Submission

By

BusinessNZ

To the

Finance and Expenditure Committee

On the

KiwiSaver Bill

28 April 2006

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KIWISAVER BILL
SUBMISSION BY BUSINESS NEW ZEALAND[1]
28 APRIL 2006

1. INTRODUCTION

1.1 Ensuring that appropriate retirement/savings policies are in place is recognised almost universally as being one of the key issues for New Zealand to monitor as the economy comes under increasing pressure from an ageing population. In addition, the ability for New Zealanders to save (either as part of general or retirement savings) provides various benefits, ranging from feelings of security for the individual, through to lifting the burden of government to provide for its citizens now and in the future.

1.2 The best way to provide New Zealanders with certainty for retirement and savings in general is to build confidence in the security of their investments, and its returns. This requires policies to be built on a sound conceptual framework that can generate informed and objective debate and result in policies that can withstand intense public and political scrutiny.

1.3 Business New Zealand welcomes the opportunity to comment on the KiwiSaver Bill (referred to as 'the Bill') that the Government has introduced. We have previously submitted on discussion documents that have led to the Bill being introduced, including two submissions in response to work by the Savings Product Working Group (SPWG) was commissioned to examine.

1.4 The Bill recognises that KiwiSaver has implications for five broad groups; one of them being employers. While our submission will touch on all five groups, it is the role of employers and the effect the scheme could have on them that we wish to examine more closely in this submission.

1.5 This submission is broken up into two parts. The first part takes a broad approach to examining the issue of savings, and whether KiwiSaver is in the best interests of New Zealanders in terms of savings and financial choices. The second part of the submission deals with more technical aspects of the Bill.

2. SUMMARY OF RECOMMENDATIONS

2.1 Overall, Business New Zealand makes the following **recommendations** that:

(a) **The Bill should not proceed until further sound and objective research is conducted which overwhelmingly concludes that the KiwiSaver scheme is warranted;**

(b) **The Government seriously considers future emphasis on financial literacy programmes for workers that the Retirement Commission is currently undertaking, including any necessary increase in funding given the apparently poor understanding of New Zealanders of the need to save for retirement;**

[1] Background information on Business New Zealand is attached as Appendix 1.

Without prejudice to the above recommendations, if the KiwiSaver Bill does proceed, Business New Zealand **recommends** that:

(c) **The information pack provided to employees provides information on the legal role and responsibilities of employers;**

(d) **The information pack includes balanced and unbiased information on whether KiwiSaver is the preferable way in which people can save;**

(e) **The option available to employers to pick a default scheme for their employees is withdrawn;**

(f) **IRD provide instructions to employers that the information provided by employees (no matter how complete) is passed on to IRD; and that it is not the responsibility or role of the employer to query or follow up on any information that the employee has purposely not included.**

(g) **No future consideration is given to compulsory contributions by employees;**

(h) **No future consideration is given to compulsory employer contributions;**

(i) **The Government establish a dedicated website and 0800 call centre number for the KiwiSaver scheme;**

(j) **The definition of financial hardship be set as low as is fiscally prudent;**

(k) **Employees are given the choice of obtaining a refund during the opt-out extension process; and**

(l) **Sub-clause (1)(a)(ii) of Clause 11 is amended so that automatic deduction of contributions does not occur for subsequent jobs within the 77-day notice period for a person's first job if a person has not yet chosen to enroll by way of their first job.**

PART ONE: BROAD ISSUES RELATING TO SAVINGS AND KIWISAVER IN NEW ZEALAND

3. BUSINESS NEW ZEALAND'S PRINCIPLE POSITION WITH KIWISAVER

3.1 The Bill states that the purpose of KiwiSaver is to *"encourage a long-term savings habit and asset accumulation by individuals who are not currently saving enough, with the aim of increasing individuals' well-being and financial independence, particularly in retirement'*. This is certainly a laudable purpose statement and there are many parts of that Business New Zealand agrees with.

3.2 Ideally, most people should take steps to save, either through debt reduction or the accumulation of assets that produce income streams. In most cases, those who work are in the best position to set aside a sufficient level of income for saving, either for short or long term objectives. A long-term savings habit provides security through alleviating times of adversity, opportunities through the ability to purchase wide-ranging assets, and responsibilities for people in terms of financial education.

