New Zealand and the KiwiSaver scheme

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Outline

- The New Zealand context
- Chronology of policy developments
- Features of KiwiSaver
- Outcomes to date
- Issues

The New Zealand context

- New Zealand has a population of 4.4 million (2011). Around 15% of the population are Maori, 7% Pacific Islanders, 10 % Asian and 77% European or other. There are around 570,000 New Zealanders in Australia.
- GDP per capita at USD 27,036 in 2008 was the 8th lowest in the OECD, a little below Korea's – about 70% of Australia's, with whom they have reciprocal rights of settlement and employment.
- Life expectancy at birth is 78.8 years for men and 82.7 years for women, the 16th highest in the OECD.
- The population 65 years and over is 21.2% of the working age population, below the OECD average of 23.6%.
- Total fertility rate is 2.1, well above the OECD average.
- There were around 2.2 million people in the workforce in March 2011; the labour force participation rate was 68.7% and unemployment rate was 6.6%.
- Total social expenditure at 18.4% of GDP is below the OECD average and ranks 22nd. Total tax revenue at 33.7% of GDP ranks 20th in the OECD.

The New Zealand pension system

- The public pension is flat rate based on a residency test. State pension entitlements from other countries are taken into account in calculating the total payable. The New Zealand system is funded through general taxation and there are no specific social security contributions.
- The rate of public pension is indexed to prices, but subject to a floor and ceiling linked to movement in wages. For a couple, legislation requires the net-of-tax rate at each 1st April must be not less than 65% and not more than 72.5% of a net-of-tax surveyed weekly earnings measure. The net-of-tax rates for single people are set at 65% (living alone) and 60% (sharing accommodation) of the couple rate. If movements in prices remain consistently below movements in the net-of-tax surveyed weekly earnings, the latter effectively becomes the index.
- The current Government has made a commitment that the net-of-tax rate at each 1st April is to be a minimum of 66% rather than 65% of the net-of-tax earnings measure.
- The public pension is subject to personal income tax (in the same manner as any other personal income).

The New Zealand pension system

- Public pension spending in 2007 was 4.2% of GDP, 7th lowest in the OECD.
- Tax clawbacks - income tax and VAT paid on benefit income – are relatively high (about 28% combined) – so net pension spending is even lower; tax expenditures are virtually non-existent, and private pension spending extremely low.
- New Zealand has the highest minimum pension in the OECD (39% of average earnings), but after Ireland the equal (with the UK) lowest net pension replacement rate for an average worker (Pensions at a Glance 2011).
- The average income of people over 65 as a % of population average (68%) is the second lowest in the OECD.
- New Zealand has the lowest relative poverty rate among people aged 65 and over in the OECD (1.5% below 50% of median income), but it has more people between 50% and 60% of median income than any other OECD country.
- Inequality among people of working age is the 8th highest in the OECD; among those 65+, it is the 7th lowest.

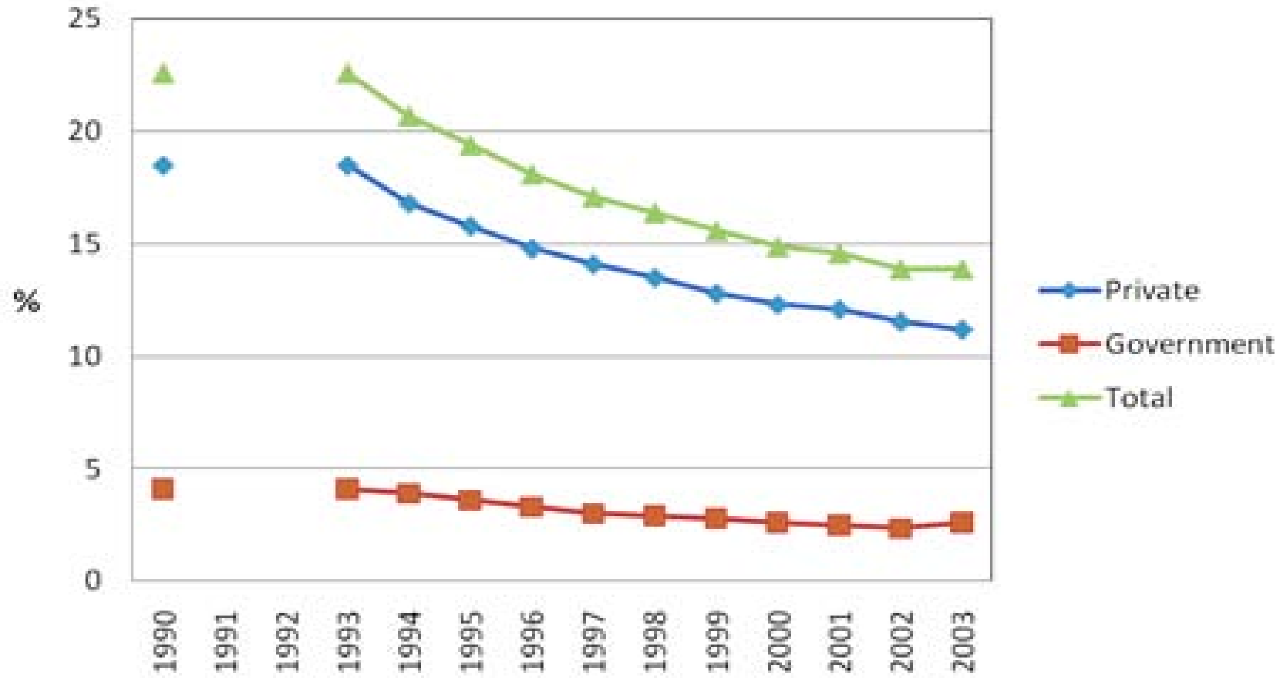
Chronology of public policy developments

