OWN OUR FUTURE

Labour

UNIVERSAL KIWISAVER: FISCAL AND ECONOMIC IMPACTS

Universal KiwiSaver will initially cost the Crown slightly less than $375 million a year. The bulk of this cost will be met within what National has set aside for Budget 2014.

This cost is made up of additional member tax credit payments plus kick-start payments for the estimated 730,000 new KiwiSaver members. It falls slightly as tax revenues from KiwiSaver investment returns (other than capital gains) start to increase, and then fall again to just over $200 million a year from 2019/20 once the 5-year phased kick-start payments to those who joined when it became universal is complete.

The full cost of this from 2014/15 onwards is affordable within National's baselines for Budget 2014. National has set an operating allowance of $800 million (ongoing) for each of Budgets 2012 and 2013. National's provision for Budget 2014 has been set at $1,192 million. Allowing for just over $800 million for 'business-as-usual' costs, this leaves $376 million ongoing for discretionary initiatives. These funds will be used to pay for Universal KiwiSaver.

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
National's Budget 2014 Provision above 'Business-as-Usual'		376	376	376	376	376	376
Cost of Savings Policy	-94	-374	-372	-369	-366	-326	-211
Remaining Budget 2014 Provision	*-94*	*2*	*4*	*7*	*10*	*50*	*165*

The initial $94 million before the Budget 2014 provision comes into effect will be managed within our broader fiscal strategy and any additional borrowing will be paid down as capital gains tax revenues start to mount up. This will avoid delaying this important measure to tackle our lack of savings.

Labour will be releasing its full Fiscal Strategy statement shortly.

Impact on National Savings

The standard approach to measuring the impact on national savings is to estimate what the effect will be on New Zealand's Net International Investment Position (NIIP) over a period of 10 years. This approach was a central element of the Savings Working Group's report and has since been adopted by Treasury in its advice to government on savings policy. The NIIP is the extent to which foreign-owned assets in New Zealand exceed New Zealand-owned foreign assets.

New Zealand has a very poor NIIP compared to most other countries. We need to improve it. It currently stands at -70 per cent of GDP, with Treasury predicting it to decline further to -77.6 per cent by 2016.

Labour's Universal KiwiSaver scheme will start to turn that around. We estimate that after ten years (over which time the employer contribution will be gradually increasing) Universal KiwiSaver will improve the NIIP by 7.6 per cent of GDP. This is over and above the 3 per cent impact of the current KiwiSaver scheme, which is already taken into account in the PREFU forecasts. After twenty years the improvement in the NIIP will be 17.1 per cent of GDP.

By comparison, if National were in government and if they followed through on their tentative plans for KiwiSaver auto-enrolment, the impact of this on the NIIP would be just 2.0 per cent after ten years and 4.1 per cent after twenty years. These estimates are relatively conservative. They assume that only 37% of the increased savings by households are actually additional savings, and that similarly only a third of increased employer contributions and government subsidies is additional.

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