

# BetterSaver

The KiwiSaver Industry: Our Plan to Make it Better

A White Paper

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## Executive Summary

At BetterSaver we're on a mission to help Kiwis live fulfilling lives, one investment at a time. And what better place to start than KiwiSaver?

Over [3 million New Zealanders have a KiwiSaver account, totalling more than \\$90.8 billion](#). KiwiSaver has clearly had a massive positive impact in helping Kiwis save for their first home and retirement. But we think the industry could be more transparent, charge fairer fees and take into account ethical preferences.

We make things easier for consumers by collecting information from reputable sources and using it to give Kiwis personalised KiwiSaver fund recommendations that align with their goals, risk tolerance and ethics. Our team spent a long time developing a bespoke algorithm to do this and do it well.

Another thing that's important to us is always keeping Kiwi's best interests at heart. We keep our fee structure the same across all Providers we work with. This means there's no incentive for us to place Kiwis with one Provider or another.

But that isn't enough; pushing for change means being selective about the KiwiSaver Providers we work with, promoting financial literacy and calling out the BS when we see it.

We're a start-up with a big heart and big dreams. We're determined to have a positive impact on the KiwiSaver industry and we'll need help along the way. If you have any feedback, suggestions or questions get in touch with our Founder and CEO Joe at [joe@bettersaver.co.nz](mailto:joe@bettersaver.co.nz).

## Our Story

The KiwiSaver industry needs to change.

Rather than complain, our founder and resident KiwiSaver expert Joe decided to help everyday Kiwis make better financial choices.

This means:

1. Understanding each person's goals, timeframe, risk tolerance and ethical preferences
2. Expert analysis to find a better KiwiSaver fund for them
3. Making it quick and easy to switch
4. Checking in periodically to see if their situation has changed; their version of better might be different now

Joe did this in person for years, but realised he could help way more people if he changed up the status quo. And so, BetterSaver was born.

## Our Vision and Mission

Here at BetterSaver, we believe that financial advice has the power to change lives and that everyone deserves access to it. This lays at the heart of our business, including our vision and mission.

### Vision Statement

Transform Kiwi futures by providing accessible financial advice.

### Mission Statement

To provide accessible KiwiSaver advice.

We've decided to focus on KiwiSaver as it's the investment more than half of New Zealanders have. This means most Kiwis could benefit from accessible advice on which KiwiSaver fund might be better for them.

## What's Wrong with the KiwiSaver Industry

KiwiSaver is a government-administered scheme to help Kiwis save for their first home and retirement.

The KiwiSaver industry has done a lot of good for many New Zealanders, but like most things it's not perfect. In particular, we think the industry could benefit from three key things: increased transparency, fairer fees and greater consideration of ethics.

Concept	The current industry	How it could be better
Transparency	<p>It's hard to get access to detailed information on KiwiSaver funds and easily compare across different providers.</p> <p>There are some websites and financial advisers who help, but they sometimes require a lot of effort from the consumer.</p>	<p>Providers release more information publicly and it's in a format that's easy to compare.</p> <p>Financial advisers do the comparisons for you and recommend a better fund at an accessible cost for all Kiwis.</p>
Fees	<p>Fees &gt; International standards</p> <p>Detailed breakdowns sometimes publicised by providers</p>	<p>Fees ≤ International standards</p> <p>Detailed breakdowns available from all providers</p>
Ethics	<p>Providers make exclusion lists public, but don't provide much information on exposure to other ethical issues.</p> <p>Consumers and financial advisers have to go through third parties to get ethical exposure data.</p>	<p>Providers publish lists of areas they want to invest in, not just the ones they avoid.</p> <p>Providers take a proactive approach to ethical investing and publish their own ethical exposure data, which is verifiable through third parties.</p>

## Making It Better

The KiwiSaver industry is helping Kiwis get ahead, but we're determined to make it better and easier to navigate for the everyday consumer.

So we do the hard work of collecting information from reputable sources and use it to give Kiwis personalised KiwiSaver fund recommendations that align with their goals, risk tolerance and ethics.

Our advice is available online and at no up-front cost to make it accessible to as many people as possible. We also have human advisers available to help answer any questions that pop up.

Beyond that, BetterSaver pushes for wider industry change through:

1. Only working with KiwiSaver Providers who meet our rigorous standards
2. Producing financial literacy content
3. Calling out the BS when we see it

## Why Advice? - Now and Ongoing

One in five New Zealanders are currently receiving financial advice, but [research from the Financial Services Council](#) suggests that many more might benefit financially and otherwise.