- 1898 – Old Age pension introduced; means-tested and paid at 1/3 of the average wage (2/3rds for a couple), with about 1/3 of those 65+ in receipt.
- 1938 – Substantial increase in means-tested payment and new small universal payment for those not receiving means-tested benefit.
- 1975 – compulsory contributory scheme introduced, but repealed in 1976 when government changed.
- 1977 – National Superannuation introduced – taxable, universal benefit set at 80% of the average wage for a couple (48% for single), payable at age 60 after 10 years residence.
- 1979 – change in indexation.
- 1985 – taxation surcharge on other income, equivalent to income test – 10% of aged population effectively had payments reduced to zero and further 13% had reduced benefits.
- 1988 – abolition of tax concessions on contributions to private and occupational pensions and fund concessions.

Chronology of public policy developments

- 1989 to 1992 – reduced indexation, higher surcharge, and increase in pension age.
- 1992 – Todd Taskforce suggested encouragement of voluntary savings.
- 1993 – Multi-Party Accord on Retirement Income policy.
- 1997 – Compulsory Retirement Savings Scheme proposed; rejected in referendum by 91.8% of voters.
- 2000 – Announcement of Superannuation Fund (http://www.nzsuperfund.co.nz/) to finance future cost of public pensions, paid for out of government fiscal surpluses. Fund size in April 2011 was NZD 19.15 billion, and is projected to peak at about 40% of GDP in 2035.
- 2004 -Introduction of State Sector Retirement Savings Scheme for public sector employees, portable DC scheme of matching employer and employee contributions (up to 1.5% each in the first year, increasing to a proposed target of 6% each).
- 2007 – Introduction of KiwiSaver

% of employees in occupational superannuation schemes, 1990-2007



Outline of KiwiSaver

- KiwiSaver is a voluntary, work-based savings initiative to help with long-term saving for retirement.
- There are a range of incentives to contribute. They include a $1,000 kick-start, regular contributions from employers and an annual member tax credit paid by the Government. Some people may also be eligible for help with the deposit on their first home.
- KiwiSaver schemes are managed by private sector companies called KiwiSaver providers. Individuals can choose which KiwiSaver provider to invest with.
- KiwiSaver is not guaranteed by the Government.

Outline of KiwiSaver

- Contributions are deducted from pay at the rate of either 2%, 4% or 8% (individuals choose the rate); those self-employed or not working agree with their KiwiSaver provider how much to contribute, and make payments directly to them.
- It takes about 3 months for a KiwiSaver contribution to reach a KiwiSaver account.
- KiwiSaver savings will generally by locked in until people become eligible for NZ Super (currently 65), or have been a member for at least 5 years (if joined over the age of 60). Early withdrawal of part (or all) of savings is possible for: buying a first home, moving overseas permanently, suffering significant financial hardship, or being seriously ill.

KiwiSaver incentives

- KiwiSaver has a range of membership incentives including:
- **$1,000 kick-start** : The Government "kick-starts" accounts with a tax-free contribution of $1,000.
- **Member tax credit:** The Government matches individual contributions by up to $1,042.86 each year ($20 a week).
- **Compulsory employer contributions:** If eligible, employers also contribute an amount equal to 2% of pay to KiwiSaver savings.
- **Savings withdrawal for first home:** Some or all of KiwiSaver savings can be put towards buying a first home.
- **First home deposit subsidy:** After 3 years of contributing to KiwiSaver, contributors may be entitled to a first home deposit subsidy. The subsidy is administered by Housing New Zealand and will be paid on the day the purchase of the property is settled. The first home deposit subsidy is $1,000 for each year of contributions, up to a maximum of $5,000 for five years. A couple buying a house together and both qualifying could receive a combined subsidy of up to $10,000.

Benefits for first home buyers

- There are 2 benefits for KiwiSaver members about to buy their first home:
- KiwiSaver members for at least 3 years may be able to withdraw some of their savings to put towards buying their first home. They can withdraw their contributions and their employer contributions, but not the government contributions.
- They may also be eligible for a one-off payment from the Government. They can get $1,000 for each year contributing to KiwiSaver, up to a maximum of $5,000 for each member. Income and house price caps apply.

Choosing and changing schemes

- Individuals currently have a choice of 33 providers. For people who don't choose their own scheme, and their employer doesn't have a chosen scheme, Inland Revenue will allocate them to one of the 6 government-appointed default providers:
- If allocated to a default provider's KiwiSaver scheme, contributions are invested in the scheme's conservative investment fund option.
- All KiwiSaver schemes are regulated by the Financial Markets Authority in a similar way to other registered superannuation schemes. In addition :
  - all KiwiSaver schemes are required to have fees that are not unreasonable
  - default providers have a special contract with Government that requires them to meet additional reporting requirements, and
  - default providers' activities and their default investment funds are closely monitored.
- Contributors can change their KiwiSaver scheme at any time, but can only belong to one KiwiSaver scheme at a time.
- To change scheme, people must apply directly to the provider of the scheme they want to join. The new provider will arrange for savings to be transferred from the old scheme to the new one. The old scheme may charge a transfer fee.

