



**THE TREASURY**

Kaitohutohu Kaupapa Rawa



## **A Presentation for the Singapore Central Provident Fund**

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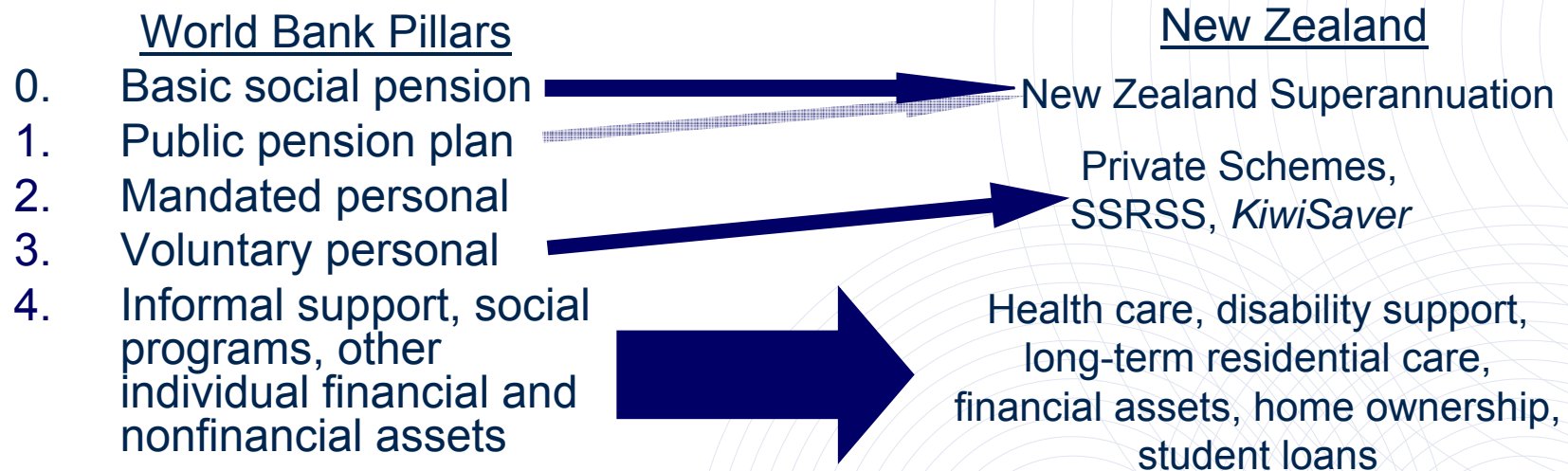
30 August 2006



# NZ has a multi-pillared retirement income framework.

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- simple and efficient
- fits World Bank prescription
- has political consensus
- has room to evolve

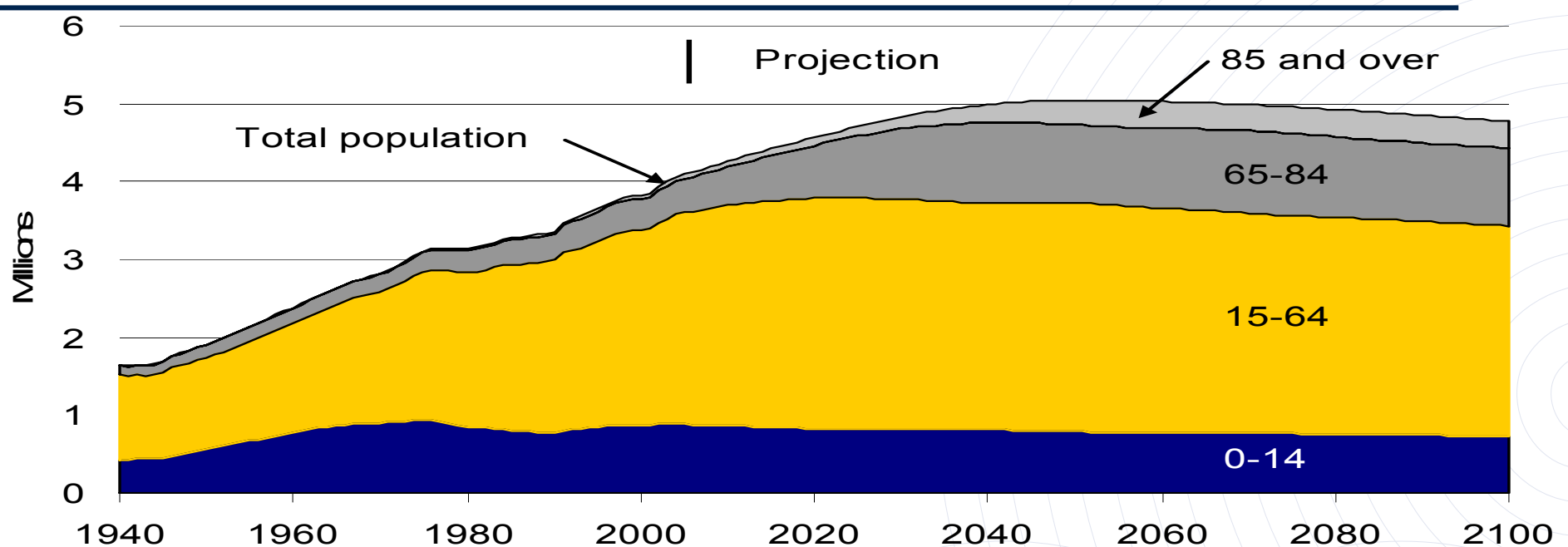


# New Zealand Superannuation provides a basic public pension.

- Universal benefit
- Paid to all residents over age 65
- A married couple receives 65% of the national average wage (32.5% each)
- Indexed annually
- No income test or means test
- Not related to past earnings history
- Not a contributory scheme

