

## KiwiSaver and Superannuation policy

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National is committed to maintaining New Zealand Superannuation payments at a minimum of 66% of the average after-tax wage.

National is committed to continuing the New Zealand Superannuation Fund in its current form and with the current contribution rate.

### 1. KiwiSaver

National is committed to keeping the KiwiSaver scheme and making it an enduring and affordable scheme for members, employers, and taxpayers.

People have come to rely on KiwiSaver as their principal retirement savings vehicle. Currently, around 780,000 people have an active KiwiSaver account.

National will ensure that KiwiSaver remains simple to join, simple to contribute to, portable, and voluntary.

National will also ensure that KiwiSaver is accessible and contains incentives to enrol and retain as many New Zealanders as possible.

The bulk of the KiwiSaver scheme will, therefore, remain unchanged.

In particular, National will retain:

- Automatic enrolment of new employees, with the right to opt out.
- Automatic deductions from a member's wages or salary.
- The \$1,000 'kick-start' payment when people first join KiwiSaver.
- The member tax credit, paid by the government into KiwiSaver accounts, which matches members' contributions up to a maximum of \$1,040.
- Compulsory matching employer contributions.
- Employer contributions exempted from employer superannuation contribution tax (ESCT).
- The annual fee subsidy and the first home deposit subsidy.

This adds up to a very generous retirement income scheme.

This generosity is reflected in the costs to the government. National expects that in government, our spending on KiwiSaver incentives will be around \$800 million a year (not counting the government's contributions as an employer).

National is going to make three changes to the current KiwiSaver scheme. They are listed below.

For the most part, these changes reflect the fact that the current KiwiSaver scheme was designed at a time when the government had a large surplus and economic conditions were favourable. What the recent economic events have shown us is that we need to make some adjustments to KiwiSaver to change it from being a fair-weather scheme to one which can endure in the long term.

These changes will save around \$3 billion over the years 2008/09 to 2011/12.

**a. A minimum contribution rate of 2%**

Currently, the minimum employee contribution is 4% of gross salary. For many people, especially in tight economic times, saving 4% of gross salary is simply not possible and would put unwarranted strain on other parts of the family budget. These people are, therefore, effectively shut out of KiwiSaver.

Similarly, there will be people who have joined KiwiSaver during good financial times who will have to take prolonged contributions holidays, never gaining the real benefit of an affordable KiwiSaver, which is getting into a regular savings habit.

Making compulsory matching contributions of 4% will also be a real stretch for employers, who may find themselves passing the costs on to households.

National will introduce a contribution rate that both employees and employers can realistically afford when economic times are bad as well as when they are good, and during periods of their lives when they earn more than other times.

From 1 April 2009, the minimum contribution rate for employees in KiwiSaver will be 2% of gross salary.

Employers will also be required to make minimum contributions of 2% of gross salary for each of their employees who are KiwiSaver members.

Employees may, if they wish, elect to contribute at a higher rate. Specifically, they will be able to contribute 4% or 8% of their gross salary into KiwiSaver (as they are currently able to do). However, employers will be required to match only the minimum contributions.

Nonetheless, employers will be free to contribute more than the minimum they are required to under the scheme. A number of employers already do this. They may choose, for example, to match their employees' contributions at the 4% level.

National will keep the member tax credit, which will continue to match a member's contributions and will be paid into their KiwiSaver account. It will match their contributions at the minimum contribution rate, up to a maximum of \$1,040 a year.

National will also keep the exemption from ESCT on employers' minimum contributions. This directly benefits employees, who effectively do not pay tax on their employer's contributions to their KiwiSaver accounts.

Since the tax paid by *all* New Zealanders effectively funds the member tax credit and the ESCT exemption, it is important that KiwiSaver is as accessible as possible for as many people as possible. Otherwise, New Zealanders who cannot afford to join KiwiSaver will effectively be subsidising the savings of those can afford to join.

Total contributions to members' KiwiSaver accounts, at the minimum contribution rate of 2%, are shown in Appendix 1.

For many people, the "2+2" scheme described above will be all they ever require, or can afford, from a retirement savings scheme. Others, however, will desire a scheme with a higher contribution rate. For example, the government's State Sector Retirement Savings Scheme (now closed to new members) is a "3+3" scheme. National will review KiwiSaver once it is bedded in with a view to introducing a "3+3" alternative option in the future, if economic conditions permit.

#### ***b. Discontinuing the employer tax credit***

The employer tax credit, paid by the government directly to employers, currently matches the compulsory contributions that employers are required to make, up to \$1,040 a year.

From 1 April 2009, National will discontinue the employer tax credit.

We recognise that the employer tax credit was a transitional tool for helping employers adjust to KiwiSaver. However, we do not see it as part of KiwiSaver in the longer term.

National believes that if the government's aim is to put money in people's KiwiSaver accounts, it should do so directly, not indirectly via employers, which can create a complex money-go-round.

Discontinuing the employer tax credit does affect employers.

However, on the other hand, employers benefit from the fact that the minimum contribution rate for employees, and therefore employers as well, will drop to 2% of the employee's gross salary. This is a lower contribution rate for employers than the 4% rate they face under Labour's proposals.

