Submission

By

BusinessNZ

To

Savings Product Working Group

On

Final Report of the Savings Product Working Group

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PO Box 1925
Wellington
Ph: 04 496 6555
Fax: 04 496 6550

FINAL REPORT OF THE SAVINGS PRODUCT WORKING GROUP
SUBMISSION BY BUSINESS NEW ZEALAND
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1. INTRODUCTION

1.1 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 56-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.

1.2 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.

1.3 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). It is widely acknowledged that consistent, sustainable growth well in excess of 4% per capita per year would be required to achieve this goal in the medium term.

1.4 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.

1.5 Business New Zealand therefore wishes to provide some brief comments to the Savings Product Working Group (SPWG) on their final report *A Future for Work-Based Savings in New Zealand* (refereed to as 'the report'), as well as reiterate previous points made to the SPWG regarding the future of work-based savings. Ensuring that appropriate retirement income policies are in place is one of the critical issues for New Zealand as the economy comes under increasing pressure from an ageing population.

2. BUSINESS NEW ZEALAND'S PREVIOUS SUBMISSION

2.1 As stated in our submission to the SPWG before the report was released, Business New Zealand supports initiatives to improve the uptake of work-based savings schemes. However, any support for lifting work-based savings has its limits, and we would oppose moves that would significantly increase compliance costs and place an unreasonable onus on businesses without any increase in productivity. Therefore, we would not be enthusiastic about a move that took workplace savings down any type of path of compulsion, such as requiring employers to offer all their employees access to work-based schemes.

2.2 Business New Zealand accepts that an effective way to encourage work-based savings would be for employers to better facilitate savings (i.e. by giving employees an opportunity to have part of their salary invested in an externally managed fund) rather than have them develop their own company-specific schemes.

2.3 Our overwhelming concern regarding any proposed workplace savings scheme by the Government (and especially given the terms of reference for the SPWG) is the heavy burden that would be placed on the employer, which should be shared equally amongst the employer, employee and the savings industry.

2.4 Business New Zealand believes greater focus should be put towards the existing voluntary savings regime, and to investigate impediments and disincentives and how they could be satisfactorily addressed. An education campaign focused at both employers and employees regarding work-based savings is a first priority area where much proactive work could be successfully achieved.

2.5 We do not oppose a work-based savings ‘portal’ administered by the Government, but do oppose one in which is costly for employers in terms of compliance, and is compulsory until the employee decides to opt out. A scheme, which lacks a credible and robust foundation by making assumptions about employers and not encompassing all available information, is opposed.

3. SHORTCOMINGS OF THE REPORT

3.1 Business New Zealand appreciates the work done by the SPWG in trying to examine viable options for increasing the level of private savings for New Zealanders through workplace savings. Like the Government, Business New Zealand is also concerned about the decline in employment-based superannuation schemes. However, we have several concerns with the content and directions of the report in relation to workplace savings that we would like to outline.

3.2 The most important and obvious question that should be asked when a report on workplace saving is first initiated is whether the need for any proposed scheme to stem the fall in employer-based schemes is justified in the first place. Apart from a graph alluding to increasing debt levels by New Zealanders, there is a serious lack of background information and projections that underpin the need for such a scheme in the report.

3.3 In our view, the terms of reference for the SPWG are an obvious inhibitor towards the creation of a robust and well-researched report that could investigate the need and options for future workplace savings. In short the SPWG report reflects its narrowly defined terms of reference that determined that only one outcome, whatever its merits, is now on the table. The fact that the SPWG report seems to be narrowly focused and has obvious omissions that if included would provide a different picture of what future paths should be taken in regards to workplace saving provides little confidence in the conclusions of the report.

3.4 The final report seems to be selective in what New Zealand research work it includes (the overall number of research pieces it includes is also surprisingly small). Work by David 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. For instance, there was no mention or reference to recent research by Scobie, Gibson and Le[1] that looked specifically at whether New Zealanders were adequately preparing for retirement in terms of saving. One of the key reasons behind the Governments decision to involve itself with personal decisions on financial management is that savings patterns suggested younger generations will enter retirement in a significantly worse financial position than their predecessors. 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. Although their findings in no way implied that every individual was saving adequately, their results were consistent with overseas findings, and would cast some doubt on the need for the SPWGs recommended generic scheme.