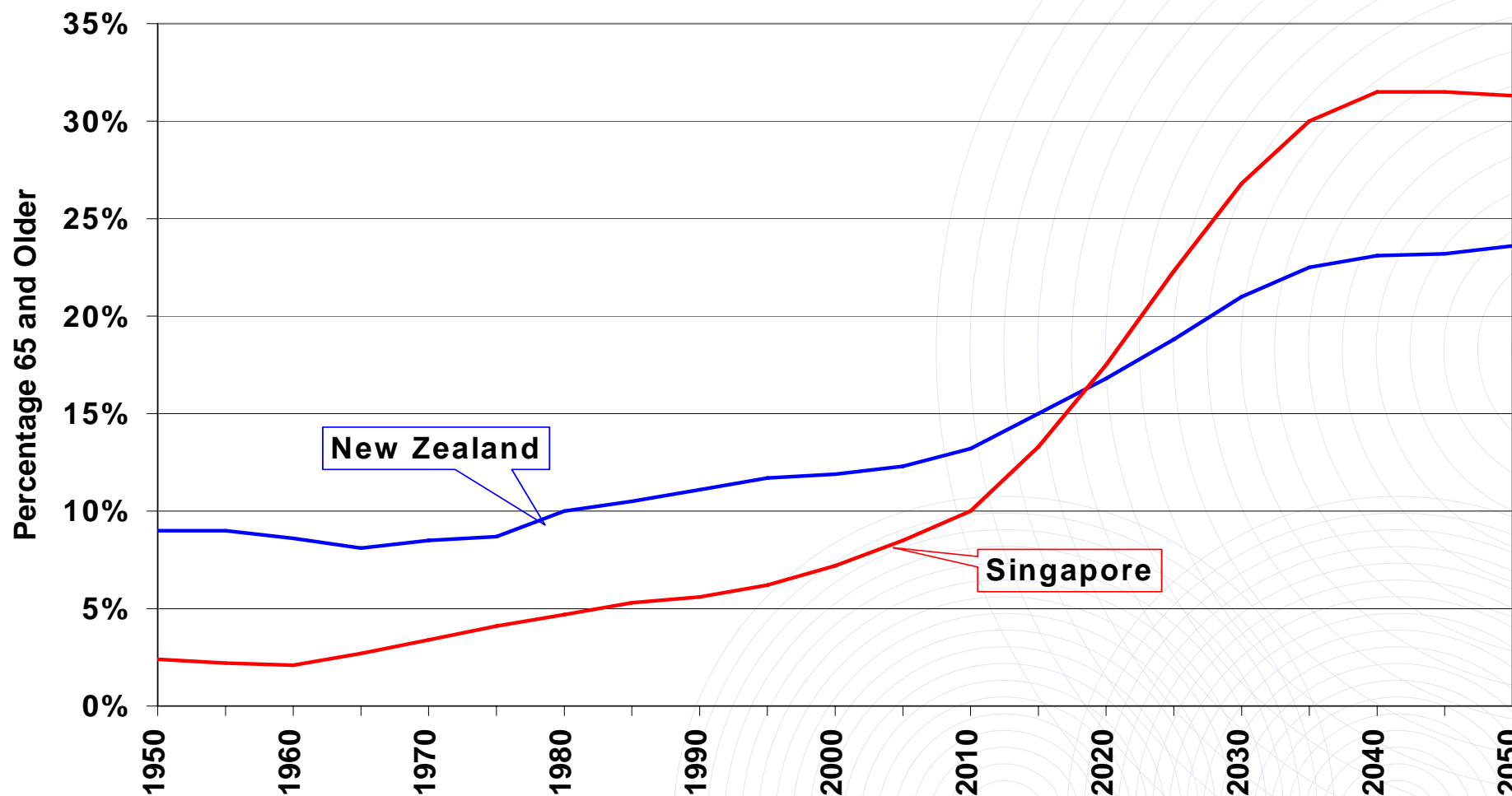
Fortnightly payments (as at 1 April 2006)	Before tax	After tax
Single, living alone	\$640	\$528
Single, living with others	\$589	\$488
Married or civil union couple (when both partners qualify)	\$486 each	\$406 each
Married or civil union couple (when only 1 partner qualifies)	\$462	\$387