3.3 Business New Zealand has taken the consistent view towards a generic work based superannuation scheme that is based on two caveats. We are supportive of the Government introducing a work based savings regime that would become available to all workers, provided it is <u>warranted</u> and would not place <u>heavy compliance costs</u> on employers. As discussed in more detail below, we believe the later has been answered to a certain extent by consultation work by the Inland Revenue Department (IRD). However, we believe the issue of whether the scheme is warranted is still extremely questionable.

4. RESEARCH INTO SAVINGS IN NEW ZEALAND

4.1 For a scheme that has the strong potential to affect literally hundreds of thousands of New Zealanders, Business New Zealand is concerned that the introduction of the scheme has not been based on more substantial evidence that the scheme is actually warranted.

4.2 Business New Zealand submitted on the SPWG report in 2005. The submission raised questions whether the scheme was warranted, as there had been a lack of in-depth research into the issue of savings by New Zealanders and requirements for the future. We understand other submitters also raised similar concerns. However, as far as we can ascertain these questions have still not been answered, or at most only glanced at by mentioning selected pieces of research. Overall, the opportunity for submitters to "discuss" the need for KiwiSaver with the Government has been poor.

4.3 We noted in our submission on the SPWG report that earlier work by Skilling *et al.* was briefly discussed, but there was no mention of research that might run contrary to the generic scheme proposed in the report that would provide some form of argument on both sides from which a conclusion could be drawn. One notable exception to the common view that lower savings is causing problems is the research paper[2] by Scobie, Gibson and Le that looked specifically at whether New Zealanders were adequately preparing for retirement in terms of saving: The conservative assumptions by Scobie *et al.* led to tentative evidence that suggested that there might not be widespread under-saving for retirement as some had concluded, including those aged under 35. Furthermore, the paper found that for many New Zealanders who are on low incomes and cannot save for retirement, the amount they would receive from New Zealand superannuation would largely be no different from their existing wages. Therefore, they do not feel the 'pinch' of lost income once they retire. Although their findings in no way implied that every individual was saving adequately, their results were consistent with overseas findings, and we believe was a valuable contribution to the case of casting doubt on the need for a recommended generic scheme such as KiwiSaver.

4.4 Limits to any real discussion about the actual need for KiwiSaver to be implemented also runs through to the Regulatory Impact Statement (RIS) of the Bill, the quality of which Business New Zealand seriously questions. The RIS discusses results of an Australian survey into attitudes for saving, work by the Retirement Commission in 1996 and an AMP survey in 2002. However, any mention of domestic research that may run contrary to the need for a scheme or overseas evidence of potential pitfalls when introducing a generic work based scheme is not discussed, nor is any discussion given to the need for such research to be undertaken.

4.5 Furthermore, the housing element is only briefly touched upon by stating that New Zealand's home ownership has fallen from 74% in 1991 to 68% in 2001, yet there is no attempt to discuss what the reason(s) might be for that, apart from a reference that it may make it harder for some New Zealanders to maintain their living standards in retirement. Taking a more broad analysis of the figures shows home ownership rates have been very consistent for half a century, while drawing conclusions from just examining the headline figures masks any explanation where rise and falls may not actually relate to people finding it increasingly difficult to own their own home.

4.6 It is also interesting to compare the rationale of the first home subsidy element of KiwiSaver with recent work by the Treasury regarding the affordability of housing[3]. Currently, the Bill states that after three years of saving, first home buyers will be able to make a withdrawal for a deposit. They will also be eligible for a subsidy of $1,000 for each year they have saved, up to a maximum of $5,000.

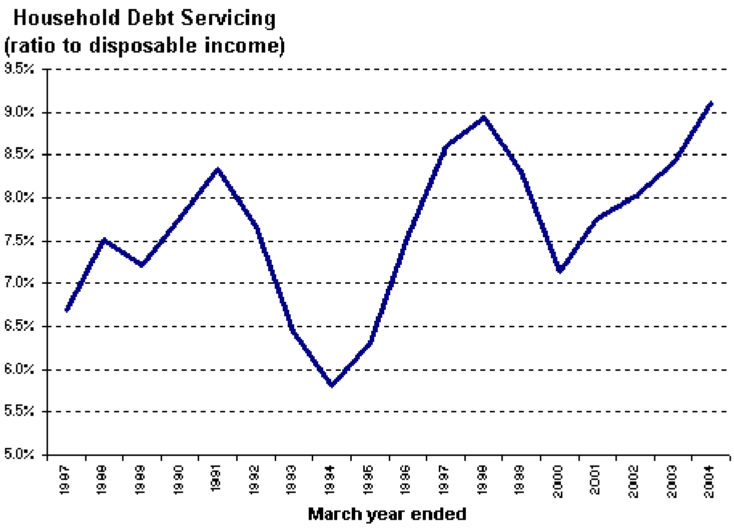
4.7 The recent Treasury paper that examined the affordability of housing noted quite extensively that there was no single measure of affordability that provided enough information, and that a basket of measures was required to consider the complete picture of affordability of housing trends. However, the paper did find that housing affordability largely followed a cyclical pattern, and that low-income households fared better than all-households when comparing current affordability situations relative to the recent past. The paper also

