

KiwiSaver II

- options for employers

The announcement of KiwiSaver¹ may, but need not, prompt employers to review their employee benefit strategy.

Because there is much detail yet to emerge about KiwiSaver, it is too soon to arrive at any conclusions but we can say that workplace superannuation will be on the agenda of the country, employers and employees for at least the next two years.

This newsletter looks at the possible impact on employers and their options.

Employers with an existing superannuation scheme will have several choices:

- Convert the scheme to comply with all of the KiwiSaver criteria i.e. become a “qualified provider” and a “default scheme”.
- Change some benefit provisions to obtain exemption to the KiwiSaver automatic enrolment provisions.
- Live alongside the KiwiSaver arrangements with, perhaps, some changes.
- Wind up the existing scheme.

Here are some initial observations on these various alternatives:

Option 1 – conversion to KiwiSaver status

The employer could decide to convert the existing scheme to full KiwiSaver status. This will require the scheme to comply with all of the KiwiSaver requirements including:

- minimum and alternative member contributions;
- preservation until state pension age;
- (presumably) limited administration fees;
- portability.

On conversion, employees joining the scheme will qualify for the government’s upfront contribution of \$1,000 per member and the ongoing administration fee subsidy.

The Budget speech indicated that the State Sector Retirement Savings Scheme for the government’s own employees will not apply for KiwiSaver status though the government officials have since indicated that it might.

It is however unlikely that any private employer with an existing scheme will apply as, in most cases, members’ consent will be required.

Also, few employers will be able to offer a cost advantage relative to the public KiwiSaver alternatives. Trustees would also need to assess any regulatory change including the impact of future changes.

Option 2 – exemption from automatic enrolment process

The Minister of Finance in his Budget speech said:

“Employers will also be able to apply to the Government Actuary for an exemption to the automatic enrolment provisions if they have a work-based superannuation scheme

which meets a set of defined conditions.”

An associated “Q & A” document stated that:

“KiwiSaver will complement rather than replace the existing registered superannuation scheme regime. This means existing schemes can continue to operate as they have done until now.”

Existing schemes will be exempt from the automatic enrolment requirement if they meet certain conditions. Those are:

- 4% (aggregate) in employer and member contributions – employer contributions to meet the 4% requirement must be fully vested. Contributions above that level need not be.
- “portability” – this expression is not defined and, in context, could mean either:
 - (a) That the minimum 4% contribution cannot be paid on leaving service. It must be preserved until age 65 and must be transferable to another “exempt” scheme or approved provider (perhaps of the member’s new employer).
 - (b) That any benefit of whatever amount can be transferred at the member’s choice, but that there are no requirements with respect to the way in

¹ The details of KiwiSaver as currently available are set out in our newsletter KiwiSaver - what is it?

which the benefit is calculated or paid.

- that the relevant scheme is open to **all permanent** employees (including permanent part-time employees).

These requirements will almost certainly mean amendments to an existing trust deed. If the scheme obtains the exemption, the employer will satisfy the “compulsory offer” requirements of the KiwiSaver arrangements by making the employer’s scheme available.

The government’s subsidies (\$1,000 on joining and ongoing administration fees) will not be available to an “exempt” scheme. However, members will be eligible for housing assistance if they continue as members of the exempt scheme for at least three years after the inception of the new regime (1 April 2007).

Members of an existing scheme can continue contributing to the existing scheme and also join a qualified scheme (and qualify for the government’s subsidy).

Option 3 – live alongside KiwiSaver

The introduction of KiwiSaver may (but need not) persuade the employer to consider what it does and perhaps change its current employee benefit philosophy.

Employers do not have to change what they do – the most that the new KiwiSaver regime can do is force employees to make a choice whether or not to join the offering of a “default provider” or a “qualified provider” and to obtain the government’s subsidy. That does not force a change to anything that a current scheme provides. Employees could be members of both.

For example, if the current scheme has a six months’ eligibility period, the employer could decide that the eligibility period will be “covered” by KiwiSaver and the employer’s own scheme will continue unchanged. At the end of six months, if employees have joined KiwiSaver, they could then decide whether to start a contribution holiday from KiwiSaver, in order to join the employer’s scheme or to belong to both.

An employer’s scheme is likely to be more flexible than either an “exempt scheme” or a “qualified scheme”. The KiwiSaver regime does not therefore need to change anything. It may increase awareness of superannuation issues and so may increase employees’ interest in the employer’s scheme. This will have cost implications for the employer. Also, it may create pressure on employers to change provisions of its existing scheme, particularly for employees who decide they cannot afford to save in both, but want to be part of KiwiSaver.

Option 4 – wind up

The employer could decide that superannuation is now another issue that the government has taken over (like holiday entitlements and ACC insurance). As a result the employer can no longer offer a competitive edge by providing its own superannuation scheme i.e. the costs outweigh the benefits.

The employer could conclude that saving for retirement and subsidised housing assistance are now matters on which the state will set the conditions. It will therefore do what it has to do (offer KiwiSaver) and withdraw from everything else.

Choosing a default provider

Whatever choice an employer makes amongst the four options, it can also choose its own default scheme. Employees who decide not to opt out will initially face a choice probably among many “qualified providers”. Failing a choice within the required period, the IRD will allocate a “default provider” on a “randomised” basis.

The employer could decide to help employees through that process by choosing its own “default scheme” from amongst the default and qualified providers. Employees would still be able to make their own decisions but might be guided by the employer’s “recommendation”. There will be advantages in this (e.g. the default provider might help pay for communication or administration costs) but there will also be risks and issues to the employer of monitoring and review.

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.

Employers with existing schemes will need to do some serious thinking over the next two years.