Opting-out of KiwiSaver

- New employees who have been automatically enrolled can choose to opt-out of KiwiSaver between two and eight weeks after being automatically enrolled.
- Those who chose to join cannot opt-out.
- After eight weeks, individuals can apply for a late opt-out or an early contributions holiday.
- Late opt-outs may be accepted for up to 3 months after first contribution if:
  - The employer didn't supply a *KiwiSaver employee information pack (KS3)* within 7 days of starting a job;
  - Inland Revenue didn't send an investment statement for the default KiwiSaver scheme allocated;
  - The employer didn't provide an investment statement for their chosen KiwiSaver scheme;
  - Events outside the individual’s control prevented them from delivering their opt-out notice on time;
  - They were automatically enrolled when they shouldn't have been.

Contributions holidays

- All KiwiSaver members who have been making contributions from their pay for 12 months or more can take a contributions holiday, without providing a reason.
- Contributions holiday can be between 3 months and 5 years, and in some circumstances less than 3 months. There is no limit to the number of times a contributions holiday can be taken, and it can be renewed at any time.
- An early contributions holiday (within the first 12 months of becoming a KiwiSaver member is possible where people are experiencing, or likely to experience, financial hardship for reasons outside their control.
- While taking a contributions holiday, the employer is not required to make compulsory employer contributions, but individuals can still make voluntary contributions.

Information provision

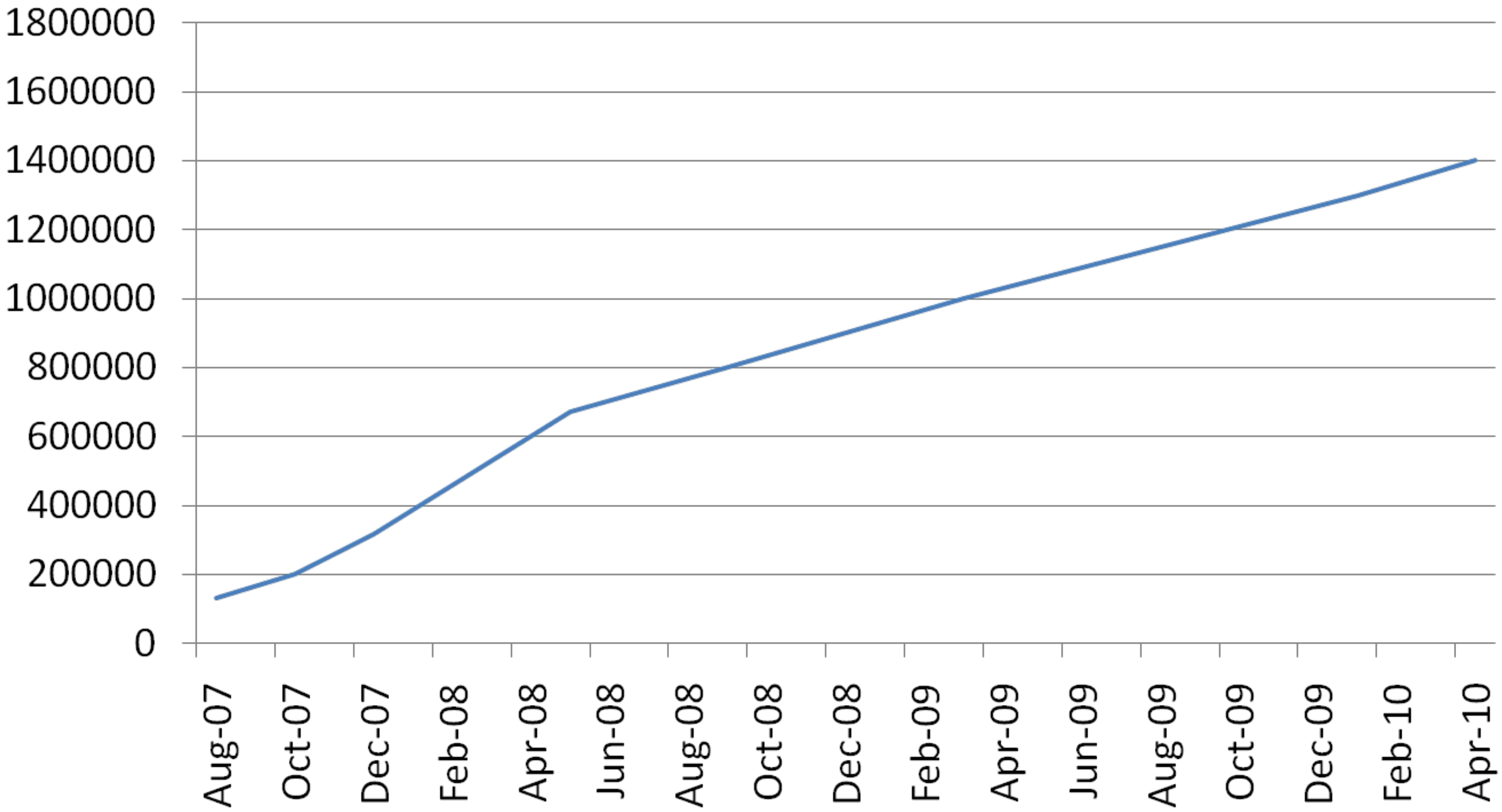
- “My KiwiSaver” allows individuals to keeps track of contributions paid to Inland Revenue only. Overall balance and investment returns, and contributions made directly to a provider are available from the provider.
- The Retirement Commission is an autonomous crown entity, set up in 1993. The Retirement Commissioner's role is established under the NZ Superannuation and Retirement Income Act 2001 and appointed by the Minister for Social Development and Employment.
  - the core purpose of the Commission’s work is to help New Zealanders prepare financially for retirement through education, information and promotion.
- New Zealand’s National Strategy for Financial Literacy was launched in June 2008.
- Sorted is New Zealand's free independent money guide, run by the Retirement Commission. It's includes calculators and information to help manage personal finances throughout life.