[2] *Saving for Retirement: New Evidence for New Zealand,* New Zealand Treasury Working Paper.
[3] *Affordability of Housing: Concepts, Measurement and Evidence*, New Zealand Treasury Working Paper 06/03.

stated that the prospective home-owners are currently enduring an unaffordability bubble, which may continue, stabilise or burst. However, the recent deterioration in affordability is not abnormal compared with the past. Therefore, a key question should be whether a universal subsidy element of KiwiSaver is a strong response to an issue that does not appear to be sustained but rather as part of a cyclical pattern. Overall, the paper by Treasury represents steps in a process the Government should have taken in the first place when determining whether KiwiSaver was warranted.

4.8 The Government has also previously expressed concern about the amount of debt New Zealand households are taking on, thus potentially reducing scope for retirement savings (or indeed savings in general). However, as graph one shows, examining the cost of debt and the relationship with income over the last 17 years show no extreme outcome during recent years. Instead, it is at the higher end of a cyclical pattern that has developed, which would indicate a lower figure sometime in the near future if past history is taken into account.

Graph One[4]



4.9 Lastly, the RIS mentions the falling number of employer-sponsored registered superannuation schemes in New Zealand. However, there is no attempt to mention of increasing numbers of retail superannuation schemes. The number of people in such schemes has increased from 236,062 in 1990, to 373,069 in 2005 - an increase of 58%. While this does not place New Zealand as one of the better performing countries regarding private pension schemes in comparison with other OECD countries[5], it does show a sizeable improvement given the voluntary nature of such schemes.

4.10 Overall, there have been too many questions left unanswered during the process leading to the design of KiwiSaver. Business New Zealand would be strongly supportive of further research undertaken into the need for any generic employer based superannuation scheme to be implemented, so that it is based on credible and robust foundations. This research could be

[4] Time to Raise Taxes, Gareth Morgan, November 2005.
[5] Private Provision for Retirement, Retirement Commission, October 2003.

undertaken either through one or more of the Government departments or by commission to a private economic institution or university.

5. FINANCIAL LITERACY EDUCATION AND KIWISAVER

5.1 Business New Zealand believes the larger picture of effective money management by individuals needs to be taken into account, as the focus of savings should not be totally concentrated on retirement savings/superannuation. It is axiomatic that the stages of life individuals determine then money management priorities, such as saving for education or debt reduction. We believe the Government must play a vital role in supporting the development and promotion of an education campaign targeted at all New Zealanders to improve their overall level of wealth.

5.2 Business New Zealand strongly supports further resources being put into savings education schemes that apply to all people, even for those before they enter the workforce, i.e. primary and secondary school teaching of simple budgeting and saving.

5.3 Business New Zealand is pleased to see that the Retirement Commission has recently been given funding for a financial literacy scheme that is aimed at teaching workers topics such as money management and savings. The rollout of such a scheme in the near future is especially important considering the choices people have to weigh up if KiwiSaver is implemented in April next year.

5.4 However, we note that the cost of the KiwiSaver scheme over the first five years is estimated to be $700 million, whereas the Retirement Commission has only received $5.56 million for an extensive financial literacy scheme for workers over three years. We believe that a far more substantial "bang for bucks" is more likely to come through education and information on savings and money management, rather than through a hastily introduced retirement savings scheme. Business New Zealand would like to see the Government seriously consider an increase in the funding level for the Retirement Commission regarding their financial literacy programme for workers.

Recommendation: That the Government seriously considers future emphasis on financial literacy programmes for workers that the Retirement Commission is currently undertaking, including any necessary increase in funding given the apparently poor understanding of New Zealanders of the need to save for retirement.

