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## Academics support KiwiSaver criticism

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Press Release: Susan St John

MEDIA RELEASE

TUESDAY, JULY 17, 2018

Yesterday's open letter from nine Independent Financial Advisers to the Financial Markets Authority and other regulators criticising the current KiwiSaver model for its conservative strategy of investment, has raised some very important issues according to the University of Auckland's Retirement Policy and Research Centre (RPRC).

Director of the Centre, Honorary Associate Professor Susan St John said that she was pleased to see the default provider arrangements being put under the spotlight.

"As the letter pointed out, the major concern is that new KiwiSaver members who do not make their own decisions are put into the default fund of one of nine default providers. The nature of these funds is prescribed to be 'conservative' and, as the Independent Advisers have identified, unsuited for most members to remain permanently in that fund.

"The RPRC agrees with the Independent Advisers that the default system needs reform. Auto-enrolment requires a default arrangement, but the current system doesn't work well. Importantly, the system could be fixed.

RPRC honorary academic Michael Littlewood believes that all qualifying providers should be allowed to be default providers as long as requirements are met and there is a robust system of policing default providers.

"The current system where only a select few are picked to be advantaged is the worst of all worlds."

Mr Littlewood said that as well as that, the current prescriptive default investment option that the default provider must offer is inappropriate for most savers.

"If the default providers were open and transparent about the default option offered, and they were regularly monitored for achieving all the requirements of default status, then there should be no prescription.

"Providers should then be encouraged to offer tailored default funds based on their own judgement of what is appropriate," he says.

Hon Assoc Professor St John said that there is a further problem with bank investments.

"The idea that providers owned by banks can invest in themselves is untenable and should be prohibited as self-investment.

"However, being too prescriptive - such as by banning particular investments, runs the danger of the Financial Markets Authority, as regulator, seeming to know best in a changing environment.

"Ideal solutions are never easy," she admits.

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