The research indicates that Kiwis who receive financial advice are better off in a multitude of ways:

1. 4% increased returns on average
2. 52% higher KiwiSaver balances on average
3. Advised clients are more generally wealthy
4. They save 3.7% more of their income
5. They travel six times more per decade
6. They report higher overall well-being

Overall well-being includes physical, mental, emotional and social health factors. In fact, [46% of Kiwis say finances have affected their mental health and 70% are worried they won't have enough saved for retirement](#).

The financial advantages of receiving financial advice really add up over time. Let's use KiwiSaver as an example, and compare an unadvised Kiwi to an advised Kiwi using the average difference of 4% return from the Financial Services Council Research. We'll assume that they both start off with \$10,000 in their KiwiSaver at Year 0. Also, we'll assume a \$2,000 total contribution (employee, employer and government) and a

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6% return each year for the unadvised Kiwi. That means our advised counterpart will contribute \$2,074 per year with an average 10% return based on the calculations below.

Unadvised Kiwi Annual Contribution	Increase for Advised Kiwi	Advised Kiwi Annual Contribution	Difference
\$2,000	3.7%	\$2,074	\$74

Unadvised Kiwi Annual Average Return	Increase for Advised Kiwi	Advised Kiwi Annual Contribution	Difference
6%	4%	10%	4%

Let's check out the projected numbers.

Timeframe	Unadvised KiwiSaver Balance (\$2,000 contribution, 6% return per annum)	Advised KiwiSaver Balance (\$2,074 contribution, 10% return per annum)	Difference
Year 0	\$10,000	\$10,000	\$0
Year 1	\$12,353	\$12,818	\$465
Year 5	\$22,332	\$26,055	\$3,723
Year 10	\$36,317	\$48,394	\$12,077
Year 20	\$71,094	\$125,215	\$54,121
Year 50	\$284,172	\$1,332,988	\$1,048,816

So, getting financial advice might literally be a million dollar decision. With the magic of compound interest, small differences snowball into big differences over time.

We believe every Kiwi should have access to the potential benefits of financial advice. This is why we're working hard to make financial advice accessible to help Kiwis achieve their goals and live better lives.

## How We Analyse Funds

We analyse the vast majority of KiwiSaver funds (240+) before we make our recommendations. We use Morningstar and Disclose Register data to find funds that have a strong track record, low volatility, and consider ethics in the defensive, conservative, balanced, growth and aggressive categories.

## Our Algorithm

After we collect data from Morningstar and the Disclose Register, we conduct our analysis and feed the outputs into our proprietary algorithm. This algorithm underlies the personalised KiwiSaver recommendations we make to our customers.

This section will provide a high-level insight into how it works.

## Marketing vs Reality

Our approach to fund analysis is to bypass the marketing and dig down into the data. In some cases we find that they line up, but in others they don't.

This is particularly true for different ethical categories; we found that some funds that say they place high importance on ethics fall flat, while some that barely mention it shine.

We aim to shed light on the reality of each individual KiwiSaver fund so it's easy for our customers to find a better fund for them.

## Categories and Asset Allocation

We have sorted the funds into 5 categories, they are defensive, conservative, balanced, growth and aggressive. There are no rules for how KiwiSaver Providers should manage asset allocation into the different fund categories. This means that there is a lack of consistency with how Providers decide what proportion of each fund is allocated to growth assets. Here's what we use:

Category	% of Growth Assets	Included at BetterSaver?
Defensive	0-9.99%	Yes*
Conservative	10-34.9%	Yes
Balanced	35%-64.9%	Yes
Growth	65%-89.9%	Yes
Aggressive	90%+	Yes*

\*When completing our Online Advice Questionnaire, Defensive and Aggressive Funds will not be suggested as an option. However, customers can be placed into a fund in one of these categories by a human adviser. The adviser will review the online advice, interact with the customer and move them into one of these funds if both parties agree it's a better option for them. These categories are outliers and aren't suitable for most investors.

## Risk and Volatility

Investing carries risk; the risk of losing money. But with risk comes the potential of reward; your money can grow.

Another key consideration is volatility. Volatility is how rapidly the value of an investment moves up and down. All other things held constant, a less volatile investment is more appealing. This is especially true for conservative investors who seek relative stability in the value of their investment.

Risk and volatility are an important part of the BetterSaver analysis. We've boiled down the results into the following three categories.

Analysis Frequency	Rating Scale		
Annual	<b>Low</b> - Below Category Average	<b>Medium</b> - At or near Category Average	<b>High</b> - Above Category Average

We believe updating our analysis on an annual basis is sufficient to accurately reflect market changes.

## Track Record and Past Returns

Returns are the profits investors receive from their investments; they are the reason most people invest in the first place.

