PEOPLE FOCUS

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PEOPLE RISK & EMPLOYEE BENEFITS UPDATE

NEW ZEALAND BUDGET ANNOUNCEMENTS; KIWISAVER CHANGES

Introduction

The Government's 2011 Budget includes the announcement of important changes to the KiwiSaver scheme. The Government stated that these changes, which reduce the incentives provided for savings through KiwiSaver, are required in order to "reduce Government borrowing and lift national savings, while ensuring KiwiSaver remains an attractive offering for savers." The Government's current spending on KiwiSaver subsidies and tax breaks is stated as being over $1 billion a year. When the changes are fully implemented the Government estimates the cost of incentives will reduce to $600 million a year.

There are currently 1.68 million KiwiSaver members with approximately $7.9 billion in accumulated savings. The Government projections are for KiwiSaver funds to reach $25 billion by 2014/15 and almost $60 billion in 10 years time.

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THE CHANGES

The following are the changes that have been announced:

From 1 April 2012 - application of tax to compulsory employer KiwiSaver contributions

Employer contributions to KiwiSaver and to complying superannuation funds which at present are tax free up to a contribution level of 2% of employee pay, will be subject to Employer Superannuation Contribution Tax (ESCT) from 1 April 2012.

This change puts KiwiSaver employer contributions on the same basis as other employer superannuation contributions which are currently subject to ESCT.

The basis of calculating ESCT is also changing. The option to apply a flat rate of 33 per cent is being removed effective from 1 April 2012. From that date the rate of ESCT must be calculated under the progressive option, based on the employees own top marginal tax rate. This will create additional administrative work for employers but will mean employees who earn less than $84,000 per annum have a rate lower than 33 per cent applied.

The current progressive rates of ESCT are shown below, alongside the net contribution rates applicable after ESCT assuming gross employer contributions of 2% and 3%:

Total annual salary or wage	Rate of ESCT	2% gross contribution net of ESCT	3% gross contribution net of ESCT
Up to $16,800	10.5%	1.8%	2.7%
$16,801 to $57,600	17.5%	1.7%	2. 5%
$57,601 to $84,000	30.0%	1.4%	2.1%
$84,001 or more	33.0%	1.3%	2.0%

From the year ending 30 June 2012 and beyond - reduction of the member tax credit

The Member Tax Credit will be halved so that the maximum credit will be $521 a year instead of $1042 and the rate of credit will be 50 cents instead of $1 for each $1 of member contribution. Member Tax Credits are paid annually direct to KiwiSaver accounts.

Example:

An employee who earns $52,100 a year and contributes at the minimum rate of 2% will currently achieve the maximum tax credit of $1042. From 1 July 2012, this employee will receive due the new maximum Member Tax Credit of $521 at the new rate of 50 cents for each dollar of contribution.

From 1 April 2013 - an increase to the minimum contribution for both members and their employers

The minimum employee contribution rate will increase from 2% to 3% of pay. This will apply to all existing and new KiwiSaver members. It will also be the new default rate of contribution. Employees will still be able to select the alternative higher rates of contribution of either 4% or 8% of pay.

The compulsory rate of employer KiwiSaver contribution will also increase from 2% to 3% from 1 April 2013.

Example outcomes for KiwiSaver members:

The Government issued a Fact Sheet with the Budget announcements which contains a number of examples of the outcomes from KiwiSaver for individuals who start saving at various ages and on various incomes.

We have set out a selection of these below:

Age	Income	Date Joined KiwiSaver	Contribution	Estimated savings at age 65
30	Average wage of $50,000	1 April 2013	3%	$190,000 *(enough to provide an income of $11,500 a year)*
18	Minimum wage of $27,000 a year	1 April 2013	3%	$195,000 *(enough to provide an income of $11,500 a year)*
35	Earning $80,000 a year	1 April 2013	3%	$225,000 *(enough to provide an income of $13,500 a year)*

The above projections assume funds earn a real return above inflation of 4% a year and contributions include an assumed wage growth rate of 1.5% a year. The retirement income amount is based on a life expectancy of 25 years and a real return of 4% a year on invested funds.

The amounts shown above as annual income would be received in addition to New Zealand Superannuation. This is currently $17,676 a year after tax for a single person.

HOW DOES THE NEW KIWISAVER REGIME COMPARE WITH NON-KIWISAVER WORKPLACE BASED SUPERANNUATION SCHEMES?

KiwiSaver retains the incentives of the $1000 kick-start contribution, the Member Tax Credit of 50 cents per dollar of member contribution up to $521 a year and a compulsory employer contribution of 3% gross of tax. However savings are locked-in until age 65, apart from some limited circumstances including first home purchase and financial hardship.

Non-KiwiSaver schemes are not locked in until age 65 and can be more flexible in the way they operate. The same tax treatment will apply to employer contributions under both KiwiSaver and non-KiwiSaver schemes, once the changes to the tax on employer KiwiSaver contributions occur on 1 April 2012.

Non-KiwiSaver schemes do not receive the Kick-Start or Member Tax Credit payments from Government that apply to KiwiSaver.

Employees who have the option of KiwiSaver or non-KiwiSaver schemes can still split contributions between the two arrangements, subject to this being permitted by their employer and the rules of their particular scheme. From 1 April 2013 such contribution splitting will involve a higher KiwiSaver contribution than at present, when the minimum KiwiSaver rate increases to 3%.

AUTOMATIC ENROLMENT OF EXISTING EMPLOYEES INTO KIWISAVER

Alongside the Budget announcements, Revenue Minister Peter Dunne commented that the Government intends to "discuss the Savings Working Group's recommendation of a one-off enrolment exercise with employers after the Budget and look at how that might be done without unnecessary compliance and administrative costs."

This points to an effort to add to KiwiSaver many of those employees who have not changed jobs since 1 April 2007 and have not opted into KiwiSaver.

NEW ZEALAND SUPERANNUATION FUND

As part of the Budget announcements the Government also indicated it expects to recommence contributions to the New Zealand Superannuation Fund by 2016/17. This is consistent with its expectation of returning to a surplus by 2015.

WILLIS COMMENTS ON THE ANNOUNCEMENTS

The changes reduce the KiwiSaver incentives but leave in place sufficient benefit to make joining KiwiSaver a sensible option for many employees. Those on higher incomes were seen as receiving a significant advantage from the tax free employer contributions compared to lower income earners. This has now been rectified. The outcome may be that higher income earners now review whether KiwiSaver is for them.

The increase to the minimum contribution rates for members and employers is required if KiwiSaver is to produce adequate levels of retirement savings. The total minimum contributions of 6% are still low compared to the current compulsory rate of 9% in Australia, which is intended to rise to 12% by 2020. By signalling the contribution rate increase well in advance, Government has provided time for employees to make the adjustment and for employers to factor this into their planning. Those employees who have difficulty affording the higher contributions can of course take a contributions holiday until their circumstances improve.

The intention to consider an enrolment campaign for existing employees shows that the Government is still keen to get greater membership of KiwiSaver amongst the workforce. In time, when only very few employees are not members, it might be quite easy to take the final step and make membership compulsory. At that point any remaining incentives would not really be necessary.

In the long term, membership of KiwiSaver needs to be across most of the work force and with savings at a high level in order to reduce reliance on New Zealand Superannuation. The government of the day will then have a greater ability to manage the drain on New Zealand Superannuation that will arise from the retired *baby boomers*.

WILLIS CONTACTS

If you would like further assistance regarding the KiwiSaver changes or other matters relating to KiwiSaver, Superannuation or other Employee Benefits, please do not hesitate to contact any member of the Willis People Risk team.

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