Recent policy developments

- For the period 1 April 2008 to 31 March 2009 employers were able to claim a tax credit of up to $20 per week per employee to offset the cost of their employer contributions. From 1 April 2009, the ETC was no longer available for employers
- In May 2011 Budget it was announced that the KiwiSaver member tax credit rate would be halved from 1 July 2011. The minimum employee contribution would rise from 2 to 3 per cent, and compulsory employer contributions would also increase to 3 per cent from 1 April 2013.

Outcomes of KiwiSaver

Number of persons signed up to the scheme, 2007-2011



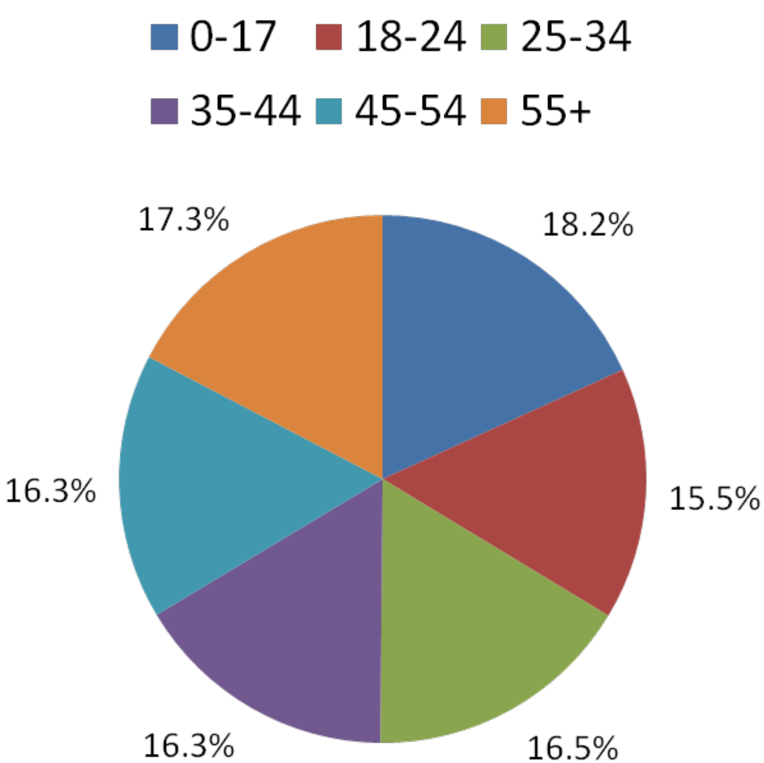
Methods of joining KiwiSaver, 2010

Method	Number
Opt in via provider (active choice)	790,265
Opt in via employer	219,628
Automatically enrolled	580,994
Total membership (net of opt outs and closures)	1,590,887
Opt out	247,760
Closed [1]	23,711
Active contribution holidays (includes active financial hardship holidays)	53,133

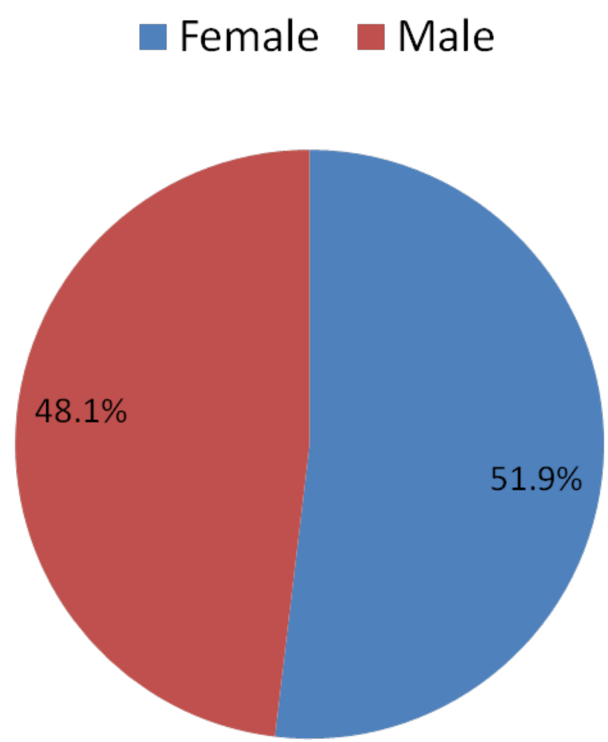
[1] Closed accounts are primarily due to people being incorrectly enrolled or being ineligible for enrolment, or a provider initiated closure, for example due to the death of a member.

KiwiSaver statistics, November 2010

Demographics of KiwiSaver members



Gender of KiwiSaver members



Payments to KiwiSaver providers, 2007 to 2010

Payments to providers	2007-08	2008-2009	2009-10	2010-11
(gross)	($) million	($) million	($) million	($) million
Employee deductions	394.7	916.3	1,051.3	940.1
Employer contributions	63.5	354.7	625.5	602.5
Voluntary contributions	7.4	6.1	8.8	10.9
Total member contributions	465.6	1,277.4	1,685.6	1,553.6
Member tax credit (MTC)		321.8	572.6	662.9
Kick-start	551.5	471.5	376.1	276.0
Fee subsidy	15.4	33.9	8.8	0.0
Interest	4.9	11.7	4.6	3.2
Total crown contributions	**571.8**	**838.9**	**962.2**	**942.2**
Total payments to providers	1,037.3	2,116.2	2,647.8	2,495.7