# Population level and structure will change significantly over the next few decades

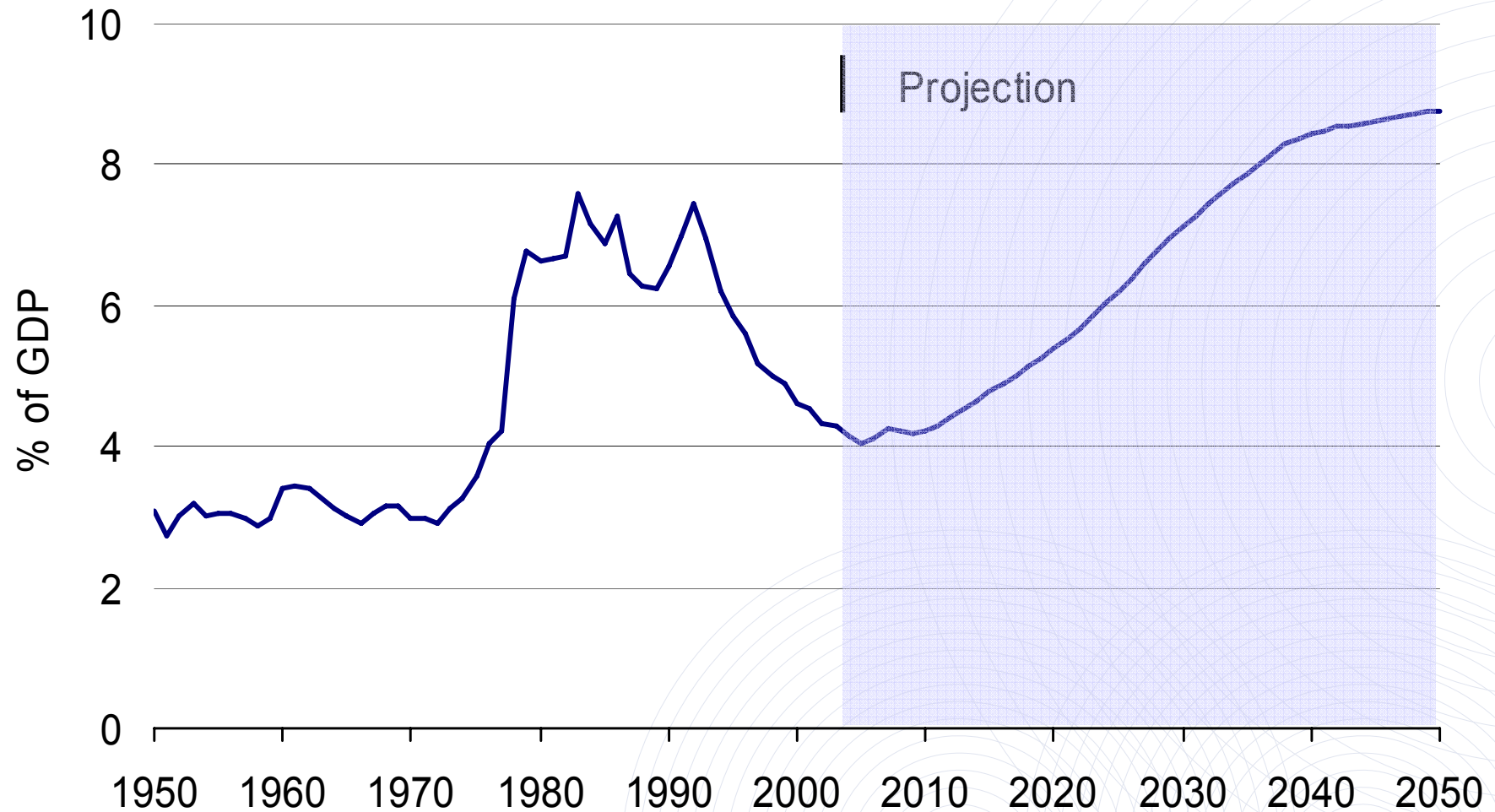


- A larger proportion of “elderly”, especially “older elderly”.
- Some “unexpected longevity” – people underestimating how long they live.
- People available for work for longer and/or longer in retirement/semi-retirement.
- There will be changing demands on Crown finances.

# Most countries will experience ageing populations over the next few decades.



# The cost of New Zealand Superannuation is set to rise significantly.

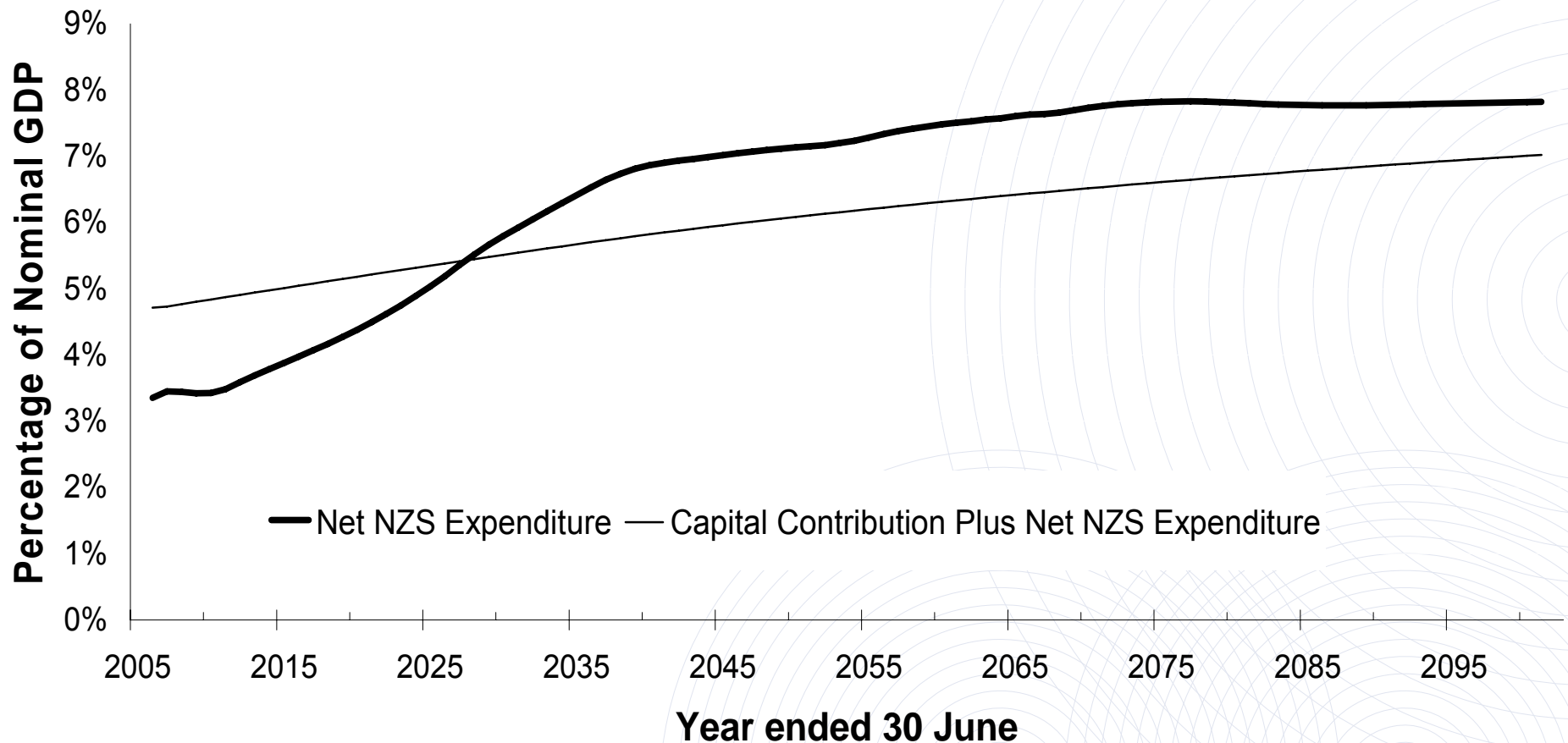


# New Zealand Superannuation Fund Policy Background

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- Seek a stronger Crown Balance Sheet to cushion the impact on Crown finances ...
- ... and Public Debt is already at relatively low levels, so ...
- ... build up a fund of Crown-owned financial assets.
- Also a diversification benefit of broadening the Crown financial portfolio across capital markets.
- But need good governance arrangements to avoid repeating the international record of poor financial performance of public funds.

