

SAVINGS POLICY: QUESTIONS AND ANSWERS

Universal KiwiSaver

Why is Labour introducing universal KiwiSaver?

We are heavily indebted as a country. Our private debt is now over \$140 billion (70 per cent of GDP). Our high level of private debt was one of the reasons for the Standard & Poor's downgrade. Treasury forecasts show the situation getting worse with the net international investment position forecast to get worse, increasing to -78 per cent of GDP. Selling more of our assets does nothing to fix this problem. In fact it makes the problem worse. We need to fix the underlying problem.

We also need to ensure all New Zealanders have access to secure savings to enable them to enjoy their retirement over and above the level guaranteed by NZS.

What is Labour proposing?

Labour's policy has two key elements:

- Labour's plan will make KiwiSaver compulsory for every employee aged 18 to 65 from 2014.
- Labour will gradually increase employer contributions at a rate of 0.5 per cent a year, from 3 per cent to 7 per cent, over 9 years.

How many additional savers will be brought into KiwiSaver through this policy?

Treasury have estimated that universal savings would bring in 730,000 new KiwiSavers.

Will this mean NZ Super will be replaced by KiwiSaver?

No. NZ Super is a vital safety net that provides every New Zealander with a guaranteed minimum level of income during their retirement. This must be protected and is why we have guaranteed the rate of NZ Super. The changes in this announcement keep NZ Super affordable for future generations. Universal KiwiSaver will help New Zealanders build a nest egg for a more secure retirement.

What do Labour's changes mean for those already in KiwiSaver?

If you are already in KiwiSaver, there will be no change to your investment. The only change will be a gradual increase in the employer contribution from 3 per cent to 7 per cent, over 9 years.

What do Labour's changes mean for those in a non-KiwiSaver scheme?

Under Labour's plan these New Zealanders will not have to change their investment scheme, provided the scheme becomes KiwiSaver compliant. If the scheme meets the minimum standards of KiwiSaver, which the vast majority of non-KiwiSaver schemes do, this will require some minor changes to the trust deed.

Will Labour maintain the government incentives, including the \$1,000 kick-start payment and \$521 member tax credit?

Labour will retain these incentives. The only change will be the way the kick-start payment is paid into KiwiSaver accounts. Under Labour's plan the \$1,000 kick-start will be spread over 5 years. This will make the scheme more affordable.

How will the increase in the employer contribution be funded?

Labour has set the ramp-up rate at a low 0.5 per cent to make it more affordable. Over the next 4 years Treasury is forecasting 3.8 per cent average wage growth. We recognise that the 0.5 per cent annual increase in the employer contribution could be taken into account as part of wage negotiations.

What impact will this have on national savings?

Increasing the amount we save will reduce our reliance on foreign lending and allow us to accumulate a bigger pool of national savings that can be invested in our businesses, creating jobs and growing the economy.

Based on Savings Working Group data we have estimated that after the first 10 years Labour's Universal KiwiSaver will reduce New Zealand's indebtedness by almost 8 per cent. Over 20 years it will reduce by over 17 per cent. This is around four times better than under National.

What other benefits could increasing savings have?

An increase in savings will be good for the economy as a whole, including help close the wage gap with Australia. A report by NZIER showed that a sustained rise in national savings rates could boost real wages by 7 per cent over the next 15 years.

It is also about helping New Zealanders build a nest egg for a more secure retirement. The Savings Working Group also concluded "that many New Zealanders would benefit from increasing their saving – and from being encouraged to save more wisely."

How can low-income workers afford to save at a time when they are struggling to make ends meet?

Labour is also committed to keeping saving affordable. That is why we are retaining the current 2 per cent employee minimum rate. This is supported by research commissioned by IRD that shows 1 in 4 KiwiSaver members have an income of \$30,000 or less. Also, keeping the employer contribution ramp-up rate at 0.5 per cent will also make the scheme more affordable.

In addition. Labour recognises the cost of living pressures on families. That's why we are making the first \$5000 income tax-free, removing GST off fresh fruit and vegetables and raising the minimum wage to \$15 an hour.

Aren't New Zealand families the best judge of how to invest their money, whether it be to pay off a mortgage, get an education or invest in a start-up company?

OWN OUR FUTURE



Yes and Labour's proposal doesn't stop New Zealanders from doing any of these things. Universal KiwiSaver will ensure that most New Zealanders are able to build up a retirement nest egg over the course of their working life by making it simpler to put aside a little bit each week.

Why did Labour rule out auto-enrolment?

Auto-enrolment will not build enough savings fast enough. The verdict from the rating agencies was clear: we must deal with our high levels of private debt. Labour's policy directly addresses this problem.

How will this impact on women?

Labour acknowledges that the gender pay gap can lead to lower incomes and lower lifetime savings for women. The tripartite negotiations will examine the effect of universal KiwiSaver on gender equity. That is why Labour is also strongly committed to addressing the gender pay gap. Labour will increase the minimum wage to \$15 which will assist low-income workers, over half of whom are women.

What has been the effect of universal savings in Australia?

One of the most successful schemes has been Australia with \$1.3 trillion currently saved. Their scheme was introduced in 1986 and covers most full time, part time and casual employees. Employers are required to contribute 9 per cent of employee's earnings. In fact just a few months ago the Australian Government announced they will increase their rate to 12 per cent by 2019.