Table 3 gives the example, from an employer's perspective, of an employee who has joined KiwiSaver and who earns \$52,000 a year – just over the average. This shows that the employer's net contribution to the employee's KiwiSaver account is the same under National as under Labour.

**Table 3 – Annual employer contributions to a KiwiSaver employee earning \$52,000**

	National	Labour
Compulsory employer contribution	\$1,040	\$2,080
less employer tax credit	\$0	\$1,040
Net contribution by employer	\$1,040	\$1,040

### ***c. Repealing the recent ERA amendment***

National will repeal the recent amendment to the Employment Relations Act that affects KiwiSaver.

This amendment, pushed through Parliament in the last few weeks without any public consultation, effectively rules out some arrangements which have been negotiated between employers and employees, as the KiwiSaver rules themselves permit, whereby:

- The employer makes matching contributions to KiwiSaver accounts, as the scheme requires.
- In the interests of workplace fairness and harmony, the employer also gives an equivalent pay increment to their non-KiwiSaver employees.

National will allow such arrangements to occur, if they are negotiated between employers and employees in good faith, and if employers are fulfilling all their obligations to make KiwiSaver contributions.

National believes employers should be able to treat all their employees fairly and should be free to negotiate salary packages with employees that suit both parties.

However, to allay any fears that some KiwiSaver members could appear to be taking a pay cut to join KiwiSaver, National will also amend the KiwiSaver Act to make it clear that no employee can have their gross taxable pay reduced as a consequence of joining KiwiSaver.

In other words, we will ensure that when an employee joins KiwiSaver, the compulsory contribution from their employer is a genuine addition to their normal pay.

## **2. Superannuation payments**

National is committed to maintaining New Zealand Superannuation (NZS) payments at a minimum of 66% of the after-tax average wage.

By law, the net NZS payment for a married couple cannot be less than 65% of average ordinary-time weekly earnings less tax and ACC earners levy. Payments for other categories of superannuitants are calculated in proportion to the married couple payment.

As part of its confidence and supply deals, the current Government raised this floor to 66% of the after-tax average wage over the period 1 April 2006 to 31 March 2009, but it reverts to 65% again from 1 April 2009 onwards.

In contrast, National will keep the floor for NZS at 66% of the after-tax average wage, thereby ensuring higher payments for all superannuitants in the future.

In addition, National's economic management package contains tax cuts which will raise the after-tax average wage, and therefore push NZS payments even higher.

An illustration is given in Table 4. The current fortnightly NZS rate for a married couple is \$462.74 after tax (each). Table 4 gives an indication of how this could change in the future as our programme of tax cuts is rolled out.

The figures are projections based on the latest Treasury forecasts of future changes in the Consumer Price Index and the December quarter average weekly wage. Note that these are projections only – actual NZS payments in the future may differ from those shown here.

**Table 4 – Projected fortnightly NZS payments for a married couple after tax (each)**

	National	Labour
from 1 April 2009	483	483
from 1 April 2010	500	495
from 1 April 2011	522	507
from 1 April 2012	538	521
from 1 April 2013	554	536

The final part of National's superannuation policy concerns superannuitants who are on the 'non-qualified partner' rate – that is, their spouse or partner doesn't qualify for NZS but they have chosen to include them in the payment.

In this case, the couple can currently earn up to \$80 per week before their NZS payments are affected.

National will increase this threshold to \$100 per week - a 25% increase.

Together, National's policies will markedly improve the financial situation of older New Zealanders.

### 3. New Zealand Superannuation Fund

National remains committed to continuing the New Zealand Superannuation Fund in its current form and with the current rules that determine annual contribution rates.

National firmly believes that security, stability, and predictability are vital in the area of retirement incomes. Bipartisan support and long-term commitments to the Superannuation Fund will ensure this.

Despite the recently announced losses from the fund, National believes it will make returns over the longer term that are adequate to fulfil its objectives.

In the longer term, National's plan for the economy aims to generate the sort of investment opportunities that may enable more of the fund to be invested here in New Zealand.

## Annual contributions to KiwiSaver at the minimum employee contribution rate of 2% of gross salary

Annual salary (\$)	Employee contribution (\$)	Employer contribution (\$)	Member tax credit (\$)	Total in KiwiSaver account (\$)	Total as a percentage of salary
5,000	100	100	100	300	6.0%
10,000	200	200	200	600	6.0%
15,000	300	300	300	900	6.0%
20,000	400	400	400	1,200	6.0%
25,000	500	500	500	1,500	6.0%
30,000	600	600	600	1,800	6.0%
35,000	700	700	700	2,100	6.0%
40,000	800	800	800	2,400	6.0%
45,000	900	900	900	2,700	6.0%
50,000	1,000	1,000	1,000	3,000	6.0%
55,000	1,100	1,100	1,040	3,240	5.9%
60,000	1,200	1,200	1,040	3,440	5.7%
65,000	1,300	1,300	1,040	3,640	5.6%
70,000	1,400	1,400	1,040	3,840	5.5%
75,000	1,500	1,500	1,040	4,040	5.4%
80,000	1,600	1,600	1,040	4,240	5.3%
85,000	1,700	1,700	1,040	4,440	5.2%
90,000	1,800	1,800	1,040	4,640	5.2%
95,000	1,900	1,900	1,040	4,840	5.1%
100,000	2,000	2,000	1,040	5,040	5.0%