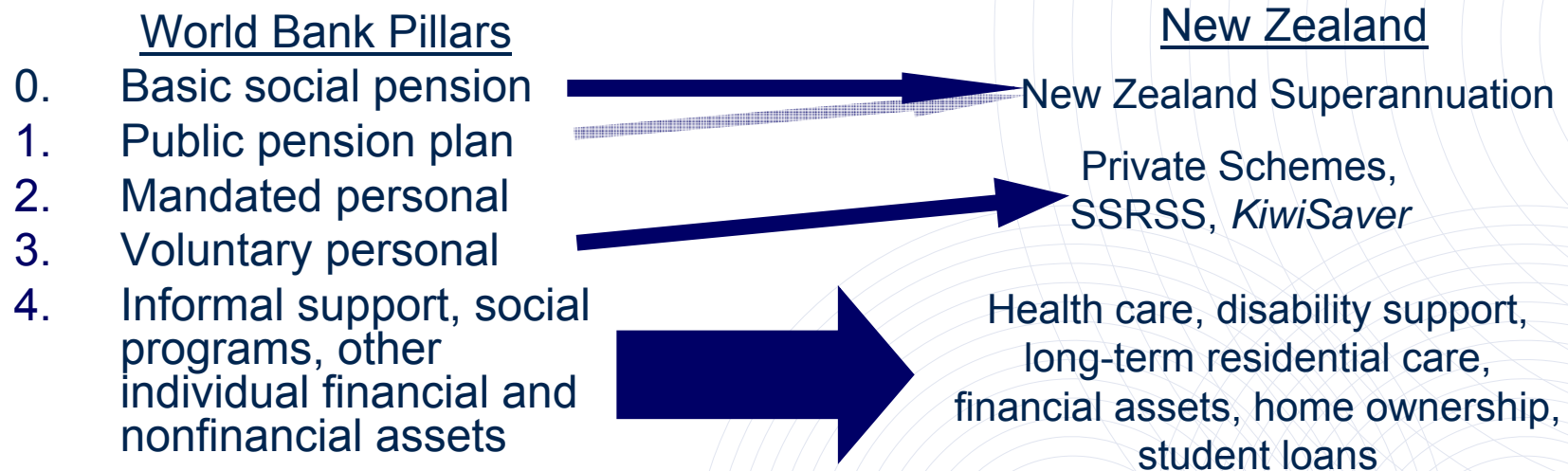
# Capital contributions to the Fund smooth over time the Budget effect of the increase in NZS.



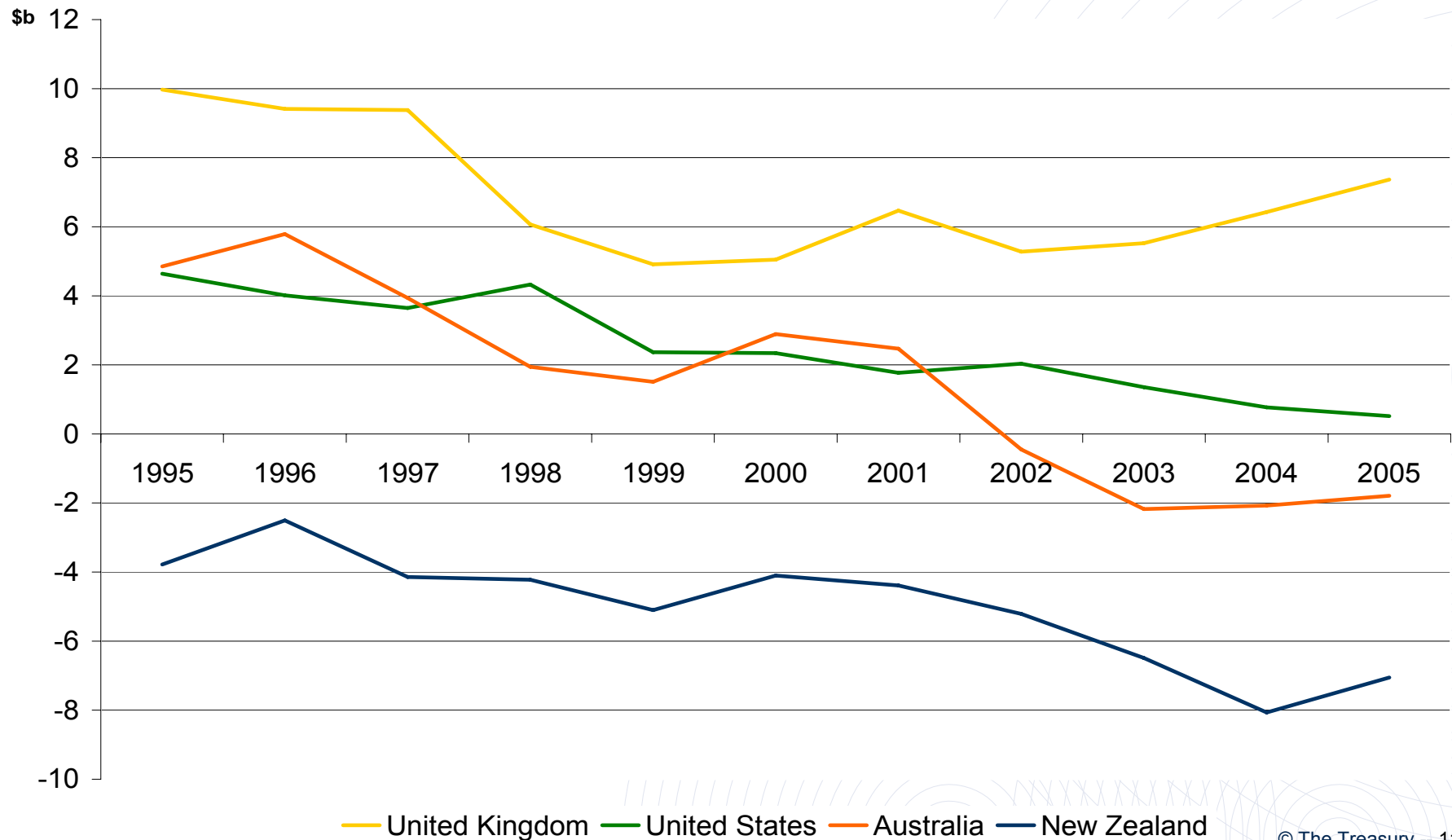
# NZ has a multi-pillared retirement income framework

