MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

TE TAI ŌHANGA
THE TREASURY

BRIEFING

KiwiSaver Default Provider Review – revised evaluation approach

Date:	10 September 2020	**Priority:**	Medium
Security classification:	**In Confidence**	**Tracking number:**	2021-0832 (MBIE) T2020/3096 (TSY)

	Action sought	Deadline
Hon Grant Robertson Minister of Finance **Hon Kris Faafoi** Minister of Commerce and Consumer Affairs	**Agree** to the recommendations.	15 September 2020

Contact for telephone discussion (if required)			
Name	**Position**	**Telephone**	**1st contact**
Sharon Corbett	Manager, Financial Markets Policy (MBIE)	Privacy of natural persons	✓
Robbie Taylor	Manager, Financial Markets (Treasury)		
Stephen Tat	Senior Policy Advisor (MBIE)		
Susan Ivory	Senior Analyst (Treasury)		

The following departments/agencies have been consulted

Minister's office to complete:

☐ Approved
☐ Declined
☐ Noted
☐ Needs change
☐ Seen
☐ Overtaken by Events
☐ See Minister's Notes
☐ Withdrawn

Comments:

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Purpose

To seek your agreement to a revised evaluation approach for the upcoming KiwiSaver default provider procurement process.

Recommended action

The Treasury and the Ministry of Business, Innovation and Employment recommend that you:

a **Note** that you previously agreed to a two-step assessment process of tenders which consisted of:

1) Evaluating a number of non-fee qualitative criteria on a weighted basis (excluding fees)
2) An overall 'value for money' evaluation that balanced the qualitative criteria with fee proposals

Noted

b **Note** that further procurement and probity advice has identified that having fees as a weighted criterion would be a more robust approach and reduce probity risk

Noted

c **Agree** that fees be a weighted criterion in the evaluation of tenders

Agree / Disagree

d **Note** that officials assess that the revised approach using a weighted criterion for fees will still be consistent with the principles and outcomes you have previously indicated you are seeking to achieve in obtaining 'value for money' for default members, including that there is important value to be gained through improved member engagement and your interest in supporting default members with low balances

Noted

e **Agree** to the following evaluation criteria and weightings that the evaluation panel will apply when assessing tenders

Criterion	Weighting
Fees	60%
Qualitative criteria	40%
Total	100%

Breakdown of qualitative criteria weighting

Criterion	Weighting
Provision of default investment product	35%
Member experience	35%
Transition	15%
Organisational structure and financial standing	15%
Total (which will be scaled down to 40% of overall weighting)	100%

Agree / Disagree

Sharon Corbett
Manager, Financial Markets Policy
Ministry of Business, Innovation and Employment

10 September 2020

Hon Kris Faafoi
Minister of Commerce and Consumer Affairs

20 / 9 / 20

Robbie Taylor
Acting Manager, Financial Markets
The Treasury

10 September 2020

Hon Grant Robertson
Minister of Finance

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Background

1. As the current terms for KiwiSaver Default Providers end on 30 November 2021, it is necessary to re-select default providers. As previously advised, MBIE and the Treasury are preparing to run a procurement process to inform our advice on which providers to appoint and under what terms. We expect to release a request for proposals (RFP) later this September.

2. Joint Ministers recently agreed to the remaining outstanding issues related to this process, including the high-level evaluation criteria and weightings that will guide the evaluation panel's assessment and recommendations on preferred providers (ref MBIE 2021-0264, TSY T2020/2633). Ministers agreed that the evaluation would be based on:

    a. A number of qualitative criteria about the provider and their proposed approach that will be scored by the panel on a weighted basis (excluding fees).

    b. An overall 'value for money' evaluation that combines the qualitative criteria with their proposed fees.

3. Officials originally envisaged a materially different approach to assessment than in 2014, and one that did not include weighting fees. Fees were explicitly weighted in 2014 at 30%. This contributed, in part, to some proposals with significantly higher than average fees being assessed favourably and ultimately appointed. We therefore recommended the value for money approach (with fees having no weighting) in order to better balance the assessment of qualitative factors with price.

4. However, through the process of drafting procurement documentation we have received further advice from procurement and probity experts that having fees as a weighted criterion would be a more robust approach, as opposed to the two-step value for money evaluation.

5. We are now seeking Joint Ministers agreement to a new evaluation approach and criteria which explicitly weights fees.

New preferred approach to fees

Why should fees now be weighted?

6. The reasons for preferring fees as weighted criterion are that:

    a. the current two-step approach is not as clear as a weighted fees approach and it likely increases the risk of judicial review of the selection recommendation.

    b. A weighted criterion for fees provides the most transparent disclosure of the relative importance of fees.

    c. In order to be sufficiently transparent and reduce probity risk, the description of how 'value for money' would be assessed in a two-step process would need to be at such a granular level that its content would, in effect, amount to a fixed weighting anyway.

What should the weighting on fees be?

7. Officials consider that low fees represent the primary opportunity to gain value from default KiwiSaver providers and therefore should represent a majority of the overall weighting. For example, based on current fees, a 20 year old earning $55,000 would pay $12,890 in fees over their lifetime if they were a member of the current Booster default fund. By comparison, they would pay $17,940 if they were in the current Fisher Funds default fund. The difference in fees would also impact on investment returns.

8. We also consider that most respondents will be capable of meeting the non-fee (qualitative) requirements because most of the requirements reflect fairly standard industry practice and all respondents will be existing KiwiSaver providers.