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OWN OUR FUTURE



Why is Labour delaying action until 2014?

It is important that we get it right. Waiting until 2014 means we wouldn't be putting the recovery of the economy in jeopardy. It also allows more time to get the government books back in shape. But perhaps more importantly, it allows us to put in place a savings framework that will endure. Savings is a policy about the next 30 to 50 years not just the next 3 to 5 years.

What will Labour do to address the issue of savings being eroded by fees charged by KiwiSaver providers?

A review of the current default provider scheme will be completed prior to the expiry of current contracts in 2014. Labour will examine the default provider arrangements, including their charges, in advance of that review. Labour will also take into account the recommendations of the Savings Working Group on the issues of disclosure of terms, fees and other charges.

Why isn't Labour reversing National's cuts to KiwiSaver from Budget 2011?

Labour is committed to affordable and fully-costed policies. The double credit rating downgrades made it clear that inaction was not an option. Our policy takes the action necessary to increase New Zealand's savings at the same time as remaining affordable. We are doing so within a tight budget that means we can reduce net public debt as fast as under National.

How much are New Zealanders likely to contribute each week?

Labour will keep the employee contribution at 2%. This means someone on the median wage of \$28,000 will contribute \$11 a week. Someone on the average wage of \$50,000 will contribute \$19 a week.

Raising the Eligibility Age of NZ Super

Why is Labour raising the eligibility age of NZ Super?

Our population is ageing and we are living longer. By 2050 the number of people aged 65 and over more than doubles from 550,000 to 1.35 million – that's roughly the population of Auckland. The cost of NZ Super will become unaffordable with Treasury estimating that as a share of GDP, the cost will double over the next 40 years. National's decision to suspend contributions to the NZ Super Fund has undermined our ability to meet the future costs of NZ Super. We cannot escape this problem. It was one of the reasons for the Standard & Poor's downgrade. We need to take action to preserve NZ Super for this generation and the next.

What changes is Labour proposing to NZ Super?

Labour will gradually lift the age of NZ Super eligibility from 65 to 67 over the next 22 years. No changes would start until 2020 and would take 12 years to phase in.

Labour is committed to ensuring the transition to a NZ Super eligibility age of 67 is done fairly. Labour will ensure there is transitional assistance for those who can't keep working.

How much will changing the eligibility age save the Government?

Investment specialists Mercer has estimated raising the age of eligibility to 67 years will save the Crown \$100 billion over 30 years.

Is Labour changing the rate of NZ Super?

Labour guarantees there will be no changes to the rate of NZ Super. We are committed to retaining the current floor of 66 per cent of the average wage. NZ Super is a vital safety net that provides every New Zealander with a guaranteed minimum level of income during their retirement. This must be protected for this generation and the next. That is why we are raising the eligibility age.

What effect will raising the eligibility age have on those currently receiving NZ Super or nearing retirement?

None. Anyone currently receiving NZ Super will be unaffected. Their entitlement will continue unchanged. In fact any one born before 1955 will be unaffected.

What other countries are raising the age of pension eligibility?

New Zealand is not alone in dealing with the challenge of an ageing population. In the last 10 years 11 other OECD countries have increased their eligibility age including Australia, the Czech Republic, Denmark, France, Greece, Hungary, Italy, Korea, Turkey, the United Kingdom and the United States. Like Labour's proposal they will be phased in over a long period of time.

How much does the Government currently spend on NZ Super and how much is this forecast to grow as a result of the ageing population?

Last year we spent \$8.8 billion on NZ Super alone. To put this in perspective it is 12.5 per cent of what the Government spent this year. It's almost as much as the \$11 billion we spent on hospitals (DHBs). Treasury estimates that as a share of GDP, this cost is forecast to double over the next 40 years to 8 per cent.

What are consequences of delaying action on NZ Super?

Failing to act now means the decisions will only get harder. These changes cannot be avoided. The longer we delay the more dramatic the changes will have to be. We are committed to ensuring NZ Super is there for future generations. This makes it affordable and sustainable. We only need to look at Europe to see what happens when politicians constantly duck the tough issues and don't look far enough into the future.

What assistance will be available to those unable to work the extra two years?

Labour is committed to ensuring the transition to a NZ Super eligibility age of 67 is done fairly. Under Labour those aged 65 or 66 who are not readily able to keep working in their usual occupation, and unable to support themselves, would qualify for a NZ Super Transition payment. This payment would be set at the same level of NZ Super.

John Key has claimed that NZ Super is affordable on current modelling?

Treasury disagrees with John Key and so does the Retirement Commissioner. Over the long term NZ Super will become increasingly unaffordable if no action is taken. We can't run away from this.

Māori and Pacific communities have lower life expectancies on average, aren't they unfairly affected by this proposal?

Labour acknowledges the lower life expectancies for Māori and Pacific communities. That is why we have committed to ensuring there is transitional assistance for those who can't keep working. Labour is committed to making sure this transition is done fairly and that there is support for those who need it.

In addition, we have also been very clear about putting a priority on our kids. Labour will announce a comprehensive package of policies that will focus on the first 5 years of their life which we know will lead to better health and education outcomes.