3.5 Also, the report did not mention future statistical data that will soon become available from Statistics New Zealand, which would provide evidence of New Zealand's saving habits over time. Since October 2002, the Survey of Family Income and Employment (SoFIE) has been collecting information on New Zealander's circumstances and lifestyles. It is a longitudinal survey that will be run for eight years, meaning respondents are revisited yearly to build a picture of how their circumstances change over time. Nationwide, nearly 80 percent of households chosen for the survey have answered questions about their work, family and household circumstances, income, and net worth, making it the largest longitudinal survey ever conducted in New Zealand. This resource would provide a great deal of information in determining what policies may be required for any savings or superannuation initiatives.

3.6 A recent survey[2] of employers from the Employers & Manufacturers Association (Northern) found that out of 259 respondents, almost 67% preferred a much broader range of Government approved savings products that could be introduced, as opposed to those limited to just registered superannuation funds. The Singaporean system highlighted in the report mentioned that 75% of its contributions are channeled into an ordinary account, which can be contributed towards home ownership, education, approved investments etc, as well as for retirement. A voluntary savings scheme that provides workers with the ability to determine how the savings should be prioritised is important given the worker would arguably be in the strongest position to ascertain what financial decisions to make at various stages of life.

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[1] Saving for Retirement: New Evidence for New Zealand, New Zealand Treasury Working Paper, September 2004

[2] *Employers Attitudes to Work Based Savings*, EMA Northern (2004)

3.7 In terms of prioritisation of financial decisions, the report also lacks any reference to the notion of debt reduction playing a critical role in improving wealth, rather than depositing money into a workplace savings fund. New Zealand, along with other countries has seen the level of debt to income increase strongly in recent times. While debt in itself is not automatically wealth decreasing (i.e. the availability of debt through loans can provide people with the opportunity to acquire income producing assets such as a business or rental property, as well as the opportunity to increase their own human capital through gaining qualifications), debt that leads to wealth deduction should be targeted as a first priority, otherwise an individual saving for retirement will continue to be measurably worse off each year in comparison to someone who uses that same saving to reduce debt.

3.8 The report stresses the low numbers – less than a quarter of a million – that are currently involved in workplace schemes. However, Business New Zealand finds it astonishing that there is absolutely no mention of the nearly half a million who belong to private super schemes. The number of private or 'retail' schemes has increased from 236,042 in 1990, to 420,205 in 2003 - an increase of 78%. As a percentage of the working age population aged 15-64, this equates to an increase from 10.5% in 1990 to 16.1% in 2003. Or, in other words, without double-ups this means about a quarter of all adults over 20 years of age belong to some kind of super scheme. Given the voluntary nature of superannuation, this represents a reasonable and increasing level of participation that should not prompt the Government into any rash or ill-considered commitment to workplace savings schemes. The implementation of a generic savings scheme by the Government could also act as a major disincentive for private savings for retirement, which will be discussed in the next section.

3.9 The overall time period from the public release of the final report to the close date for submissions (six weeks) seems extremely rushed for a proposal which will have a significant impact on the lives of thousands of New Zealanders. Business New Zealand believes significant gaps in fundamental research should be closely examined, so that a more informed judgment could be made as to the future of workplace savings. This would allow current critical research on real household savings and its tax treatment to be taken on board and would stimulate proper debate in the interests of improved superannuation provision.

3.10 Finally, the report has an air of inevitability about it. The report reads more as a *fait accompli*, rather than a document that should provide one of several workplace savings options that could be introduced taking into account prior research and comments received from the public. Business New Zealand believes there is substantial scope for further research into other mechanisms for both workplace superannuation and saving in general before any final conclusion is made.

4. COMMENTS ON THE PROPOSED GENERIC SCHEME

4.1 While the report takes the view that the generic scheme is one option along a pathway of less to more intrusive options, the lack of any other option scheme speaks volumes in terms of what the Government wants to introduce.

4.2 In simple terms, the SPWGs proposed scheme would see all new staff automatically enrolled in a savings scheme that they could withdraw from if they choose in time. As our earlier submission clearly stated, Business New Zealand opposes any scheme that places compulsory enrolment by employers on their workers. We still believe that the generic scheme outlined still has a significant burden falling heavily on the employer.

4.3 Business New Zealand believes that employers would bear extra risk from being required to select a preferred fund manager for their employees. Even though employees would be able to change fund providers at a later date if desired, this is still an extra responsibility imposed on employers who would be in a difficult position if the selected fund failed or did not perform as well as others expected. This could easily create tension between the employer and employee, despite the employers' best intentions to select a provider that created a positive return for the employee. The EMA Northern survey found that around 81% were in favour of employees being required to select their own savings product, rather than the current proposal that employers will be required to initially choose.

