

KiwiSaver

- what is it?

The government will introduce a work-based savings scheme called "KiwiSaver". It is intended to start on 1 April 2007.

Full details have yet to be determined. This newsletter looks at what is currently known. In our next newsletter (**KiwiSaver II**), we will look at KiwiSaver's implications.

KiwiSaver's basic features

KiwiSaver's basic features are:

Application

- Applies to all employers except where they offer an alternative "qualifying" plan in respect of new employees.

Eligibility

- Automatic enrolment for all new employees aged 18-65 (regardless of pay).
- The employer will be required to give the new employee an IRD-prepared information pack.
- New employees can opt out.
- Existing employees do not have to join but can.

Vehicle

- There will be a range of approved "providers" that meet certain minimum standards - more on this below.
- Employees must select one of the approved "providers" or will be allocated a default provider.
- An employer can nominate a default provider.
- Employees can change providers at their option.
- The IRD will collect all contributions as part of the PAYE system (to limit

compliance costs for both employees and the employer) and will forward them to an employee's selected provider. The IRD will accumulate small contribution amounts and credit them with "use of money" interest and pay them to the employee's selected provider once a minimum amount is accumulated.

Contributions

- Employees will pay through the tax system 4% (or 8% if they elect) of all taxable pay (including bonuses, overtime etc.).
- An employee's contributions start after 8 weeks of employment unless the employee opts out.
- The government will pay an upfront contribution of \$1,000 on joining.
- The government will also pay part of the annual administration costs on a basis yet to be set. This may be negotiated separately with each provider.
- Employers can, but will not be required to, contribute either through the IRD or directly to the employee's nominated provider.

Benefits

- The provider can pay benefits on retirement from age 65, or for housing assistance (see below), or on hardship grounds or following permanent emigration. Benefits are not payable on changing employers.
- Benefits are lump sum.

The KiwiSaver scheme in practice

Apart from automatic enrolment, employees may become KiwiSavers at any time and make voluntary contributions. New employees can opt out by notifying the IRD 2-4 weeks after starting a new job. The IRD must notify the employer of the employee's opt-out, otherwise deductions begin on the pay day after eight weeks with the employer.

Contributions will be at 4% of all taxable pay, but the employee can opt for a higher rate of 8%. Members can stop contributing in five year contribution holiday "tranches" after a minimum initial three months of contributions. Automatic contributions resume at the end of the five year period if the member does not renew the holiday.

The IRD will hold contributions for eight weeks after the employee starts to allow the employee time to get advice and choose a provider. Contributions will receive "use of money" interest while the IRD holds the contributions.

The self-employed and beneficiaries can become KiwiSavers, choosing their own contribution rate and frequency.

For a scheme to be a KiwiSaver "provider", it must be a registered superannuation scheme and comply with the

contribution and benefit requirements described. A new category of legislative framework for registered superannuation schemes may be developed.

There will be three types of providers under the KiwiSaver regime:

- **“default providers”** - a probably “limited” group that will be chosen by the government after a tender process (“designed in part to negotiate lower fees”);
- **“qualified providers”** - other providers that an employee can choose as the KiwiSaver provider.
- a **“default scheme”** - chosen by an employer from amongst default and qualified providers as its own default provider. An employer does not have to choose a default scheme and an employee does not have to join the default scheme.

If an employee does not make a provider decision (and does not opt out), the IRD will nominate a provider through a “randomised” selection process from amongst only the default providers. However, if the employer has nominated its own default scheme, the contributions will be credited to that scheme in the absence of an employee’s own choice.

There is a fourth category of scheme - an employer-sponsored plan that obtains approval for an exemption to the automatic enrolment process - we will have more to say about this in **KiwiSaver II; Options for employers**.

KiwiSaver linked to home ownership assistance

KiwiSaver schemes can also offer the proposed “housing deposit assistance” scheme.

This will help “low and middle-income earners”:

- to buy their first home (that must be owned for a minimum period);
- with “purchase price caps” (set by region), and
- with a “household income cap” (possibly \$100,000 p.a. for a couple).

The assistance will be available after three years’ contributory KiwiSaver membership and will be \$1,000 for each year of contributory membership (to a maximum of five years). The maximum subsidy of \$5,000 will be first available only after 2012 (five years after the 2007 start date). The home ownership assistance can apply to a couple if both are KiwiSaver members.

Conclusion

If KiwiSaver is enacted as announced, it will change the superannuation landscape, perhaps partly in ways that its architects might not have expected. The government has given a clear message that it wants to encourage people to save for retirement and that, if people start on that process, the government wants to ensure that the savings are applied to that purpose. Whether those objectives will be achieved depends partly on the detail yet to emerge and on how New Zealanders respond. We will continue to watch that space.