Naturally, returns form part of our analysis. When we analyse returns, we look at the numbers after fees to best represent the net return investors receive from a given KiwiSaver fund.

It's important to remember that past returns are no guarantee of future success, but they can add insight into how a Provider sits against its peers over time. For our analysis, we look back over a number of periods to see which funds have consistently under- or over-performed.

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We never isolate one period by itself and require a fund to have at least a two year track record before we place them into our algorithm.

Similar to risk and volatility, we sort funds into three categories.

Analysis Frequency	Rating Scale		
Annual	<b>Low</b> - Below Category Average Track Record	<b>Medium</b> - At or near Category Average Track Record	<b>High</b> - Above Category Average Track Record

We rate KiwiSaver funds as having low, medium or high returns based on their relationship to the category average. When providing customers with recommendations, our bespoke algorithm weighs this factor alongside volatility, fees and ethics to produce a personalised recommendation for each customer upon completion of our Fund Finder quiz.

## Fees

Fees are payments made from your KiwiSaver account to KiwiSaver Providers for investing your KiwiSaver balance on your behalf.

When discussing fees, it is important to keep in mind that Providers have different fee structures in place that may change at any time. Fees are charged for two reasons: administration and management. Administration fees are fixed-dollar fees deducted on a recurring basis. Management fees cover a range of costs such as accounting, auditing, unit pricing, payments to fund managers, client service and advice and provision of tools and guidance.

The majority of KiwiSaver Providers allocate a portion of their fees to customer service and advice. This usually ranges from 5-50 basis points per annum.

## Our Stance on Fees

We don't think that investing decisions should be driven solely by finding the lowest fee option. Low fees do not necessarily mean that a fund will produce better returns in the future, but higher fees also need to be justified.

We want to find our customers KiwiSaver funds that offer the best value for the lowest fees.

We agree with the [FMA's recent assessment](#) that as KiwiSaver providers benefit from economies of scale, average fees should be reduced over time. As BetterSaver grows we will expand our analysis on fees and advocate on our client's behalf.

Analysis Frequency	Rating Scale		
Annual	<b>Low</b> - Fees that are Below Category Average	<b>Medium</b> - Fees that are at or near Category Average	<b>High</b> - Fees that are above Category Average

BetterSaver ranks fees based on the latest available Morningstar and Disclose Register data. We believe updating our analysis on an annual basis is sufficient to accurately reflect market changes.

We rate KiwiSaver funds as having low, medium or high fees based on their relationship to the category average at the time of analysis.

## Ethics

At BetterSaver we don't take a particular stance on ethical issues. Instead, we listen to the voices that really matter: everyday New Zealanders.

We identified eight ethical issues many Kiwis care about:

- Adult Entertainment
- Alcohol
- Animal Testing
- Controversial Weapons
- Gambling
- Nuclear Power
- Tobacco
- Small Arms

Analysis Frequency	Rating Scale			
Quarterly	<b>No exposure</b> - funds that have no holdings in this area.	<b>Low exposure</b> - funds with the least holdings in this area.	<b>Medium exposure</b> - funds with some holdings in this area.	<b>High exposure</b> - funds with the most holdings in this area.

BetterSaver tracks exposure to ethical issues based on the latest available Morningstar data. We update our analysis on a quarterly basis, as we believe this is sufficient to accurately reflect market changes.

We look at each KiwiSaver fund's average exposure to each ethical issue over the past year and normalise this across all assessed funds in the conservative, balanced,

growth and aggressive categories to give a score. Based on this, we rate KiwiSaver funds as having no, low, medium or high exposure to each ethical issue.

When providing customers with recommendations, our bespoke algorithm weighs ethical preferences alongside returns, volatility and fees to produce a personalised recommendation for each customer.

## Morningstar Definitions for Ethical Exclusion Categories

The following definitions have been extracted verbatim from the Morningstar website.

Ethical Exclusion Category	Morningstar Definition
Adult Entertainment	The percent of a fund's assets under management that is invested in companies that are classified as directly involved in the production of adult entertainment; indirectly by distributing adult entertainment materials. The minimum revenue threshold to mark a company as involved is 50%.
Alcohol	The percent of a fund's assets under management that is invested in companies that are classified as directly involved in the manufacturing of alcoholic products; indirectly by being suppliers to alcoholic manufacturers, or distributors of alcoholic beverages. The minimum revenue thresholds to mark a company as involved are the following revenue ranges: Manufacturing: 59.9%; Supplier: 50-100% Distribution: 25-49.9%.
Animal Testing	The percent of a fund's assets under management that is invested in companies that are classified as directly involved in animal testing. There is currently no revenue data for this category.
Controversial Weapons	The percent of a fund's assets under management that is invested in companies that are classified as directly involved in the core weapon system that are considered tailor-made and essential for the lethal use of the weapon; indirectly by providing services for the core weapon system, which are either tailor-made nor essential to the lethal use of the weapon. There is currently no revenue data for this category.

