

KiwiSaver III

- what it means for an employer

KiwiSaver legislation

The Bill giving birth to KiwiSaver was introduced to Parliament 7 March 2006. It is anticipated to become an Act in October 2006 with KiwiSaver being launched in April 2007.

This legislation will affect every employer in NZ and has the potential over time to change the saving patterns of New Zealanders.

KiwiSaver is a personal savings regime that will require every employer in NZ to establish payroll deductions, through the tax system, in respect of any employee who elects to contribute to KiwiSaver.

This newsletter looks at the primary provisions of the Bill and considers how it will affect the employer.

KiwiSaver's basic features

Application & eligibility

- Applies to all employers.
- Automatic enrolment for all new employees (after 1 April 2007) aged 18-65 (regardless of pay level) except where the employer offers an alternative "exempt" plan, for all their new employees.
- Employees when automatically enrolled, can opt out.
- Existing employees, and new employees below 18 or 65 and above, do not have to join, but can.

Vehicle

- There will be a range of approved private sector "providers". Each provider must meet certain minimum standards.

- An employer can select an approved provider to be its preferred provider.
- Several of the approved providers will be deemed default providers. Employees who do not choose their own provider and where an employer does not have a preferred provider will be allocated to a default provider.

Contributions

- Employees who participate will pay 4% (or 8% if they elect) of all taxable pay (including bonuses, overtime etc.).
- A new employee's contributions start after 11 weeks of employment unless the employee opts out.
- Employees who do not opt out, must contribute for at least 12 months.
- If a new employee starts a second new job under an alternative employer, the contributions start immediately in respect of that second job, unless they have elected a contributions holiday.
- An employee who has contributed for at least 12 months can elect to stop contributions.

Deductions

- The IRD will collect all contributions as part of the PAYE system and will forward them to the employee's selected provider.

Government inducements

- The government will pay an upfront contribution of

- \$1,000 when an employee starts contributing.
- The government will also pay part of the annual administration costs. The level is yet to be defined.
- A housing deposit assistance scheme, providing up to \$5,000 to enable "low and middle-income earners" to buy their first home, is also available.

Benefits payable

- The provider can pay benefits on the employee's:
 - 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.
- For employees joining over age 60, a minimum of 5 years membership (not contributions) is required.
- Benefits are lump sums.

KiwiSaver providers

For a scheme to be a KiwiSaver "provider", it must be a registered superannuation scheme and be KiwiSaver compliant.

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

- **"approved providers"** - providers that an employee can choose as the KiwiSaver provider.
- **"preferred providers"** - a scheme selected by an employer (from the approved providers), as its own preferred provider.
- **"default providers"** - a limited group that will be chosen by the government after a tender process. Default providers will be the vehicle for employees who do not elect a provider and where the employer does not have a preferred provider. The IRD will randomly select a default provider from the list if none is nominated by the employee or the employer.

An employer does not have to choose a preferred provider and an employee does not have to join the employer's preferred provider.

If the employer has nominated its own default ("preferred") provider, contributions will be credited to that provider's scheme through the IRD (not direct to the preferred provider).

KiwiSaver – what it means for employers

- An employer will be required to provide a payroll deduction facility for employees who elect to contribute to KiwiSaver (more correctly do not opt out). Some payroll system changes may be required.
- Each new employee will need to be given on employment:
 - the IRD KiwiSaver pack.
 - the employer's preferred provider's pack, if one is nominated by the employer.

- 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 decision to opt-out, otherwise deductions begin on the pay day after 11 weeks with the employer.

Payroll staff will need to monitor and act on the opt out advice.

- Payroll staff will have additional process requirements through the need to change deductions for an employee who:
 - Changes contributions between 4% and 8%;
 - Ceases or recommences contributions.

When an employee starts work after 1 April 2007, the KiwiSaver clock starts ticking.

Here is the KiwiSaver Timeline from "day one", the first day at work:

- **Day one.** First day at work.
- **By day 7.** Employer gives employee the IRD information pack
- **Days 8 to 42.** Employee can "opt out" by notifying IRD.
- **By day 77.** Late opt-out possible, by applying to IRD
- **Day 77+.** Contributions start on first "Pay Day" after Day 77
- **Pay day + 1.** Employee can transfer to another KiwiSaver scheme
- **By day 84.** Employee can advise IRD of own KiwiSaver choice
- **Pay day + 3 months.** IRD releases employee's contributions +\$1,000 to chosen or allocated scheme
- **Pay day + 12 months.** Employee can apply for a "contributions holiday".

Do you need to do anything right now?

Yes. Information and publicity around KiwiSaver will grow over the next six months. That means business owners (and/or Boards) are going to ask what are the implications for the business and will want direction from management on the issues. Employees will begin to ask questions and will want clarity from the employer as to the impact on them.

Aventine can assist employers by working through the options. Our goal is to help the NZ business community understand what KiwiSaver is all about.

Coming next

KiwiSaver IV
What it means for employers with an existing scheme

KiwiSaver V
How employers can use KiwiSaver to their advantage.

KiwiSaver VI
What it means for an employee.

Note

*This newsletter is based on the **KiwiSaver Bill** as presented to Parliament on 6 March 2006. We understand that the Select Committee proposes changes to the Bill that will probably affect the detailed workings of KiwiSaver. We will update our newsletters as information becomes available.*