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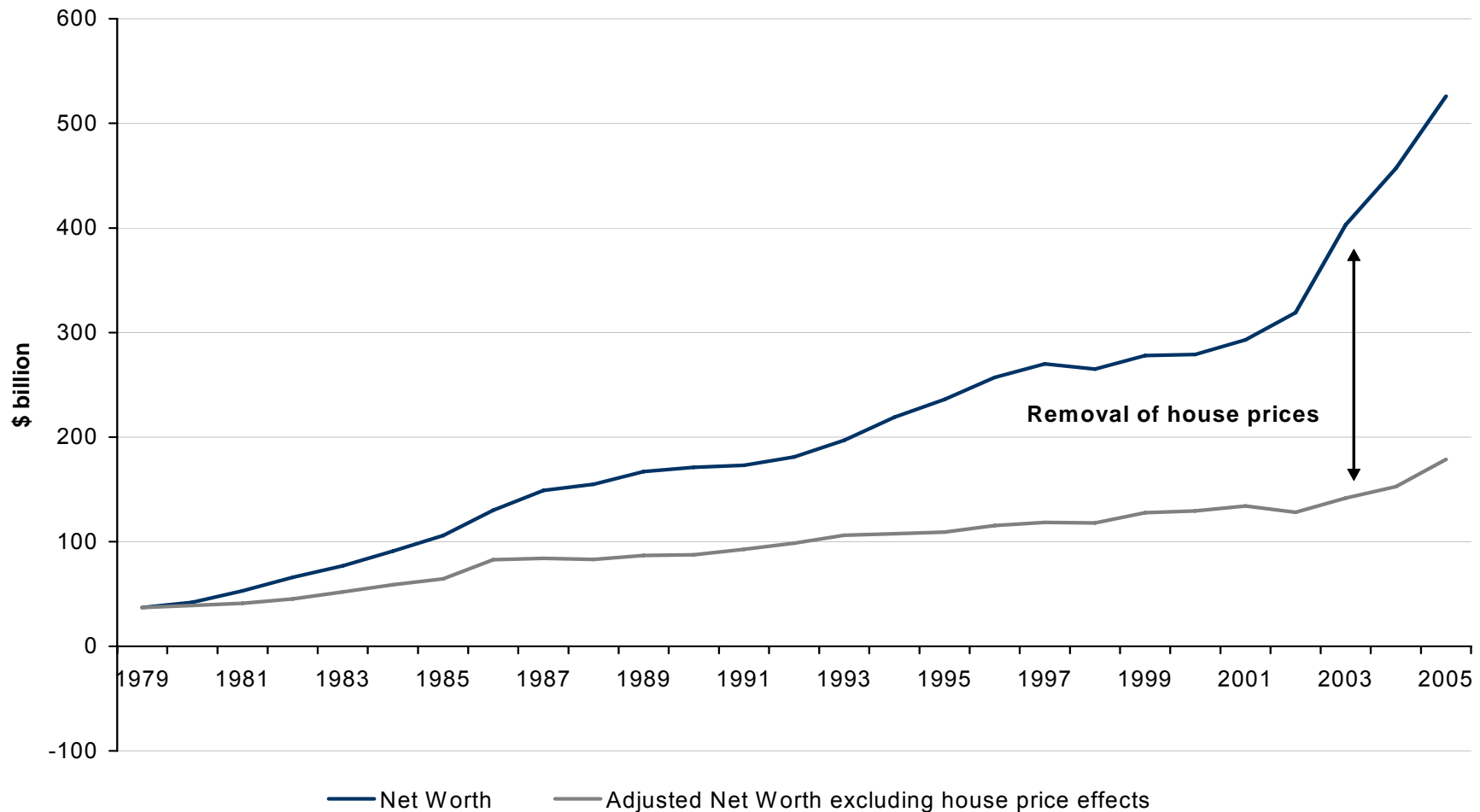
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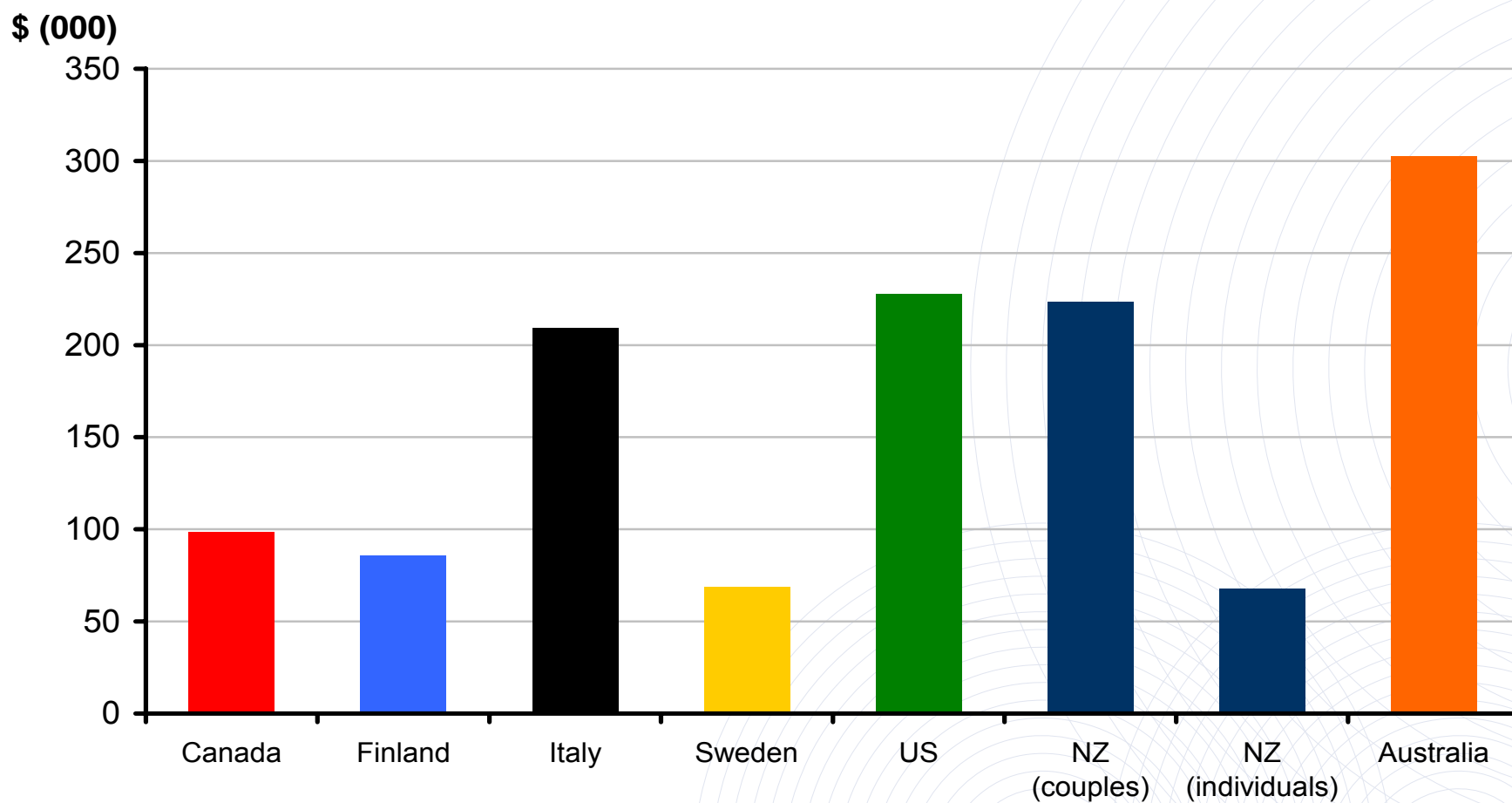
# According to flow measures, household savings are low relative to other countries, and chronically negative ...



