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6 May 2014

Dear

# Making KiwiSaver Fairer and Affordable

Like me, I expect you have a considerable interest in how we can double retirement incomes for New Zealand employees.

A key question is how we do this in ways New Zealanders will support and the country can afford while leaving the NZ Super pension in place.

The Financial Services Council has suggested a package of policies which will achieve this.

I am pleased to provide you with a copy of a special report the FSC commissioned from Infometrics to analyse the impact the FSC’s policy suggestions might have.

As you would expect, only 8% of New Zealand adults believe they could live comfortably on the $282 per week paid by NZ Super for each person in a couple over 65.

We know that, under FSC proposals to achieve a KiwiSaver + NZ Super pay-out at twice that level, New Zealand employees on a low wage will need to save 13% of their pre-tax income on current policy settings.

The FSC package proposes employees would need to save only 6 to 9% of pre-tax income split with their employer to achieve a comfortable retirement income, twice that of NZ Super.

Among the two main policy changes to deliver higher retirement incomes on lower and affordable contribution rates to KiwiSaver are:

* Moving KiwiSaver members from Conservative to Balanced Funds, specially in the earlier stages of their lives, and
* Changing the way we tax retirement savings: we now tax the initial earnings and the interest on interest (compound returns) earned on funds invested in KiwiSaver. That makes it one of most punitive savings taxes in the world. For someone on the average wage over 40 years the impact of tax is to reduce your retirement nest egg by half. As the Infometrics report points out, if we cut tax rates on returns earned in KiwiSaver funds from 28%, 17.5% and 10.5% to 15%, to 8% and 4.3% respectively most of the cost can be made up by abolishing the annual $521 KiwiSaver member tax credit.

You’ll see in the report these proposed changes would mean someone on an average income, if they moved from a conservative to a balanced fund, could cut their KiwiSaver contributions over 40 years by $164,000 and reduce the impact of tax, to increase their KiwiSaver nest egg by $288,000.

At a practical level this means a person on an average income would have to save $16 a day, split with their employer, rather than $27 (63% less) to achieve a comfortable retirement income.

Our polling research finds the public will support the changes we are suggesting.

I commend the report and policy options to you as a worthwhile option to pursue and develop a position before the September general election – in the long term interests of New Zealanders and the country.

Please don’t hesitate to contact me to discuss this and other research we have on this issue, including its support among those who voted for your party at the 2011 general election.

The FSC and its members are working to ensure that more KiwiSavers understand that the current KiwiSaver fund tax and default investment style policy settings are both unfair and make saving for a comfortable retirement unaffordable for many.

We would ask that you read this and our earlier reports as this is going to be an election issue this year for the many New Zealanders who wish to have a comfortable retirement.

Regards



Peter Neilson

Chief Executive

**Financial Services Council**