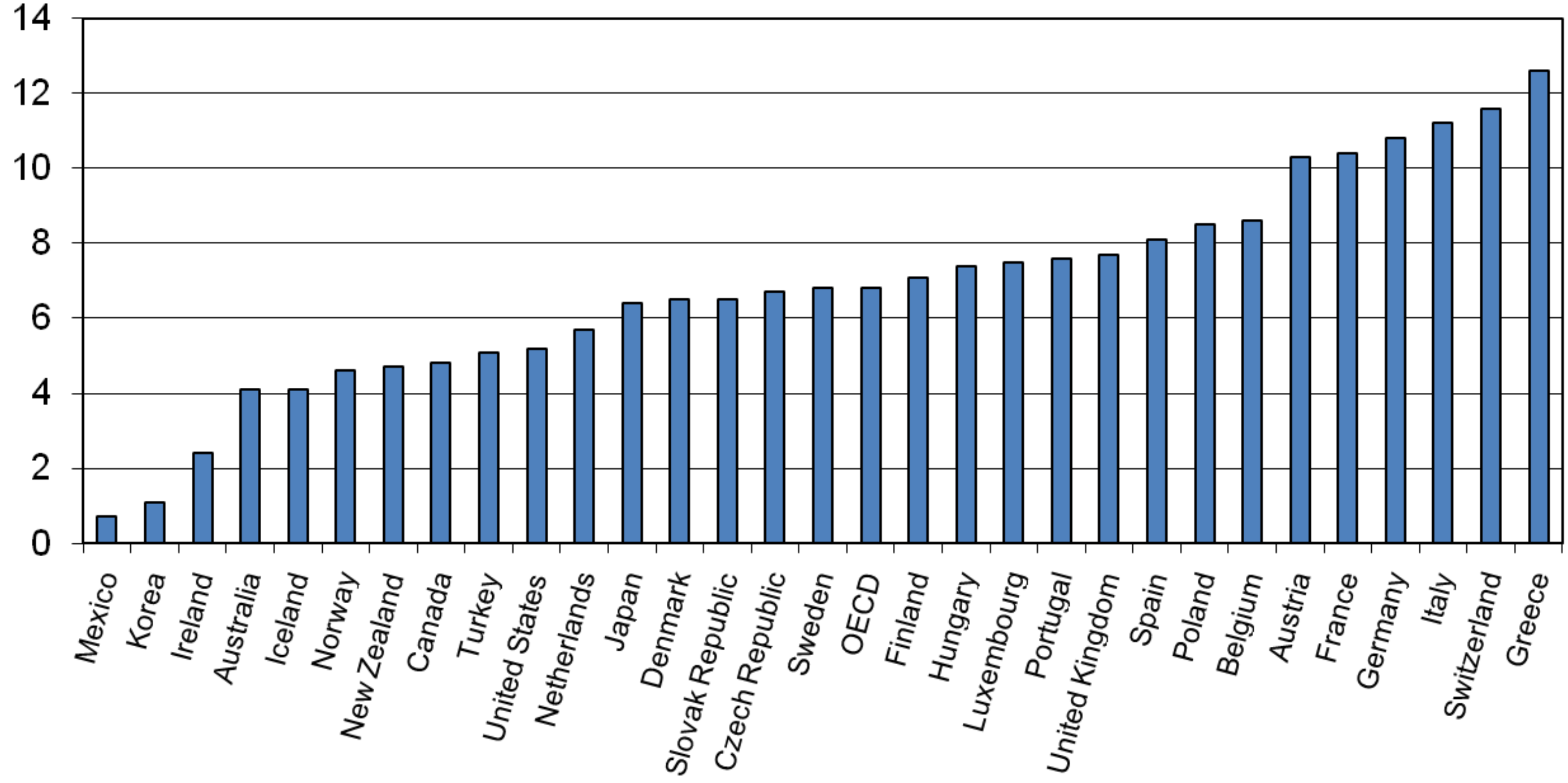
Conclusions

- The New Zealand public pension system has undergone significant changes over the past 35 years. Public pension spending has fallen by more than any other OECD country – mainly due to rise in pension eligibility age – and the effective age of retirement has increased by more than any other OECD country (4.1 years).
- The universal benefit is relatively low cost, and appears to be associated with very low poverty rates – but this success may mask some more complex challenges.
- Significant numbers of people are just above the poverty line. The average incomes of households with head aged 65 and over are relatively low, and the vast majority of lower income retired households (the bottom 50%) have nearly no other income apart from government benefits.
- Excluding KiwiSaver, pension coverage among the working age population is very low and falling. Home ownership has also fallen. Income inequality among people of working age has increased significantly.
- This raises concerns about future adequacy of retirement incomes in New Zealand.
- KiwiSaver is one way of addressing these adequacy concerns.
- So far, this seems to be developing well, but government contributions make up a significant part of the growth in KiwiSaver. Past experience with significant policy shifts following changes in government is also concerning.