6. KIWISAVER AND THE NEW ZEALAND SUPERANNUATION FUND

6.1 The commentary on the Bill states that KiwiSaver is designed to compliment the New Zealand Superannuation fund, so that those who wish to have more than a basic standard of living in retirement can do so. The Bill also states that the intended legislation increases the focus on encouraging a change in the savings behaviour of individuals. However, Business New Zealand believes the implementation of a generic workplace scheme may end up with some perverse outcomes if ongoing research finds that the KiwiSaver scheme is not warranted and/or does not compliment actions to further the financial literacy of the workforce.

6.2 There is certainly the potential for KiwiSaver to displace other forms of savings. This type of behaviour is similar to the moral hazard argument, where the individual, once insured against some contingency, behaves so as to make that contingency more likely. Therefore, people believe that because they have part of their income (no matter what minimal amounts) going into their KiwiSaver scheme, they believe other forms of saving are not required. At the very least there can be a neutral effect as one form of saving displaces another form of saving, such as general savings in a bank account.

6.3 International comparisons of superannuation schemes, though sometimes difficult to compare, can shed some light on what effects a similar scheme would have in New Zealand, especially the link between compulsory superannuation contributions and increasing the national savings rate. Our closest economic neighbours – Australia – have run a work based superannuation scheme since 1992. The scheme is compulsory, and currently requires workers to devote 9% of the salary into it (up from 3% pre 2002). However, even the Reserve Bank of Australia[6] has concluded that after 12 years there is no obvious increase in national saving due to substitution effects between voluntary and forced saving.

7. POSSIBLE EFFECTS ON EXISTING EMPLOYER SUPERANNUATION SCHEMES

7.1 The introduction of KiwiSaver means employers who have existing schemes need to review what future action they take, whether it is converting to KiwiSaver, existing alongside it or applying for an exemption from having to have new employees requiring to opt out.

7.2 The option of employers applying for an exemption from the automatic enrolment requirements if they have an existing registered superannuation scheme needs to meet certain criteria. These include:

- A scheme that is available for all workers (including those working part-time)
- Being portable so that the balance can be transferred to other schemes
- Comprising a minimum employee contribution combined with the maximum employer contribution of at least 4%; and
- Employer contributions vested in the employees within five years of joining the scheme.

The employer must also apply with the suitable information to the Government Actuary for the exemption. Whether many employers with existing employer superannuation schemes will go through the process of becoming exempt is debatable. For those employers who have a long established scheme and who are committed to their scheme may apply, but for others KiwiSaver will probably become the dominant player within their business.

[6] *Still 'Saving the Nation' Twelve Years On?*, Nick Coates, 2005.

7.3 On balance one would assume there is the strong possibility that the effect on existing employer superannuation schemes is likely to be negative, with every possibility that the pace in which employer schemes have closed over recent years will quicken. Given that employers contributions to such schemes often can and do exceed the contributions rates proposed, loss of these schemes could mean a net potential loss to employees as well.

8. LINK WITH OTHER CHANGES TO TAX AND SAVINGS ISSUES

8.1 We note that the proposed introduction date of KiwiSaver of 1 April 2007 is also the date in which other legislative and regulatory changes in tax and savings comes about. Business New Zealand has submitted on both the issues of taxation of investment income and salary sacrifice, with comments and recommendations similar to other submitters whereby we believe the proposed recommendations would not be the best step forward.

8.2 It appears that in the case of KiwiSaver and the taxation of investment income issues in particular, the consultation process in terms of the key elements for the introduction of the Bills seems to have been rushed. We note above that the key questions regarding whether KiwiSaver is warranted have yet to be answered, while the issue of taxation of investment income that is strongly linked to KiwiSaver has gone through a revised recommendation process due to the strong adverse reaction of submitters. However, these revised recommendations for taxation of investment income are considered by many key interest groups not to be much better, and concerns amongst those in the industry remain.

8.3 Overall, the process for issues that have major future implications for savings and taxation in New Zealand appear rushed and provide little time for those who will be directly affected by the changes (especially employers and providers) to fully prepare themselves for the changes outlined.

9. ROLE OF PROVIDERS

9.1 Although the RIS states that the financial sector will benefit from increased demand for its product if KiwiSaver increases the numbers of people saving or aggregate savings, the change in the structure of the financial sector due to KiwiSaver is potentially a serious issue. Those in the financial services industry have indicated to Business New Zealand that they will have trouble implementing the scheme by the April 2007 deadline.

9.2 As mentioned above, changes to Qualifying Collective Investment Vehicles through the taxation of investment income issue also need to be implemented by April 2007. This means there is considerable burden placed on providers to implement all the changes necessary, as tax implications and changes to processes need to be clearly understood.