<p>Gambling</p>	<p>The percent of a fund's assets under management that is invested in companies that are classified as directly involved by owning or operating gambling establishment(s); indirectly by providing supporting products/services to gambling operations. The minimum revenue threshold to mark a company as involved is 5-9.9%.</p>
<p>Nuclear Power</p>	<p>The percent of a fund's assets under management that is invested in companies that are classified as directly involved in the production of nuclear power; indirectly by providing products/services that support the industry or distributing electricity generated from nuclear power. The minimum revenue thresholds to mark a company as involved are the following ranges: Production: 5-9.9% - Distribution and supporting products and services: 10-24.9%.</p>
<p>Tobacco</p>	<p>The percent of a fund's assets under management that is invested in companies that are classified as directly involved in the manufacturing of tobacco products; indirectly involved by supplying tobacco-related products or deriving 10% or more of revenue from the distribution/retail sales of tobacco products. The minimum revenue threshold to mark a company as involved are the following ranges: manufacturing: 0.1-4.9%; Related &amp; Revenues: 10-24.9%.</p>
<p>Small Arms</p>	<p>The percent of a fund's assets under management that is invested in companies that are classified as directly involved in the manufacturing of small arms, or key components; indirectly involved in the retail or distribution of small arms. The minimum revenue thresholds to mark a company as involved are the following ranges: manufacturing: 0.1-4.9%; Retail: 5-9.9%.</p>

## Sustainability

At BetterSaver we think that sustainability is important, not just because it is better for the world right now, but because there is [growing evidence that sustainably-focused investing drives better long-term returns](#). Why? Companies that set clear standards for

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how they interact with the environment, manage company stakeholders and operate their business tend to perform better in the long term.

While we are transparent about our views on sustainability, we give our clients the choice to determine whether or not they want their fund to have a sustainable focus.

We use the Morningstar Sustainability Rating Index to determine a fund's BetterSaver sustainability score. The Morningstar Sustainability Rating measures how companies that you invest in through your KiwiSaver fund have responded to environmental, social and corporate governance (ESG) challenges relative to other similar funds. It also factors in how economically vulnerable a company might be as a result of ESG issues relative to other companies.

We allocate low, medium or high sustainability ratings to funds. A high score indicates that a fund is better prepared to respond to ESG issues and has less ESG-related economic risk relative to other similar funds.

Analysis Frequency	Rating Scale		
Quarterly	<b>Low</b> - funds that scored in the bottom 24.99% of funds	<b>Medium - funds that scored between 25% to 74.99%</b> of funds	<b>High - funds that scored in the Top 25%</b> of funds

## Vulnerable Clients

### Definition

The Financial Markets Authority (FMA) has adopted [the UK Financial Conduct Authority's \(FCA\) definition of a vulnerable client](#). This is “a person, that due to personal circumstances, is especially susceptible to detriment, particularly when the adviser/business is not acting with the appropriate level of care”.

The FCA identified four key drivers of vulnerability:

1. Health - “health conditions or illnesses that affect the ability to carry out day-to-day tasks”
2. Life Events - “major life events such as bereavement, job loss or relationship breakdown”
3. Resilience - “low ability to withstand emotional or financial shocks”
4. Capability - “low capability in other relevant areas such as literacy or digital skills”

### Accessibility

Our goal is to make our advice platform accessible to all Kiwis. Initially, this means a web-based offering so any user with a computer or mobile device can access our platform. We acknowledge that some New Zealanders may have difficulty using our platform in its current state, so we are working to make it as inclusive as possible.

### Protection

BetterSaver is committed to identifying and protecting all vulnerable clients.

We monitor for actions that may indicate vulnerable client behaviour, including attempting to switch KiwiSaver funds multiple times in a short time frame and repeated contribution suspensions.

Indicators of vulnerable behaviour will be followed up by a human adviser and appropriate steps will be taken to protect the client. All client interactions and communication (vulnerable and otherwise) will be recorded and auditable.

## BetterSaver Approved Funds

We're happy to work with any KiwiSaver Provider who has one or more funds that meet our rigorous criteria and agree to our fee structure.

This ensures two things critical to us as a business:

1. BetterSaver only recommends high quality funds to our customers.
2. We receive the same fees from each Provider, allowing us to make money while keeping Kiwis best interests at heart.