Annex:
ADDITIONAL MATERIAL

Wide variation in spending on retirement pensions

% of GDP, 2005

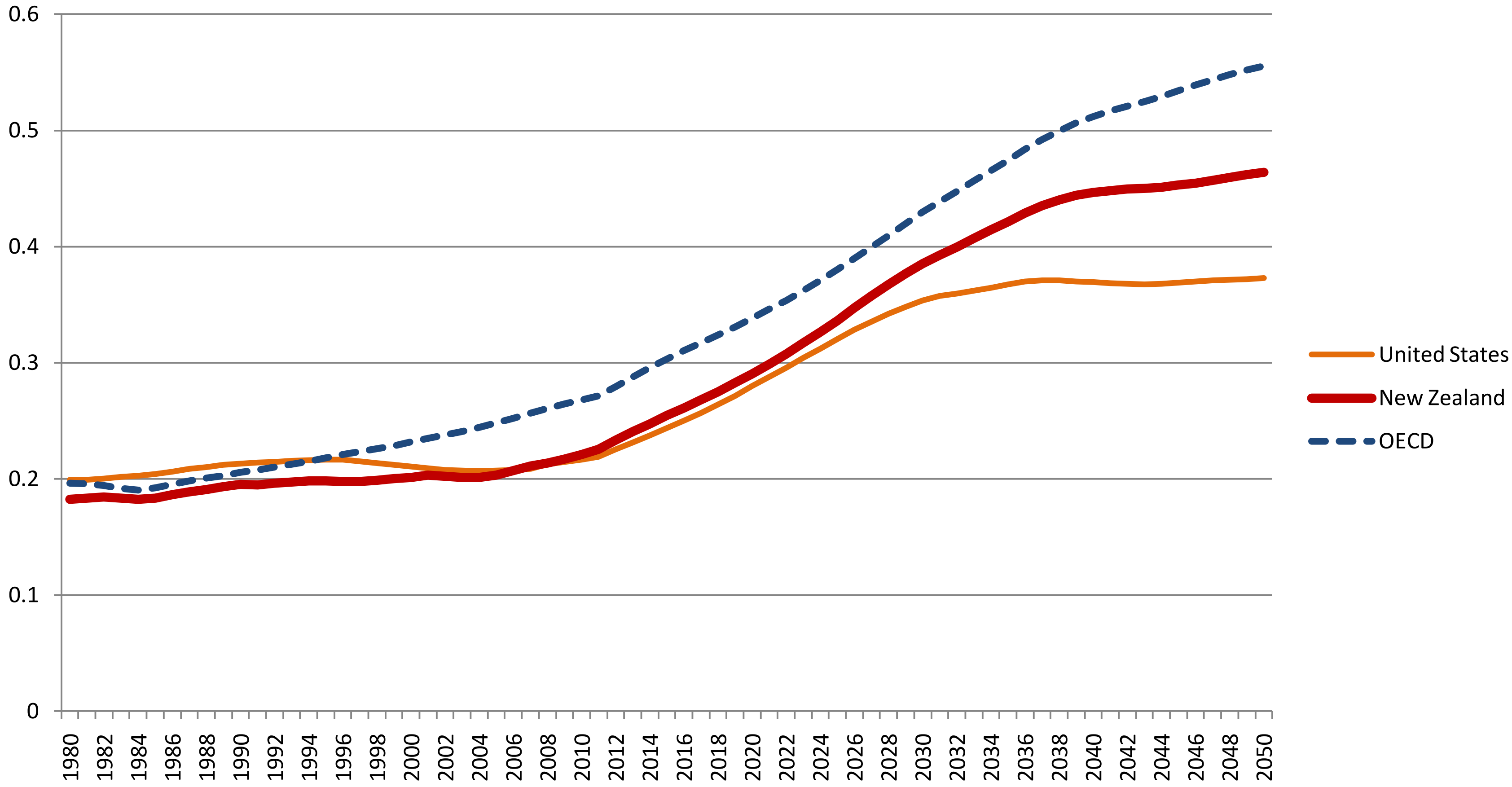


Total pension "effort" can differ from public pension spending

Country	Public % of GDP	Private % of GDP	Total % of GDP	Direct tax (%)	Indirect tax (%)	Tax expenditures % of GDP	Civil Servant pensions
Australia	3.2	3.0	6.2	0.03	9.8	1.8	0.5 *
Austria	12.4	0.6	13.0	17.0	16.2	0.1	3.3**
Denmark	5.3	2.2	7.5	27.2	25.7	..	1.2*
Japan	7.0	3.1	10.1	0.01	6.4	0.6	1.0 *
New Zealand	4.4	..	4.4	16.0	14.3	..	..
UK	5.3	4.7	10.0	3.3	13.7	1.0	2.1 *
USA	5.4	3.8	9.2	3.6	4.3	1.2	0.9 **
* Counted in private spending; ** counted in public spending.							