9.3 We note that the Ministry for Economic Development has issued a document for those who may wish to seek Registrations of Interest (ROI) for the provision of default KiwiSaver schemes. However, those interested were given a very small window of opportunity to do so, with the relevant document issued on the 24th of March and closed on the 7th of April. At this stage, the subsequent Request for Proposal (RFP) process looks like being released in late April, and the close off date of mid June (roughly a two-week period). Although providers who have not registered an interest will still be able to submit a response to the RFP by electronic means, the process typifies the unrealistic timeline in which to implement the KiwiSaver scheme.

9.4 Of further concern is the statement in the RIS that long-term savings may become more consolidated and less competitive, primarily because non-KiwiSaver providers, particularly small and niche providers may be squeezed out of the market due to having difficulties achieving economies of scale. This typifies one of a number of perverse outcomes likely as the Government becomes involved in areas such as negotiating lower fees for default product providers, centered on one generic scheme.

9.5 While Business New Zealand is not involved in the finer points of what changes and processes are exactly required for providers, the fact that such concerns have been consistently raised by various providers (as well as the Association of Superannuation Funds) is of deep concern, and casts further doubt on the process for introducing KiwiSaver in such a short timeframe and without sufficient and open discussion of the issues.

10. PART ONE: CONCLUSION AND RECOMMENDATIONS

10.1 Overall, Business New Zealand expresses deep concern in regards to various broad aspects of KiwiSaver. We question the need for KiwiSaver given the lack of research to ascertain whether it is warranted. There is international evidence from our closest economic neighbours that such schemes often do not have the desired outcomes. There are concerns regarding the role of providers and we believe KiwiSaver is one of many taxation and savings issues that are currently being rushed through the legislative process.

10.2 Any scheme of this magnitude requires as much political consensus as possible as it needs to be operating for a lengthy period of time if it is to have any chance of being successful, thus consultation, strong evidence of it being warranted and wide public support are crucial for its success. As this currently does not appear to be the case, Business New Zealand recommends that the Bill does not proceed until further work into the issues of savings in New Zealand is carried out for the betterment of lifting the financial wealth of all New Zealanders.

Recommendation: That the Bill should not proceed until further sound and objective research is conducted which overwhelmingly concludes that the KiwiSaver scheme is warranted.

PART TWO: TECHNICAL ASPECTS OF THE KIWISAVER BILL

11. PART TWO: INTRODUCTION

11.1 Without prejudice to the above recommendation that the KiwiSaver Bill does not proceed, Business New Zealand believed it was in the best interests of both its members and indeed all employers in New Zealand that our organisation and its Regional Associations were involved in the consultation process in regards to the implementation issues with KiwiSaver. This was to ensure that if the Bill proceeded, the compliance costs on employers were minimised as much as possible.

11.2 Therefore, while we have been heavily consulted on the implementation aspects of the Bill, as well as providing recommendations on certain aspects of the Bill below, it should in no way prejudice our overall view that the Bill should not proceed until further research shows it's introduction is warranted.

12. BACKGROUND

12.1 Business New Zealand was pleased to be closely involved in the consultation process regarding the implementation design process of the KiwiSaver scheme. Given our membership base, we are able to tap into the views and experiences of a wide range of businesses.

12.2 We would like to commend IRD on the consultation process regarding the implementation issues of KiwiSaver it undertook. It is imperative that the implementation of any generic work based superannuation scheme involves the direct input and views of employers. Apart from focus groups at some of our Regional Associations, we understand IRD has also visited larger firms to gauge reactions to the development of the scheme. Overall, we are pleased to see that some concerns during the initial thinking and further along the development phase has been taken into consideration and subsequent changes made. However, it is a pity that this level of consultation was not followed when the idea of KiwiSaver was first being considered.

13. ROLE OF EMPLOYERS

13.1 The Bill requires Employers to:

- Advise IRD of a new employee's name, IRD number and address, within three weeks of that new employee starting;
- Provide all new employees with a savings information pack, supplied by IRD; and
- Make deductions of KiwiSaver contributions from the gross salary or wages paid to employee members and pay this amount along with PAYE etc to IRD.

The Bill also allows employers to choose whether or not to:

- Elect an initial "preferred" provider for their employees who do not select their own provider;
- Make voluntary employer contributions to KiwiSaver; and

- Apply to the Government Actuary for an exemption from the automatic enrolment requirements if they have an approved registered superannuation scheme.

Business New Zealand would like to discuss certain elements of the these requirements below.

