Case Study One

Anna saw her KiwiSaver balance drop by \$2000 on her banking app and immediately switched from growth to conservative, but switched back two weeks later

Anna, 24, joined KiwiSaver when she got her first bank account at the age of 10. Her parents started it for her and made some contributions until she started regularly contributing herself at her first part-time job. She went to university and now works full-time in the education technology industry.

Anna didn't engage with her KiwiSaver until she started thinking about her goal to buy a house within the next ten years. She sees KiwiSaver as an important way to build a deposit for a first home.

"I didn't know much about what [KiwiSaver] was until a few years ago when I was looking into it because I was at that age where I want to start thinking about buying a house."

Switching

In March 2020 she noticed her KiwiSaver balance had dropped \$2000 when checking her banking app. She promptly began to change her fund type from growth to conservative with the intention to prevent further loss of funds.

"I got scared because I didn't understand how KiwiSaver really works, so I thought I had lost a whole bunch of money and I would never get it back so then I switched immediately to conservative to keep the money that I had and hopefully not lose any more."

She said she found the change request process straightforward - completing a six-minute questionnaire on the impact of switching funds prior to sending the request through to her provider. She admitted she didn't read this and clicked through the questions to get to the page where she could make the switch.

"I was so in the moment that I just switched it without reading [the questionnaire]. I'm sure it did have some good information but I didn't read it so it didn't impact me."

Anna spoke to her mother about the fund switch and was advised to switch back to a growth fund because it aligned with the timeline of her financial goals. Anna's mother explained the different fund types and was surprised Anna didn't know what they meant.

"My mum is an accountant, so she knows a bit about [KiwiSaver] and she said, 'How do you not know this? Why haven't you done your research?' And I said they don't teach us this in school."

It was only after conversations with my mum, when she explained what it actually was to me - if I don't want to use the money in the next like six years then I should keep it in growth."

Anna felt fortunate she had the right people around her to explain to her how switching her fund back was the best decision for her current KiwiSaver goals.

"I don't mind that I switched but that's only because I have people around me who could tell me to switch back. If I didn't have those people I would have been really disappointed that I switched because I wouldn't have as much money now."

Anna doesn't recall seeing anything in the news about KiwiSaver balances dropping. She gets her news from social media platforms, such as Instagram and Facebook. She wants more communications from her provider to explain how KiwiSaver works and the impact of market volatility on different types of investments.

"I wish my provider had put out more comms like a pop-up on the KiwiSaver app that told you what was going on. And in general as well, I wish they had more comms about KiwiSaver. I've been with my bank for like 14 years and I have never really had any comms from them about it. So, it would be nice to get an information package or something."

What's next?

Anna plans to purchase a home in the next ten years and will continue to contribute to her KiwiSaver to achieve that goal.

Her advice for other KiwiSaver investors is to do research before switching funds and to think about what your goals are, get advice if you need, and tailor your fund choice to that.

Case Study Two

Sarah was planning to buy her first home but her plans were impacted by the drop in her KiwiSaver balance

Sarah, 45, joined KiwiSaver back when it began in 2007 as she thought it was a great initiative, with the \$1000 kickstart from the Government. She wanted to do everything she could to prepare for her future and didn't want to have to rely solely on Government superannuation.

Sarah is originally from Christchurch and moved to Auckland after the earthquake in 2011 for more work opportunities. She has worked for charities and now works in business administration at a painting company.

She is now in a financially secure position and has been looking to buy her own home with help from her KiwiSaver account.

Switching funds

Sarah checks her KiwiSaver balance every few days and got a fright when she saw her balance drop by \$8,000 in late March. She immediately decided to switch her fund from balanced to conservative in an attempt to minimise the risk of losing any further funds. She describes herself as risk averse, and it is important for her to minimise risk with her KiwiSaver.

"My main reason for switching was because I couldn't lose more than the \$8,000 I had already lost and didn't want to be left with a worse deposit."

"When my balance dropped it was horror, really. I just thought, 'Oh this is going to put me further behind with getting on the [property] ladder.' I said I didn't want to lose more than I already had. It may have not been a lot to many people, but it was for me. It might be true that I shouldn't have switched, but there weren't guarantees at the time and I couldn't afford that or afford to take the risk, so I switched."

Sarah said she did receive some communications from her provider, but it didn't influence her choice. The most important thing to her was that her balance didn't drop any further.

"Yeah, I think I did [receive communications]. I got a little bit of information but that didn't sway me. I talked to one friend about it, she said, 'Nah, leave it where it is', but she is in a much better financial position than me. I just felt this was a better move for me."

She wants more education and explainers for KiwiSaver from providers to improve the knowledge of those who are disengaged, so they understand how an investment fund works.

“The more information the better, the more explanations, it would really help. I think probably there is a lot that just don’t even bother, they just stick with the default [fund] and they’re not that concerned.”

“Yeah, there was a bit [of media coverage] on social media I suppose. Once I make a decision, I generally tend to stick to it. And like I said, I’m more conservative than some would be. Some people are just more willing to take risks than perhaps I would be. I was brought up to be frugal.”

What’s next?

Sarah plans to continue contributing to her KiwiSaver to and is aiming to buy a home in Auckland in the next one to two years.

Her advice to anyone in her position in the future is to save as much as you can when you are young and get advice from more than one person for your finances.

Case Study Three

After noticing his KiwiSaver balance trending downwards, Will switched from a growth to conservative fund to prevent any further losses

Will, 27, joined KiwiSaver with his bank when he got his first part-time job at 16 because of the \$1,000 kickstart grant offered by the Government at the time. He lives in Wellington and now works as a personal banker assisting clients with home loans.