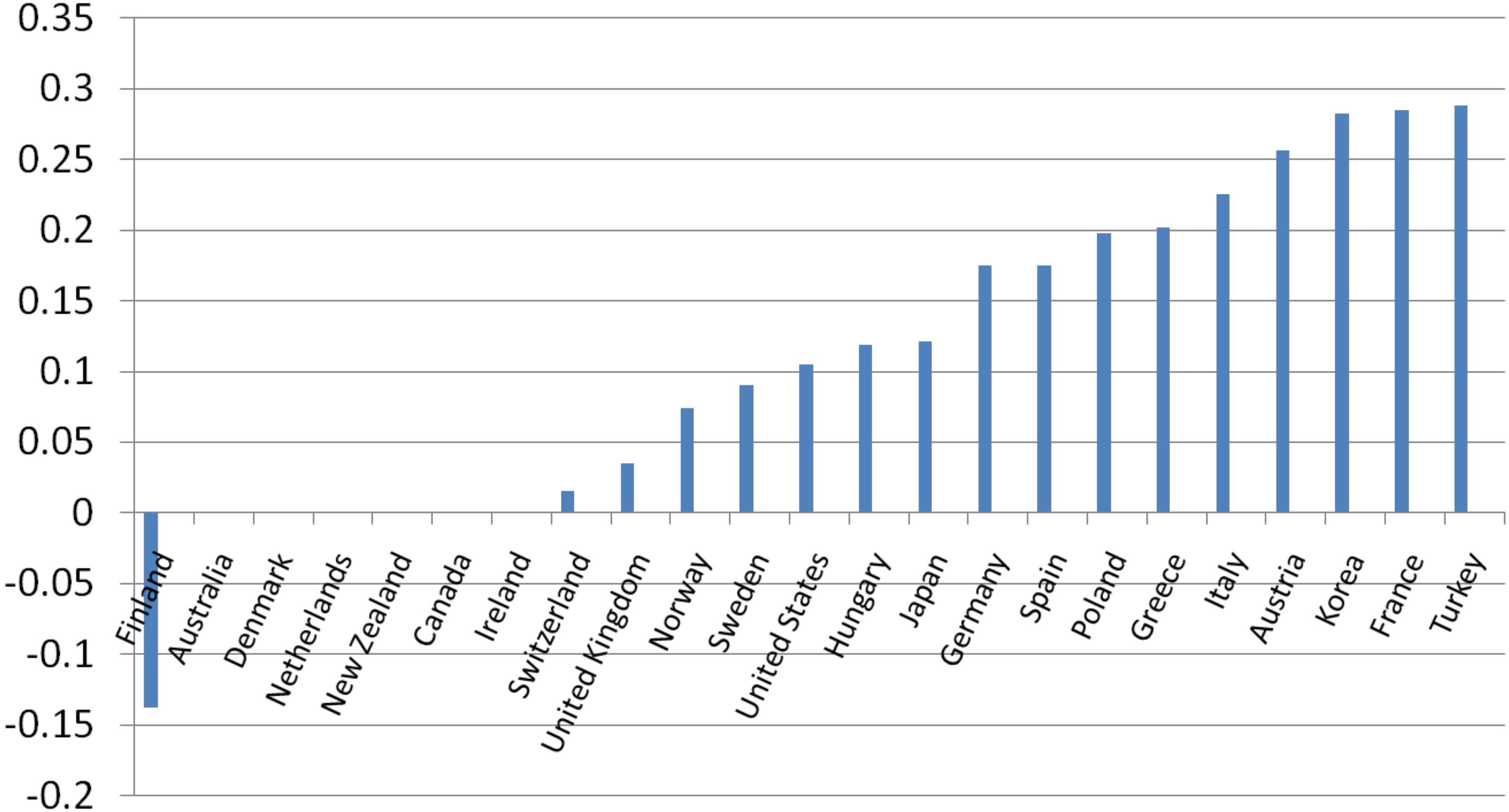
Dependency ratios are projected to increase from around 2011

Population 65 and over to population of working age, 1980 to 2050



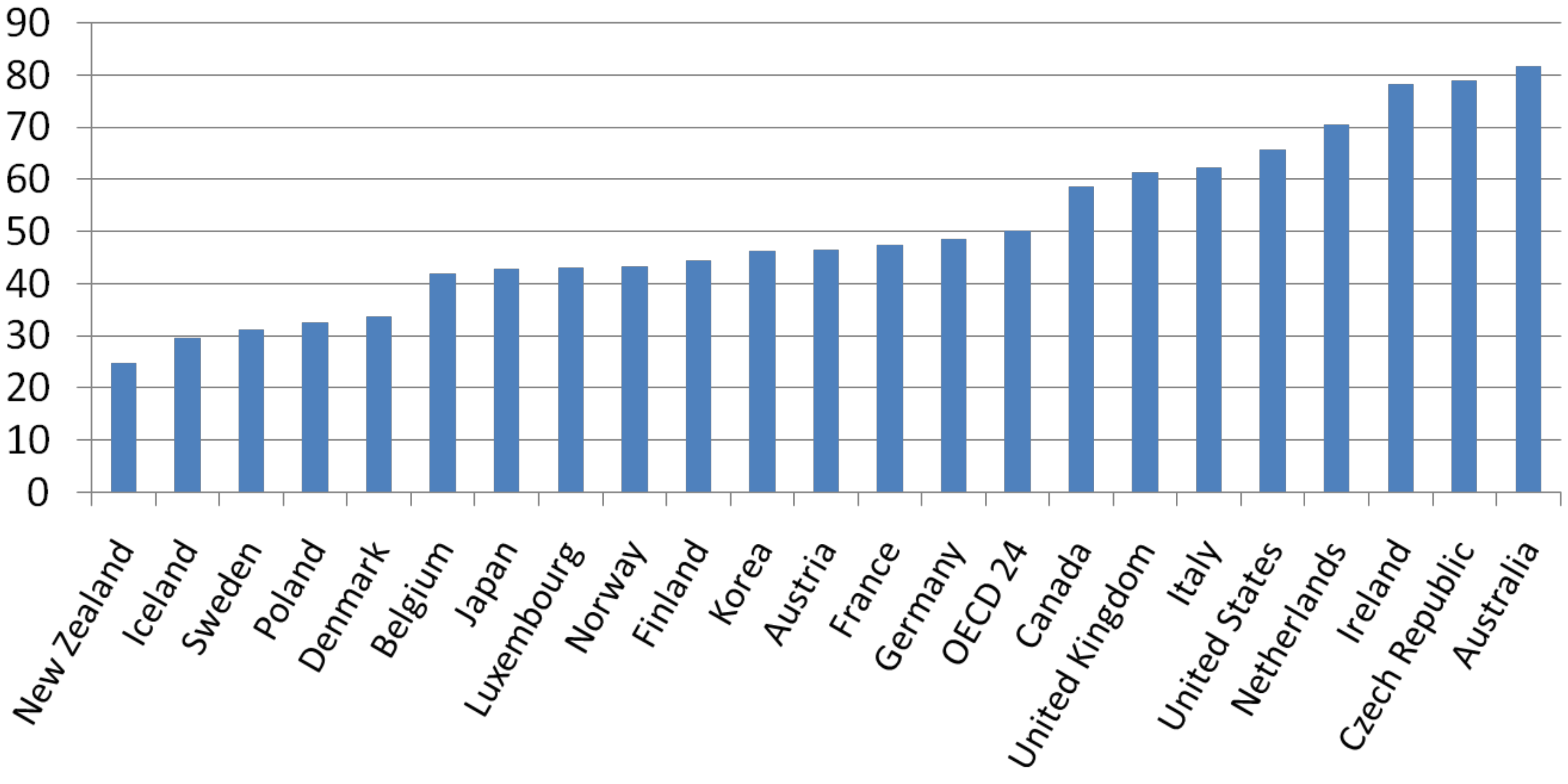
The progressivity of public pensions varies widely