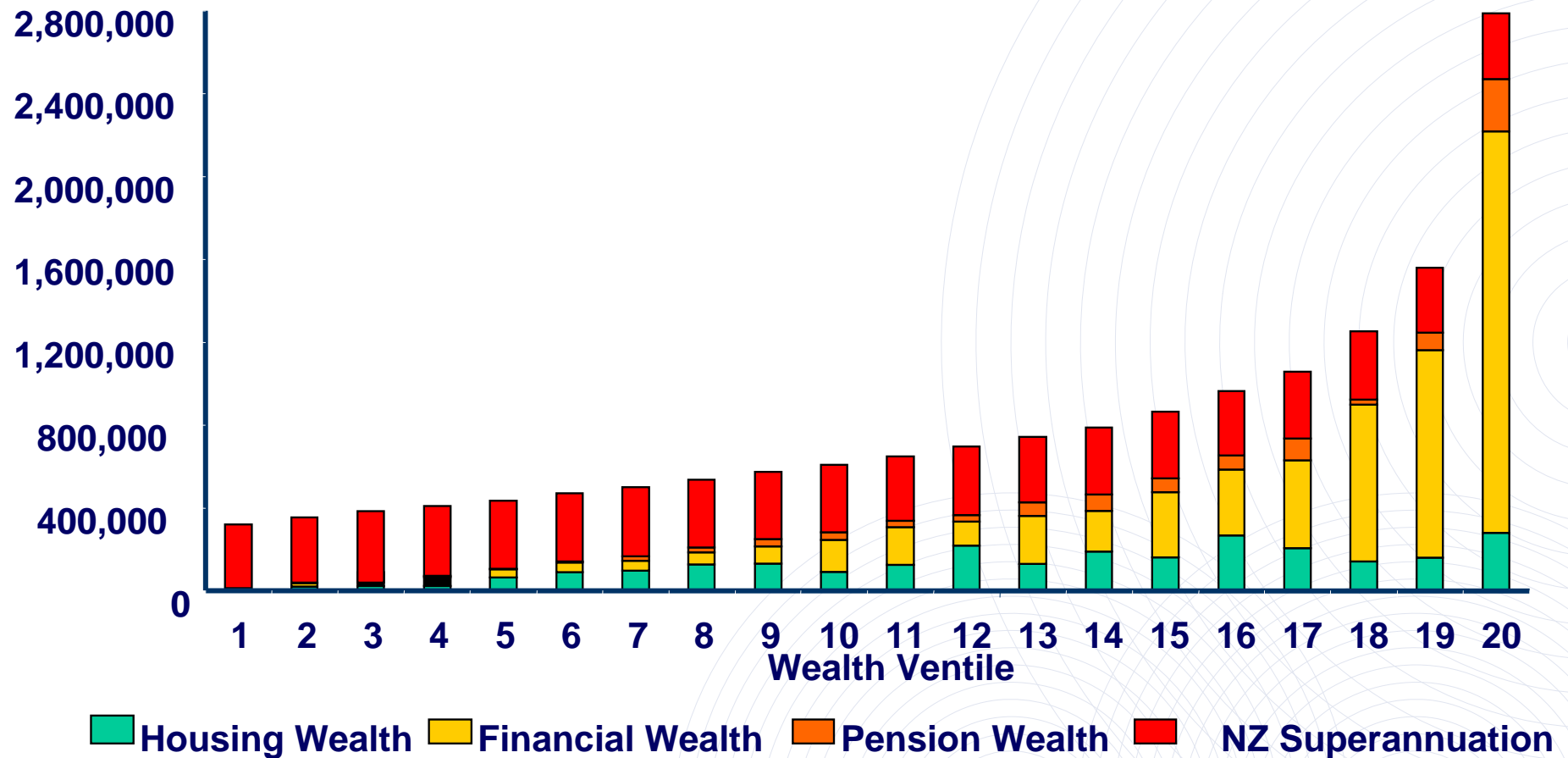
... but stock measures suggest that wealth has increased, even after allowing for house price increases.



# Average household wealth levels are within the range of those of other countries ...

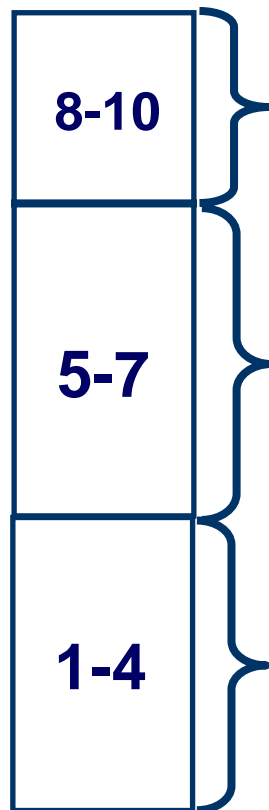


... but retirement wealth varies significantly across the population.



# What are the policy implications?

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Upper income deciles: More than adequate wealth to sustain retirement consumption as a rule - not a focus of policy.

Middle income deciles: Average levels of wealth Ok but wide variation. Scope for higher saving. *KiwiSaver* is likely to self-select to this group.

Lower income deciles: New Zealand Superannuation will meet their main retirement income needs. Limited scope for any significant change in saving rates.