14. PROVISION OF AN INFORMATION PACK

14.1 Clause 33 of the Bill outlines what a KiwiSaver information pack must contain that is supplied to employers who in turn hand them to new employees. The list includes six specific items, as well as any other prescribed information. Business New Zealand is pleased to see that the pack will not contain all the default fund investment statements as was originally intended. The pack needs to strike the right balance between being informative as well as succinct so that employees are not overburdened with information and employers are not repeatedly asked to clarify the information contained in them.

14.2 However, the list of contents does not explicitly include details of the role of employers towards their employees, which in our view should be included. We note that there is a question and answer section regarding KiwiSaver in the Treasury's website examining the role of the employer (question eighteen[7]). Business New Zealand believes it is important that the Bill explicitly states that the pack includes a list of the responsibilities of the employer that is handed to the employee as part of the information pack for transparency purposes. For example, the information pack should explain why the employer is not in a position to offer financial advice, and also what the employer must do if the employee does not notify that he/she wishes to opt out.

Recommendation: That the information pack provided to employees provides information on the legal role and responsibilities of employers.

14.3 As stated in the first part of this submission, people will need to examine their overall financial situation to determine whether KiwiSaver is the best option for them. Repayment of debt is a prime example of an alternative way to save, as it has both financial as well as emotive benefits of reduced concerns whether debt can be paid if income streams stop. Also discussed previously is the fact that the Retirement Commission will be running a financial literacy campaign for workers to inform them of the best choice they should make for themselves (such as whether joining KiwiSaver is the best financial decision for them at that point in time). Because of the case-by-case basis in which KiwiSaver might or might not be preferable, Business New Zealand would want to see balanced information (perhaps through the use of hypothetical examples) about KiwiSaver in the information pack that examines whether KiwiSaver is or is not appropriate for a worker to contribute to.

[7] KiwiSaver Questions and Answers, www.treasury.govt.nz/kiwisaver/qanda.asp

Recommendation: That the information pack includes balanced and unbiased information on whether KiwiSaver is the preferable way in which people can save.

15. EMPLOYERS ELECTING A DEFAULT KIWISAVER SCHEME

15.1 When a new employee is automatically opted into the scheme but can choose to opt out, the Bill states that if an employee does not choose a scheme, then either the IRD will allocate a default scheme, or their employer may choose a preferred KiwiSaver scheme if it wishes (clause 39).

15.2 Simply put, we believe the role of employers for KiwiSaver is to provide a link between their employees and the administrators of the KiwiSaver scheme. Once an employer assumes any form of responsibility to choose which default scheme an employee enters into, then that role of effectively being a conduit has been breached. This could have negative ramifications for the employer-employee relationship, if for instance a scheme chosen as the default scheme by the employer performs poorly compared with other default schemes. Accusations towards the employer of not taking sufficient time and resources choosing a default scheme could be leveled at the employer, despite their best intentions to provide a default provider that they believe would be satisfactory.

Recommendation: That the option available to employers to pick a default KiwiSaver scheme for their employees is withdrawn.

16. DETAILS OF NEW EMPLOYEES GIVEN TO IRD

16.1 Clause 17 states that every person who starts a new job must tell an employer amongst other things their address, which under clause 18 is then passed to IRD. Furthermore, Clause 190 provides IRD with the ability to use the names and addresses to help fulfill other statutory functions, such as those relating to student loan arrears or unpaid child support.

16.2 However, some of our members have expressed feedback that there may be instances whereby employees (for whatever reason) do not want their current home address to be given to IRD. IRD have subsequently informed Business New Zealand that the address does not need to be their home address – it can be any address, including a PO Box number or indeed the address of their employer. Business New Zealand would be concerned if there were any negative ramifications placed on employers who collected forms from their employees who refused to fill in particular parts of their form. Therefore, we would want to ensure that IRD provide instructions to employers that the information provided by employees (no matter how complete) is passed on to IRD and that it is not the responsibility or role of the employer to query or follow up on any information that the employee has not included.

Recommendation: That IRD provide instructions to employers that the information provided by employees (no matter how complete) is passed on to IRD; and that it is not the responsibility or role of the employer to query or follow up on any information that the employee has purposely not included.

17. POTENTIAL FUTURE PATHWAYS FOR KIWISAVER

17.1 The RIS assumes an uptake of around 25% of the eligible workforce by 2013/14, which if based on the mid-point working age population projections for 2013[8], equates to roughly 719,000 people. Treasury has estimated the cost would be around $700 million for the first five years of the scheme starting in 2007.