9. In addition to fees, improving member engagement by providers has been a focus of the review. We have overhauled the member engagement requirements (attached as Annex 1) with the expectation that they will provide the intended additional value for members. The member engagement requirements are set at a much higher bar than they have been previously and they are set as minimum standards. These requirements for member engagement should result in members making more informed decisions about their KiwiSaver including how much to save and what type of fund is best for them.

10. Overall, we consider there are diminishing returns to members if default providers give a service over and above the service levels we have set. Based on that assessment, attaching a high weighting to the qualitative requirements would limit the potential benefits to be gained from low fees in favour of capability that offers minimal incremental value.

11. We therefore recommend a 60% weighting be attached to fees for the evaluation criteria. The method for determining a provider's score on the fees criterion will take into account Ministers' interest in supporting members with low balances. The remaining 40% is allocated to qualitative criteria, the weightings of which Joint Ministers have previously agreed. The tables below show our new recommended evaluation criteria.

Criterion	Weighting
Fees	60%
Qualitative criteria	40%
Total	100%

Breakdown of qualitative criteria sub-weightings

Criterion	Core Question	Weighting
Provision of default investment product	Does the provider have the capability, approach and systems to effectively deliver the default investment product as required?	35%
Member experience	Will the provider meet our increased member engagement and services standards, and what else will they do to provide a good member experience?	35%
Transition	Is the provider capable of managing the transition to becoming a default provider, in particular the potential for a large one-time influx of members?	15%
Organisational structure and financial standing	Does the wider organisation have appropriate governance, management systems and financial standing, including in relation to their KiwiSaver business?	15%
	Total (which will be scaled down to 40% weighting of overall criteria)	100%

New approach still achieves value for money objective

12. The objective of the re-selection process has been to obtain value for money for members of a default fund, and you have previously indicated some principles and outcomes you are seeking to achieve in obtaining value for money (e.g. that there is important value to be gained through improved member engagement and your interest in supporting default members with low balances). We consider this revised approach of explicitly weighting fees still achieves this but with the added benefit of reducing probity risk. This is because:

    a. Pressure on fees is where we consider there are the most gains to be made for members. A high weighting on fees also represents the very clearest signal to RFP respondents of the importance of low fees in driving value to members of default funds.

    b. There are safeguards to avoid a ‘race to the bottom’ on fees. These are:

        i. setting clear and high minimum standards of service (including on member engagement) that every successful provider will have to provide regardless of their fee proposal; and

        ii. not appointing any provider who is assessed on any criterion as having even ‘moderate non-compliance’. There will be minimal tolerance for risk in terms of capability and approach.

Next steps

13. Subject to your agreement to the revised evaluation approach, we intend to release the RFP on September 24. We will inform your offices of the final date once confirmed by the project’s Steering Group. We will provide regular updates to Joint Ministers as the procurement progresses, and will provide advice on preferred providers in March 2021.

Annexes

Annex 1: Minimum Member Engagement Standards

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Provider service	Description	Service standard
Onboarding	All new default members receive access to an on-boarding advice process covering fund choice, contribution rate and checking contact details.	Within 3 months of being allocated to the provider at least: (a) 50% of members engage with the onboarding process (for example, opening emails, updating contact details, downloading a provider app). (b) 20% of members complete onboarding via an advice conversation or through engaging with digital tools (for example, completion of a fund profile tool, using a savings calculator).
First home withdrawal check-up	All members who withdraw funds for a first home receive a check-up to discuss the value of continuing contributions and to check fund choice.	Within 3 months of withdrawing funds for a first home at least: (a) 50% of members engage with the first home withdrawal check-up (for example, opening emails, contacting the provider for personal advice). (b) 20% of members complete the check-up via an advice conversation or through engaging with digital tools (for example, completion of a fund profile tool, using a savings calculator).
Pre-retirement check-up – 10 years out	All members turning 55 receive a 10-year out check-up covering contribution rate, fund choice, and an introduction to the options available when they reach eligibility age.	Within 3 months of a member turning 55 at least: (a) 50% of members engage with the 10-year out check-up (for example opening emails, contacting the provider for personal advice). (b) 20% of members complete the check-up via an advice conversation or through engaging with digital tools (for example, completion of a fund profile tool, using a savings calculator, use of an options tool).
Pre-retirement check-up – one year out	All members turning 64 receive a one-year out check-up covering contribution rate, fund choice, and an introduction to the options available when they reach eligibility age.	Within 3 months of turning age 64 at least: (a) 50% of members engage with the 1-year out check-up (for example, opening emails, contacting the provider for personal advice). (b) 20% of members complete the check-up via an advice conversation or through engaging with digital tools (for example, completion of a fund profile tool, use of an options tool).

Provider service	Description	Service standard
65-plus support	Delivery of a 65-plus support programme for members covering fund choice and options available to them including decumulation.	Results of activities are measured and reported to the FMA.
Engagement prompts at key milestones	A planned series of engagement campaigns and activities at the following key milestones: (a) annual member statement time (b) government contribution payments (c) during significant market volatility (d) as the member nears the end of a savings suspension (e) as the member approaches eligibility for a First Home withdrawal (f) when a non-contributing member without an approved savings suspension has not made a contribution within the last 18 months (g) when a member reaches eligibility age.	Results of activities are measured and reported to the FMA.