# What is *KiwiSaver*?

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- A voluntary work-based savings scheme.
- Announced in Budget 2005 as part of an ongoing package of initiatives to increase individual savings and support New Zealanders in retirement.
- *KiwiSaver's* purpose is to encourage a long-term savings habit and asset accumulation to improve financial well-being, particularly for retirement.

# What are the underlying drivers of *KiwiSaver*?

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- Creating a long term saving habit
- Encourages saving by making it easy
  - Immediate benefit to join
  - Simple to join, rules of thumb
  - Safe, secure with effective oversight
- Avoiding constant temptation to spend
  - Deduction from pay through Inland Revenue
  - Lock in until age 65
- Home or retirement saving accommodated

# What are the key features of *KiwiSaver*?

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- Work-based savings scheme
- Voluntary participation (opt out)
- Defined contribution
- Private sector providers
- Payroll deductions through Inland Revenue
- Government up-front contribution and fee subsidy
- Locked-in until eligible for NZS (age 65)
  - Access for first-home ownership
- To be implemented in 2007
  - 25% of workforce assumed to be enrolled by 2012

# Why is *KiwiSaver* based on savings through the workplace?

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- Allows deductions for contributions to be made at source.
  - Avoids temptation to spend.
- Obtains benefits from economies of scale in administration in conjunction with income tax collection.
- Reaches a high proportion of the population who are able to save.

# Who participates in *KiwiSaver*?

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- New employees are enrolled automatically.
  - The need to actively opt out uses human inertia to encourage participation.
- Existing employees and non-employed can sign up, either through their employer or directly with a provider.
- Applies to all New Zealand citizens and permanent residents below the age of eligibility for New Zealand Superannuation (65).

# Why isn't participation compulsory?

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- Some people might be better off not contributing to *KiwiSaver*.
  - Those who would be better to be repaying debt.
  - Those who have other goals than passive saving for retirement (for example, building a business).
  - Those on low incomes for whom New Zealand Superannuation may be adequate in retirement.
- Contribution holidays can be taken to temporarily suspend making contributions.
  - Up to 5 years after a minimum membership of 12 months.

# What decisions to savers have to make?

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## When joining:

- Can choose which scheme (and investment profile) to join [or be allocated to a default provider].
- Can choose a contribution rate: 4% [the default] or 8%.

## While saving:

- Can transfer between schemes.
- Can take a contribution holiday.
- Can make a first home purchase withdrawal.

# How much are the contributions to *KiwiSaver*?

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- Employees contribute 4% (the default) or 8% of their gross salary or wages through payroll deductions.
- Employers can also make contributions.
  - These count toward the 4% or 8%.
  - Tax exempt up to a cap.
- Employees can make additional contributions direct to providers.

# What can *KiwiSaver* balances be withdrawn for?

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- At age 65, the full balance can be withdrawn.
- One-off withdrawal for first home purchase.
- Under certain circumstances for financial hardship or serious illness.

# Will *KiwiSavers*' money be protected?

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- *KiwiSaver* schemes will be run by trust deeds (like existing registered superannuation schemes).
- Schemes must meet the requirements of the *KiwiSaver Act* and be approved by the Government Actuary.
- Regulated as for other superannuation products.
- No government guarantee of scheme balances.

# What support does the Government provide to *KiwiSaver*?

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- Financial
  - A kick-start contribution of \$1,000 to new accounts.
  - An annual contribution toward members' fees.
  - Targeted assistance to individuals buying a first home.
  - Tax exemption for employer contributions up to a cap.
- Administrative
  - Contributions are collected and aggregated through the PAYE tax collection system.
  - The Government appoints default providers and negotiates their fees.
  - BUT the financial returns of schemes are not government guaranteed.

# How will *KiwiSaver* affect employers?

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- *KiwiSaver* has been designed to minimize compliance costs by using the existing PAYE tax collection processes.
- Employers will be required to:
  - Provide information packs (prepared by IRD) to all employees.
  - Notify IRD of new employees' details
  - Deduct contributions from payroll and remit to IRD.
- Employers can:
  - Nominate a provider for their employees for when employees do not choose their own.
  - Make voluntary employer contributions
  - Apply for exemption from automatic enrolment if their existing pension scheme meets certain requirements.
  - Apply to convert their existing pension scheme to a *KiwiSaver* scheme.
- Employers are not liable as a scheme advisor or promoter.
  - (Unless they go further and provide specific advice.)

# What is the role of the Inland Revenue Department in *KiwiSaver*?

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Inland Revenue is the central administrator:

- Providing information about *KiwiSaver* to employers for distribution to employees
- Administering the opt-out process
- Receiving contributions from employers and others and on-paying these to providers (with interest)
- Administering the contribution holiday
- Paying up-front \$1000 contribution to each new *KiwiSaver* account
- Allocation of default schemes to employees

# What are the requirements on *KiwiSaver* providers?

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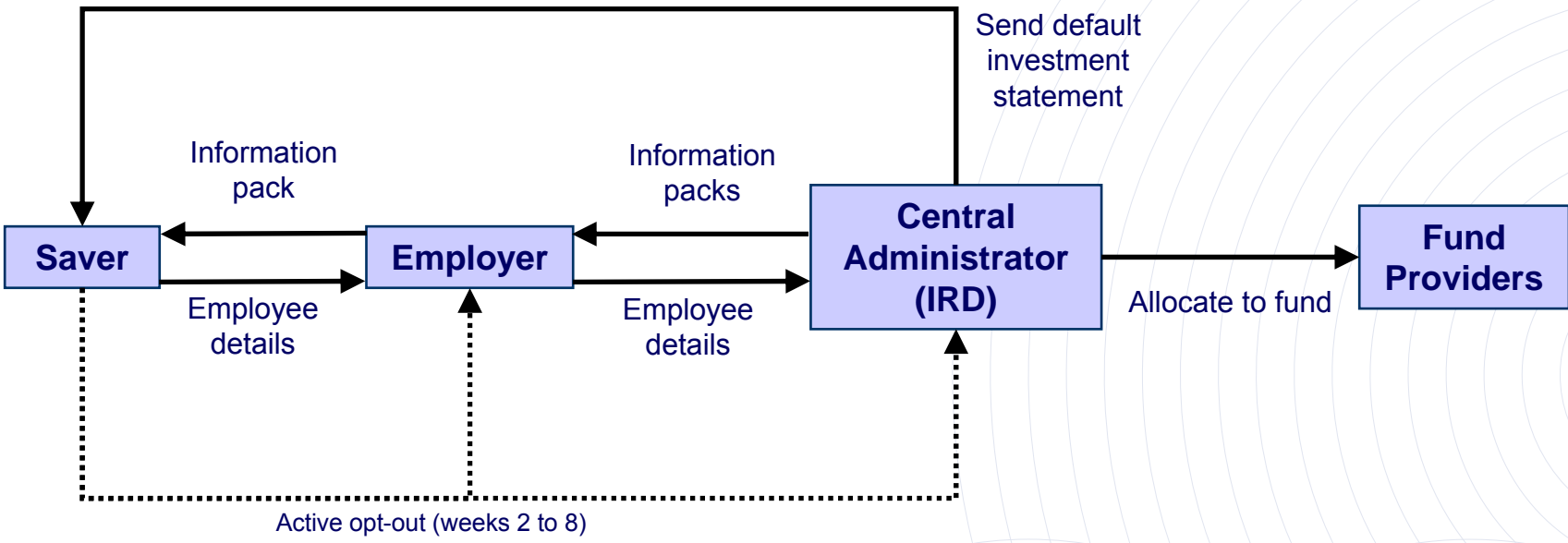
Requirements for all *KiwiSaver* providers:

- Comply with the securities legislation and the Superannuation Schemes Act
- Comply with the *KiwiSaver* Act
- Register with the Government Actuary
  - Entry requirements for registration
- Ongoing Monitoring by Government Actuary and Trustee

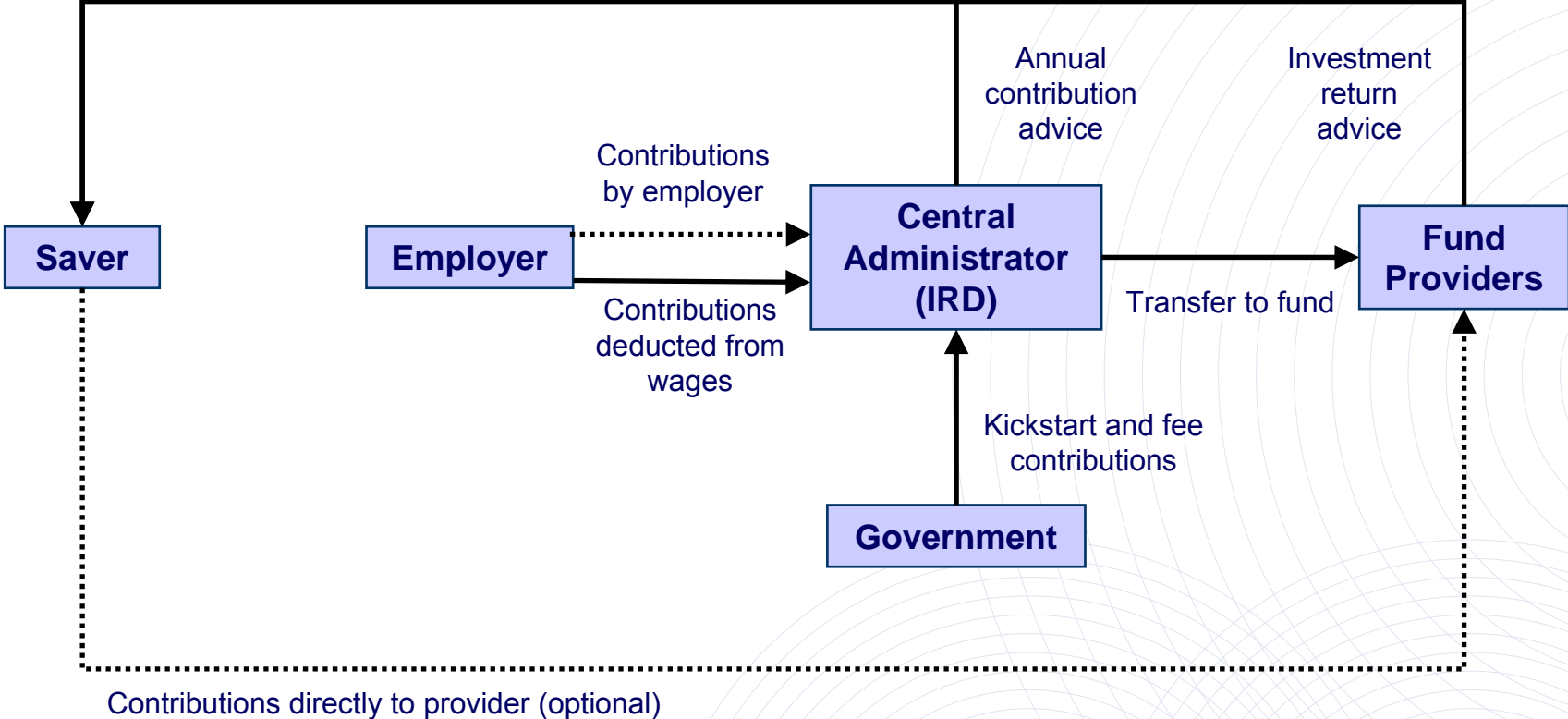
Requirements for *KiwiSaver* default Providers:

- Open and Competitive tender to appoint Default Providers
- Further Requirements for Default Providers

# KiwiSaver Enrolment Process



# KiwiSaver Contribution Process



# What is the progress of implementation of *KiwiSaver*?

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- Select Committee has considered the draft legislation and reported back to Parliament last week.
- Currently going through the final legislative processes before becoming law.
- Implementation was intended to be by 1 April 2007, but now likely to be 1 July 2007.
- A competitive tender process to select default providers has been initiated but will not be completed until the legislation is passed.

# Further information on *KiwiSaver*

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- Inland Revenue Department (Central Administrator)  
[www.ird.govt.nz/kiwisaver/](http://www.ird.govt.nz/kiwisaver/)
- The Treasury (Overall Policy)  
[www.treasury.govt.nz/kiwisaver/](http://www.treasury.govt.nz/kiwisaver/)
- Ministry of Economic Development (Provider Selection and Regulation)  
[www.med.govt.nz/kiwisaver/](http://www.med.govt.nz/kiwisaver/)

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# KiwiSaver

*Poua he Oranga*