17.2 From our perspective, we believe a 25% uptake on a scheme that is not compulsory is a rather heroic assumption by the Government, even if new employees have to opt out rather than opt in. The Minister has already conceded that the 25% target is quite an ambitious estimate[9]. As we believe that the uptake will be nowhere near the 25% expected by 2013/14, Business New Zealand would be concerned if the Government decided to seriously examine particular options to improve the take-up rate.

17.3 One outcome to rectify a low take-up rate would be the possibility of further subsidies and incentives to join the scheme. This could come in the form of further subsidies to counter administrative fees charged by the fund providers, or additional incentives such as rises to the 'kick-start' contributions or first home subsidy amounts. Apart from causing a further drag on Government expenditure, it would also create further distortionary effects through making superannuation retail schemes in competition with KiwiSaver less competitive as the retail schemes would not have the luxury of such a subsidy.

17.4 Another possible outcome that we believe would have far more damaging consequences would be to make the scheme compulsory for all people in the workforce. We <u>strongly</u> agree with the Government's current view that participation should not be compulsory in any shape or form because contributing to such a scheme would not be the best financial outcome for many New Zealanders. As we have discussed at length in the first part of this submission, people often have different financial priorities at various stages in their lives, and decisions to pay off debt or save for retirement through different mechanisms may be a more important choice when people are trying to make rational economic decisions in terms of their finances.

Recommendation: That no consideration is given to compulsory contributions by employees.

17.5 One of Business New Zealand's other primary concerns with the establishment of KiwiSaver is the possibility that the Government could amend the legislation in the future whereby employers are required to make contributions to the scheme for their employees. We believe this would be a very damaging outcome for various reasons.

17.6 The cost on employers of compulsory contributions could be substantial. Currently, the average gross wage/salary for a worker is estimated at $44,500. A 4% saving of this equates to $1,780, and at 8% is $3,560. If we

[8] Population projections, Statistics New Zealand.
[9] Advisors Don't Have Role in KiwiSaver, Good Returns - 17 March 2006.

took a more conservative estimate of the possible cost on employers of compulsory contributions at say 15% of the workforce taking part in KiwiSaver (10 percentage points below the take-up rate sought by the Government) and at 4% contribution by employers, table 1 shows the total cost to employers could be around NZ$1 billion by 2013, or just over 1% of the total national wage bill.

Table 1: Estimated Cost of Compulsory Employer Contributions by 2013 on 4% Contribution Rate by Employees.

Percentage of workforce in KiwiSaver (2013)	15%
Labour force participation rate (2013 – based on current rate)	68%
Inflation rate per annum (2007-2013)	2%
Projected workforce (2013)	2,876,000
Number of people registered to KiwiSaver (2013)	719,000
KiwiSaver participants currently employed (2013)	489,000
Average wage/salary inflated adjusted (2013)	$51,200
Estimated annual cost of compulsory employer contributions at 4% gross by 2013	$1billion

17.7 We note that the notion of employer contributions has already been alluded to by the New Zealand Council of Trade Unions, stating, *"We also need to see employers' contributions to workplace superannuation schemes"*[10]. While there would be some employers who would have the ability to provide contributions (some already do through existing employer based schemes), there are many that would not, given their relative size and often-slender margins. The introduction of compulsory employer contributions would also invariably see counter–measures introduced through lower wage/salaries to compensate for the increased wage bill.

Recommendation: That no future consideration is given to compulsory employer contributions.

18. FURTHER RESOURCES FOR KIWISAVER

18.1 The commentary of the Bill states that as well as the information pack, there may be the introduction of other avenues in which information about the scheme is conveyed to employers, employees and providers, primarily through a dedicated website and/or 0800 number. Business New Zealand believes the establishment of both would be a very worthwhile for all concerned, and at the very least would provide employers with an opportunity to offer employees a way in which their questions could be answered about the scheme that employers cannot answer or are unsure of.

Recommendation: That the Government establish a dedicated website and 0800 call center number for the KiwiSaver scheme.

19. FINANCIAL HARDSHIP

[10] 'KiwiSaver Will Bring Greater Security for Workers Says CTU' – 28 February 2006.

19.1 We note that the Bill provides for those who find themselves in ‘serious financial hardship’, the opportunity to apply for a contributions holiday before the compulsory 12 months contribution when a person first signs up for the scheme. However, it appears the threshold for being classed as being in serious financial hardship may be set too high, as IRD have alluded to the fact during the consultation rounds that the current definition may not be able to be applied to anyone.