4.4 The EMA Northern survey also found that given the option of mandatory work based savings, or incentives to encourage work based savings, almost 4 out of every 5 businesses who answered this question preferred an incentive approach. The report lists various 'sweeteners', in that public monies is used in some form to capture workers in the generic scheme. For example, the report mentions that the generic scheme could have the administration costs paid by the Government. Although listing a number of advantages with such a proposal, the report mentioned the main disadvantage with sweeteners was that they would discriminate against established employer schemes, and could give employers the excuse they need to wind up their schemes. Business New Zealand agrees. However, we would also argue that discrimination would also apply for all other superannuation schemes, including the retail schemes that were omitted from comment in the report. The competitive environment for superannuation provision would be distorted, disadvantaging existing schemes and conceivably putting them – and existing savers – at risk. It is very hard to see how any sweeteners that are only applied to the proposed generic scheme would not disadvantage any other scheme, whether it be an occupational or retail one.

4.5 In addition, Business New Zealand would be deeply concerned if any notion of sweeteners or incentives were applied in some form of tax incentives. While we understand any tax issues in relation to workplace superannuation schemes is beyond the scope of the report, we would oppose any moves by the Government to consider tax incentives either now or in the future if the scheme did not seem to be successful as first envisioned. We would prefer a broad-based tax cut so that all workers receive an increase in their take-home pay, which they could then decide how best to plan for the future, i.e. through additional savings or debt reduction.

4.6 In our view, we would see two future possibilities for tax incentives that the Government could try to implement. One would be tax incentives for only those who have signed up the generic scheme outlined in the report. This would lead to disadvantages for other schemes as the report alludes to. However, we would also oppose some form of superannuation industry tax incentive that would provide preferential treatment for superannuation schemes as a form of investment over others.

4.7 The report mentions that taxation of different investment vehicles is currently under a separate review (the Stobo review of the taxation of investment funds), and may include comments on its compatibility with SPWGs advice when the recommendations from that exercise are made available. Business New Zealand has mentioned in previous submissions of its support for initiatives that the Government has taken towards reversing the fall in work-based savings such as the legislative changes on prospectuses and SSCWT[3], but we would not support any initiative for industry-specific tax incentives that the Stobo review may suggest. We look forward to making comments on the findings of the Stobo review.

4.8 The report does not quantify the economic impacts of, for example, wage inflation or additional offshore investment that will result. Again, this is a fundamental element that we would expect to see in a report that ends up proposing a particular scheme to implement. There would be a variety of privately run economic agencies, not to mention certain Government departments, that could provide an independent and accurate assessment of the likely economic consequences of any workplace savings scheme administered by the Government.

4.9 Moreover, given the Governments willingness to introduce taxpayer funded employer contributions in the state sector, Business New Zealand hopes that this proposal for the private sector is not simply stage one of some larger compulsory plan, which could be recommended if the uptake isn't as strong as officials wished or if pressure is placed from other quarters that compulsion is the only step forward. Any compulsory workplace savings scheme is completely opposed by Business New Zealand.

5. SUMMARY AND CONCLUSIONS

5.1 Overall, the SPWGs final report often refers to a 'pathway' of escalating levels of intervention, and proposes whether this path should be followed and how far New Zealand should travel along this path. In our view, any notion of walking down an intervention path is fraught with danger, especially given the shortcomings of the report that have been stated above.

5.2 Business New Zealand would want to see the timeframe for the current implementation of any proposed generic proposal scrapped, and more

[3] SSCWT = Specified Superannuation Contributing Withholding Tax.

resources and time invested in looking at the role workplace superannuation plays (if any) in future moves towards savings by New Zealanders.

5.3 Business New Zealand does not support the generic scheme in its current form. The option of incentives as a way in which to retain participants could well pose a risk to other superannuation savings schemes, while we would also oppose the concept of employers being required to offer access to a work-based savings product to all of their employees. We do not view the report as a balanced document, given the omissions of research and analysis, restrictive terms of reference, and lack of future options. Given the future ramifications any workplace savings scheme policy will have on the future savings of a large proportion of New Zealanders, any firm decision on the way forward at this stage would be based on one narrowly constrained report and only six weeks of consultation.

6. RECOMMENDATION

6.1 Business New Zealand recommends that the Government receive and consider the final report of the SPWG, but initiate a further investigation into other options.