Switching

Will plans to use his KiwiSaver in the near future for a first home. As his KiwiSaver is with his bank, he checks his balance daily when he logs on to check his accounts. His balance was sitting at \$27,000 when he noticed it begin to trend downward in March, dropping a few hundred dollars each day.

After seeing this continue for a week, he decided to switch from a growth fund to conservative. Two months later, he switched back to growth and is now in conservative again because he is buying a house soon.

"I've had [my KiwiSaver] in a growth fund from when I had it, then changed in March. Then I put it back to growth and now I've put it back to cash because I am planning to use it quite soon for my first home. I just don't want it swinging on me when I am relying on it."

Will thought the process of switching his fund was easy to do online. He had to log in to his provider's website to switch his fund, where there was a list of funds to choose from and a link directing him to a risk profile questionnaire to assist with choosing. It took a week for the request to go through.

"It was nice and easy where I could just put it through online. I submitted it online so I could switch it over, because I didn't want that [downward] trend continuing. Everyone was pretty uncertain as to what was going to happen. I couldn't really see an end in sight, or any time soon, so I thought I'd get out before it got too bad."

"I think most people I talked to didn't do anything about it, or they just switched their funds once it was too late. And once it dropped down and they switched their fund to a conservative fund they're almost locking in their losses."

He recalls some generic communications from his provider encouraging people to be calm, stay the course and the option was there to switch if they wanted. There was also an alert acknowledging the volatility on the internet banking site.

Will recalled seeing an email from his provider, but he gets most of his news from social media and remembers seeing people panicking on Facebook groups about balances dropping.

"I don't watch a lot of TV news, Vic Deals¹ is probably the main source of news."

¹ Vic Deals is a Facebook trading forum for locals and students of the Wellington Region

"I think a lot of people were just confused as to why it was happening. Like there was a lot of, 'Why has my KiwiSaver just suddenly dropped?' and, 'What's happening to all my money?'. Vic Deals [members were] explaining it to them."

Will thinks there is room for improvement with education around KiwiSaver. He used to work in his provider's call centre and found many customers didn't know KiwiSaver is an investment fund, rather than a savings account.

"I feel like financial literacy around KiwiSaver is not too common. Especially because I used to work in customer service on the phones talking to people about their KiwiSaver, doing balance enquiries with KiwiSavers and bank accounts and stuff. And a lot of people get misled by the name 'KiwiSaver' and think it's a savings account. That department had a lot of people calling up asking why someone was withdrawing from their savings account and didn't realise that it was an investment fund. That's something we heard a lot about, and I've had to explain that to a lot of people as well."

Will says he felt lucky with the choices he made. He thought he could have benefited from some professional advice as he didn't feel confident about switching funds.

What's next?

Once he has bought a home, Will plans to continue contributing to KiwiSaver to save for his retirement.

His advice for others in his situation is to speak to a financial adviser if you are concerned, a free service many KiwiSaver providers offer.

"I'd reach out to someone who knows a bit more about it than I do. Even though I work at a bank, I have never worked in the investments sector. I think financial advisers [of KiwiSaver providers] are free of charge so it probably would have been worthwhile talking to one of them to get the insights from someone who is actually qualified."

"A lot of people just don't know much about their KiwiSaver even though they have so much money invested in it. Whether that is a failure of their providers, or people just not looking into it themselves, I don't know. I think this has revealed a massive gap in New Zealanders' knowledge about it."

Scenarios

Some KiwiSaver investors may be unaware of how significant an impact their actions now could have on their balance at retirement.

The following scenarios, calculated from the Sorted KiwiSaver calculator, demonstrate how switching to a lower risk fund has compounding impacts on KiwiSaver balances at retirement.

Scenario 1

A 28-year-old woman, earning \$52,000 annually from full-time employment, has \$15,000 in an aggressive fund in March 2020.

The table below shows what her balance at retirement would have been under two scenarios:

- A: She switches to a conservative fund when financial markets fell then switched back to aggressive in June.
- B: She stayed in Aggressive.

Scenario	A: Aggressive to Conservative, back to Aggressive	B: Aggressive
Balance at retirement	\$ 327,480	\$331,091

Source: All numbers from Sorted.org calculator: <https://sorted.org.nz/tools/kiwisaver-savings-calculator>. Assumption of 3% contribution rate.

Even if she switched to conservative for only three months she would end up losing \$3,611 towards retirement.

Scenario 2

A 40-year-old male earning \$73,000 annually has a balance of \$25,000 in a growth fund in March 2020.

The table below shows what his balance at retirement would have been under two scenarios:

- A: He switched to a balanced fund when the market fell and didn't switch back.
- B: He stayed in growth.

Scenario	A: Balanced	B: Growth
Balance at retirement	\$220,977	\$255,876

Source: All numbers from Sorted.org calculator: <https://sorted.org.nz/tools/kiwisaver-savings-calculator>. Assumption of 3% contribution rate.

He would miss out on \$34,899 in retirement savings by switching and remaining in balanced.

Scenario 3

A 24-year-old woman, earning \$46,000 per annum working full time has a balance of \$5,000 in a balanced fund in March 2020.

The table below shows what her balance at retirement would have been under two scenarios:

- A: She switched to a conservative fund when the market fell and switched back to balanced in June.
- B: She stayed in balanced.

Scenario	A: Balanced	B: Growth
Balance at retirement	\$221,143	\$220,649

Source: All numbers from Sorted.org calculator: <https://sorted.org.nz/tools/kiwisaver-savings-calculator>. Assumption of 3% contribution rate.

Her switching caused her to miss out on \$494 for retirement.