We currently offer over 20 different funds across five categories, as shown in the table below. It's important to remember that this report does not give financial advice. Investment decisions are important and if you need help you should get in contact with us or talk to another financial adviser.

Fund	BetterSaver Pathways
<i>Defensive</i>	
We currently do not recommend any Defensive funds, other than via individualised consultation with a human adviser.*	
<i>Conservative</i>	
Pathfinder Conservative Fund	Fund Finder Quiz, Human Adviser
Fisher Funds Conservative Fund	Fund Finder Quiz, Human Adviser
Fisher TWO Conservative Fund	Fund Finder Quiz, Human Adviser
Generate KiwiSaver Conservative Fund	Fund Finder Quiz, Human Adviser
Milford Asset Management Conservative Fund	Fund Finder Quiz, Human Adviser
<i>Balanced</i>	
Booster Socially Responsible Investment Balanced Fund	Fund Finder Quiz, Human Adviser
Pathfinder Balanced Fund	Fund Finder Quiz, Human Adviser
Fisher Funds Balanced Fund	Fund Finder Quiz, Human Adviser
Fisher TWO Balanced Fund	Fund Finder Quiz, Human Adviser
Generate KiwiSaver Balanced Fund	Fund Finder Quiz, Human Adviser
Milford Asset Management Balanced Fund	Fund Finder Quiz, Human Adviser

<i>Growth</i>	
Pathfinder Growth Fund	Fund Finder Quiz, Human Adviser
Fisher Funds Growth Fund	Fund Finder Quiz, Human Adviser
Fisher TWO Growth Fund	Fund Finder Quiz, Human Adviser
Generate KiwiSaver Growth Fund	Fund Finder Quiz, Human Adviser
Milford Asset Management Active Growth Fund	Fund Finder Quiz, Human Adviser
<i>Aggressive</i>	
Booster Geared Growth Fund	Human Adviser*
Booster KiwiSaver Socially Responsible Investment High Growth Fund	Human Adviser*
Generate Focused Growth Fund	Human Adviser*
Milford Asset Management Aggressive Fund	Human Adviser*

\* When completing our Online Advice Questionnaire, Defensive and Aggressive Funds will not be suggested as an option. However, customers can be placed into one of these funds by a human adviser. The adviser will review the online advice, interact with the customer and move them into one of these funds if both parties agree it's a better option for them.

We do not work with a KiwiSaver fund if it does not meet our rigorous criteria or if the provider does not agree to our 25 basis point fee structure.

We update our fund analysis on a quarterly basis, so the funds we recommend and the Providers we work with are subject to change. The information on who we work with is accurate as at the date of publication.

## How We Get Paid

We receive an advice fee of \$2.50 per \$1,000 invested. Providers pay us directly. In finance speak, our fee is 25 basis points (0.25%) per year. We receive this directly from the KiwiSaver Providers we work with. Here are some examples.

KiwiSaver Balance	BetterSaver Fee Per Annum
\$1,000	\$2.50
\$10,000	\$25.00
\$20,000	\$50.00
\$50,000	\$125.00
\$100,000	\$250.00

This doesn't mean our customers are paying more fees; many providers have an advice fee built into their fee structure. When Kiwis sign up directly with a provider, the provider still charges the fee and keeps it for themselves. When Kiwis sign up via us, we get it. All Milford direct funds will have an additional 5 basis points fee, which equates to \$0.50 for every thousand dollars invested.

We receive the same fee from each provider, so there's no incentive for us to place customers with one or the other.

Financial advice can be expensive, but we think everyone should have a chance at a better financial future. We keep our fees low and run our platform online to make our advice accessible to as many Kiwis as we can.

## Conclusion

KiwiSaver is awesome. But the industry could be better; that's where we come in.

Over 3 million people in New Zealand have a KiwiSaver account. They're working hard to save for their first home, retirement or both.

So we think it's pretty uncool that there's a lack of transparency in the industry, especially around fees and ethical issues.

That's why we offer personalised, accessible KiwiSaver advice. To cut through the BS and get down to what really matters: returns, volatility, fees and whether funds line up with individual goals and ethical preferences. We do this through our online Fund Finder quiz, which is backed up by our proprietary algorithm.

We partner with the Providers who meet our specific criteria and receive the same fees regardless of which Provider we place a customer with. This means we keep our doors open and our customers' best interests at the core of what we do.

Beyond that, we drive industry change by promoting financial literacy and advocating for everyday Kiwis.

Our dream is to transform Kiwi futures by providing accessible financial advice... First stop: KiwiSaver!