Recommendation: That the definition of financial hardship be set as low as is fiscally prudent.

19.2 As an additional point regarding the issues of financial hardship, the explanatory note discusses financial hardship, but the Bill discusses serious financial hardship. We would be grateful for clarification in the discrepancy between the two terms.

19.3 Regarding Clause 14 of the Bill, we support the concept of providing an opt-out extension after default contributions have already begun. We believe the compulsory inclusion and contribution of 12 months could be financially damaging to many employees. Often, an employee may not fully appreciate the effect of the minimum of 4% gross wages going towards a superannuation scheme, which over 12 months could add up to a considerable sum for the worker in question.

19.4 Business New Zealand would like to see the contribution employees make be allowed to be refunded during the opt-out extension process, rather than remain within the scheme. It would also serve as a goodwill measure by the scheme’s administrators.

Recommendation: That employees are given the choice of obtaining a refund during the opt-out extension process.

20. OTHER ISSUES

20.1 Business New Zealand is concerned that they may be an unintentional outcome of a sub-clause of Clause 11. Sub-clause (a) states that a person becomes liable to automatic deduction of contributions after the 77 days (11 weeks) have expired since the person started the new job (sub-clause (1)(a)(i)), and from the salary or wages paid in respect of any other new job that the employee starts after becoming subject to the automatic enrolment rules (sub-clause (1)(a)(ii)). The way sub-clause (1)(a)(ii) is currently written could mean that if an employee becomes subject to the automatic enrolment rules under Job 1, and before opting-out starts one or more other jobs the “automatic deduction of contributions” begins immediately in those other jobs, which we believe would be a perverse outcome.

Recommendation: That sub-clause (1)(a)(ii) of Clause 11 is amended so that automatic deduction of contributions does not occur for subsequent jobs within the 77-day notice period for a person’s first job if a person has not yet chosen to enroll by way of their first job.

20.2 The Business Compliance Cost Statement of the Bill points out that one of the ongoing costs for employers will be altering payroll codes when employees opt in, opt out, take contribution holidays, or change their contribution rates. During the consultation rounds with IRD, they indicated costs for changes to payroll systems would generally be minimal. However, there have been indications from discussions by our Regional Associations with payroll companies as well as others in the workplace superannuation market that changes and associated costs for many employers could be considerable, if past changes are any indication. It is also important to note that the payroll code costs are often not just associated with the actual changes required from within the Bill, but also the flow on effects it has in other areas of legislation where follow-up changes are required.

21. CONSULTATION

21.1 As an aside we do note that one of our Regional Associations; the Canterbury Employers' Chamber of Commerce (CECC) was not amongst the extensive consultation list within the commentary of the Bill. We have subsequently found out this was an accidental error, which IRD have apologised for. We believe CECC was one amongst others of our Regional Associations who have done an outstanding job in providing the IRD with employer focus groups on various occasions regarding the KiwiSaver implementation process for employers, as well as providing input from their staff, which both Business New Zealand as well as IRD have found valuable.

APPENDIX 1

BACKGROUND INFORMATION ON BUSINESS NEW ZEALAND

Encompassing four regional business organisations (Employers' & Manufacturers' Association (Northern), Employers' & Manufacturers' Association (Central), Canterbury Employers' Chamber of Commerce, and the Otago-Southland Employers' Association), Business New Zealand is New Zealand's largest business advocacy body. Together with its 57 member Affiliated Industries Group (AIG), which comprises most of New Zealand's national industry associations, Business New Zealand is able to tap into the views of over 76,000 employers and businesses, ranging from the smallest to the largest and reflecting the make-up of the New Zealand economy.

In addition to advocacy on behalf of enterprise, Business New Zealand contributes to Governmental and tripartite working parties and international bodies including the ILO, the International Organisation of Employers and the Business and Industry Advisory Council to the OECD.

Business New Zealand's key goal is the implementation of policies that would see New Zealand retain a first world national income and regain a place in the top ten of the OECD (a high comparative OECD growth ranking is the most robust indicator of a country's ability to deliver quality health, education, superannuation and other social services). An increase in GDP of at least 4% per capita per year is required to achieve this goal in the medium term.

The health of the economy also determines the ability of a nation to deliver on the social and environmental outcomes desired by all. First class social services and a clean and healthy environment are possible only in prosperous, first world economies.