



KiwiSaver – it's down but it's safe

Like most people, at this time of financial crisis you'll have burning questions about your KiwiSaver. Seeing your balance fall, you wonder how much you can lose in a financial markets crash. At times you'll question whether a KiwiSaver balance can actually go to zero.

You are not alone. Over the last week on CareSaver's Facebook page we've had comments from deeply concerned investors. Neil for example wrote "the world is in economic free fall! There is no current safe investment, how do you not understand this?" He is backed up by Steve saying "Don't put any hope in kiwisaver, a deep recession will consume it all." (Note: Neil and Steve are not CareSaver investors).

For stressed investors there seem to be two specific worries about KiwiSaver values going to zero. Firstly, can investment values fall so much they are worth nothing? Secondly, can someone just take all our KiwiSaver money? I will answer each question in turn.

Investors are understandably distressed at their losses. Carol said "I have lost \$3,000 in the last 2 weeks." Sadly, she was outdone by Dael saying "I have lost \$13,000 in two weeks." Even those in relative safety haven't been spared - Susan said "I'm in [a] conservative fund and have lost \$6,000." (As a side note, if Susan was in CareSaver's conservative fund she would have, remarkably, actually made money over the crisis period).

Investment values will not go in a straight line down to zero. KiwiSaver funds are diversified across assets classes (like shares, bonds and bank deposits) and also diversified by holding hundreds or even thousands of individual assets.

So if one or ten or even one hundred of these assets are wiped out, the KiwiSaver's value still does not go to zero. If your KiwiSaver is holding airlines, hotels, oil companies or casinos right now (at CareSaver we hold none of these) it is possible some of these individual companies may go to zero. But other companies will still generate value – for example healthcare companies, utility companies and supermarkets (at CareSaver we hold all of these) continue trading and there is demand for their services even through a global crisis.

If we look back to the dot-com crash in 2000 where scores of tech companies had no revenues and no value, the tech index fell by an astonishing 78%. A \$100 investment went to \$22, but not to zero.

And out of the carnage rose companies generating immense returns for investors – like Amazon, Google and eBay. In every major market crash – 1929, 1987, 2000 and 2008 – markets have been hammered but later returned to new highs. 2020 will be no different, the only question is how long it will take.

So if the investments won't all go to zero, we need to turn to question two - is it possible for something terrible and unexpected to happen that completely wipes out a KiwiSaver? Like someone just helps themselves to the money? Patricia (again, not a CareSaver investor) argued "KiwiSaver will take your money no matter what plan you have."

No, let's not be hasty. KiwiSaver was designed spectacularly well with robust checks and balances so there is no risk of money simply being "taken".

CareSaver

Critically, KiwiSaver managers do not hold any of the KiwiSaver funds assets. Not a single dollar. They are held by a small number of specialised trust companies (called “supervisors”) which are tightly regulated and licensed to ensure they keep the assets safe.

At CareSaver our trustee is Public Trust, which in turn is owned by the Government. All transactions and payments are made by the trustee (not the manager). Your investments will go up and down with markets, but they are held safely.

This is combined with the fact that KiwiSaver managers do not decide your investment balance. Prices of underlying investments are set by markets and then specialist and independent third-party companies will usually calculate the true value of your KiwiSaver. The manager doesn’t make up these values.

Back on our CareSaver Facebook page, Shayne makes his view clear – “I always considered kiwi saver a joke.” He’s wrong, this \$50 billion savings scheme is huge for the future retirement of millions of New Zealanders. The scheme is robust, and long-term it will deliver the same big boost to retirements as in Australia with its much larger scheme.

So if you’re worried about being wiped out please remember these two points. Firstly regardless of whether your KiwiSaver is \$5,000 or \$50,000, your value will not go to zero because that would require every single investment to have no value. Not going to happen. Secondly, your KiwiSaver investments are held in safe custody by specialist and independent trust companies. No one can help themselves to your KiwiSaver money.

Back on CareSaver’s Facebook page, Vaa was adamant that “your bank is the safest place to keep your KiwiSaver.” No, every KiwiSaver is equally safe. It doesn’t matter whether you are with the large KiwiSaver managers (like a bank) or a smaller specialised and active KiwiSaver managers (like CareSaver) your investments are all held by an independent trustee (the “supervisor”). Values will fluctuate but your assets are safely and securely held.

So if your KiwiSaver is safe, what should you do? You should do your research. Focus on choosing the manager who you think will invest your money wisely, in line with your values and will generate good long-term returns.

John Berry is Chief Executive of the CareSaver KiwiSaver Plan (managed by Pathfinder Asset Management) and worked in financial markets through the 1997 Asian crisis, 1998 Russian crisis, 2000 dot-com crash, 2001 terrorist attacks and 2008 GFC. His views in this article are general only and do not constitute recommendations for any particular person to acquire, hold or dispose any fund or financial product.