Concentration coefficients, benefits for retirement age households, 2005



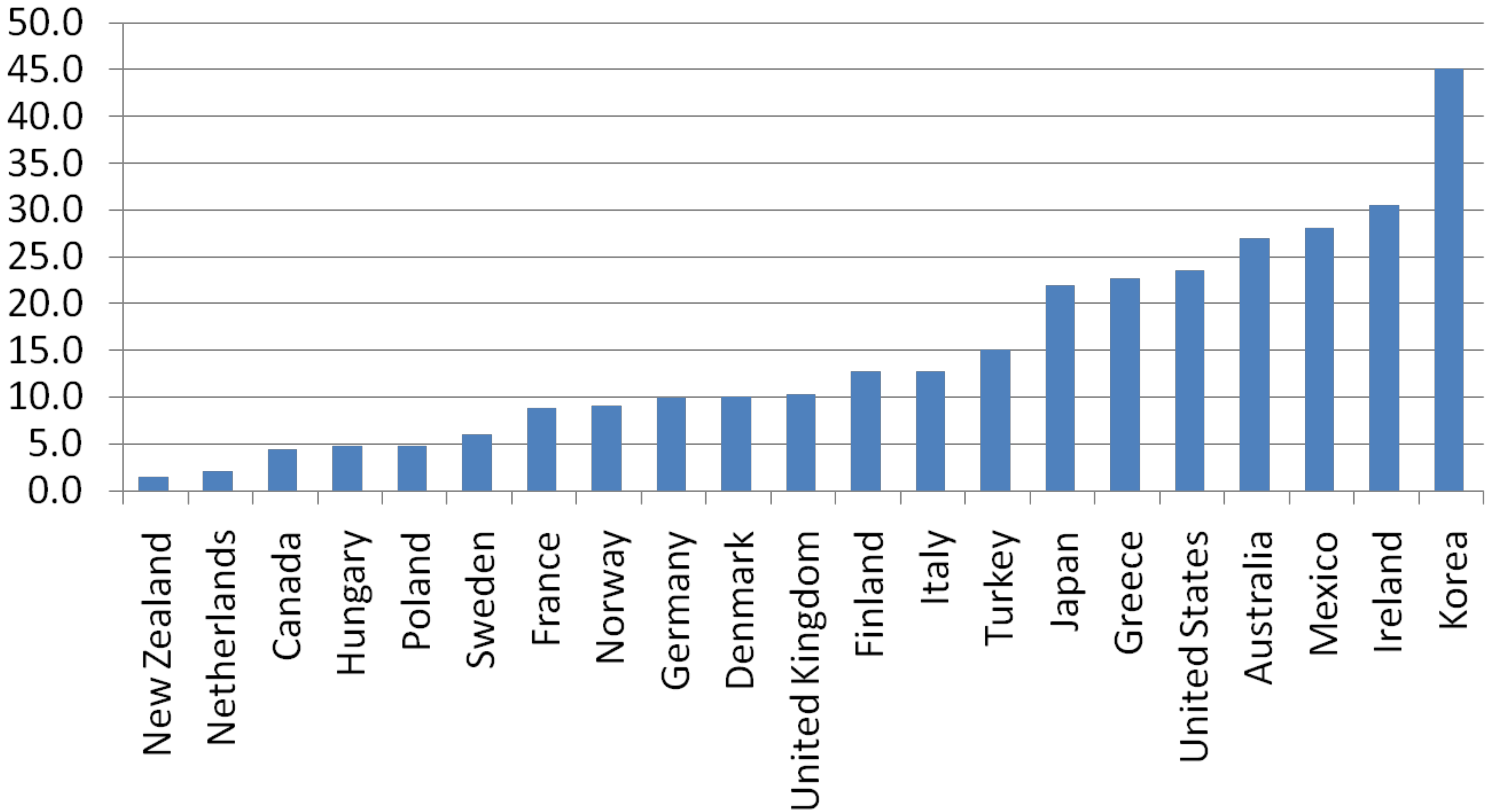
Australia has the most progressive direct taxes on pensioner households in the OECD – New Zealand, the least progressive

Concentration coefficient of direct taxes for retirement age households, 2005



New Zealand has the lowest poverty rates among the elderly of any OECD country

% of people over 65 years with incomes less than half median equivalised income, 2005



Gender poverty gaps

Difference in poverty rates for men and women by age