OFFICE OF THE MINISTER OF FINANCE
OFFICE OF THE MINISTER OF REVENUE

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Chair
CABINET

BUDGET 2007: KIWISAVER PLUS

A Executive Summary

1. Saving is crucial for both social and economic outcomes:

   - *A better retirement*
     - ensuring all New Zealanders have a decent standard of living in retirement

   - *A stronger economy*
     - helping to reduce pressure on inflation and the current account deficit
     - furthering development of stronger and deeper capital markets
     - offering a more competitive package of workplace rewards

   - *A fairer society*
     - providing a greater and broader ownership stake in New Zealand
     - reducing large inequalities in wealth, which tend to undermine social cohesion

2. Yet New Zealand's saving record is poor. Household saving has been declining in New Zealand for a number of years and appears to be significantly lower than in other OECD countries. New Zealand has run persistent current account deficits and has among the highest net external indebtedness in the OECD, both indicative of poor domestic saving.

3. This paper proposes a set of enhancements to KiwiSaver, collectively called KiwiSaver Plus. The package builds on the core features of the original KiwiSaver model in a manner that significantly enhances the incentives to join and to continue making regular contributions. KiwiSaver Plus delivers significant tax concessions without undermining macroeconomic stability.

4. KiwiSaver Plus has been developed taking into account New Zealand's particular circumstances and, as such, is unique in its approach. It combines voluntary aspects (for employees) and compulsory aspects (for employers) with targeted tax incentives.

5. Key features of KiwiSaver Plus are:

- automatic enrolment for new employees with the ability to opt out and for existing employees to opt in (as per the original KiwiSaver model);

- minimum employee contribution of 4% of gross salary with matching tax credits up to $20 per week. (Non-employees such as self employed will also be able to contribute and receive matching tax credits);

- compulsory matching employer contributions (up to 4% of gross salary); and

- tax credits of up to $20 per week for employers for their contributions.

6. As a policy to improve private saving, KiwiSaver Plus compares well with alternative savings schemes and is likely to deliver a significantly higher level of household saving than the original KiwiSaver proposal. It builds on the original automatic enrolment and lock in of KiwiSaver by introducing other elements of international saving schemes that have been effective at raising saving, such as matching contributions (from the employer and government). It is also designed so that the relative benefits are likely to be higher for lower-income earners.

7. The impact of KiwiSaver Plus for the government's fiscal position will be significant. However, with careful fiscal management, it can be implemented in a manner that is consistent with the government's long-term fiscal objectives. Ways of managing the fiscal pressure are outlined in the Cabinet paper on the wider Budget 2007 package.

B Why we should enhance KiwiSaver

Saving is crucial for both social and economic outcomes

8. Encouraging saving supports all three government themes, with the following broad objectives:

- <u>*A better retirement*</u>
  - ensuring all New Zealanders have a decent standard of living in retirement

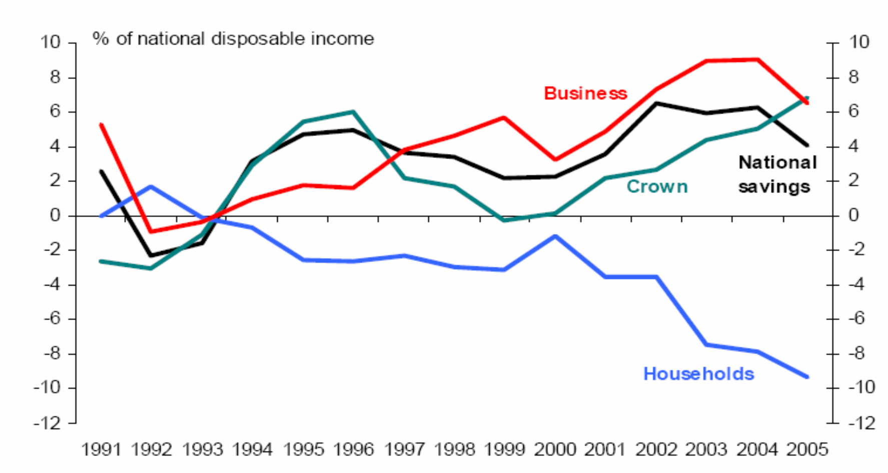
- <u>*A stronger economy*</u>
  - helping to reduce pressure on inflation and the current account deficit
  - furthering development of stronger and deeper capital markets
  - offering a more competitive package of workplace rewards

- <u>*A fairer society*</u>
  - providing a greater and broader ownership stake in New Zealand
  - reducing large inequalities in wealth, which tend to undermine social cohesion

New Zealand's saving record is poor

9. New Zealand's household saving rate is negative and has been for some time. Although national saving is around 4% of disposable income, decomposing this into its components (i.e., household, business and government saving) suggests that household saving is on the decline. Disaggregating saving data to this level means it is less reliable[1]. However, alternative measures of household saving also show a downward trend, albeit to a lesser extent.

Figure 1: Saving by sector



Source: Statistics New Zealand's National Accounts, RBNZ calculations

10. International comparisons of household saving as a percentage of disposable income also suggest saving rates in New Zealand appear to be significantly lower than in other countries.

Table 1: Selected country household saving rates (period averages as a per cent of household disposable income)

	1970s	1980s	1990s	2000-2004	2005
Australia	14.2	11.1	5.4	-0.5	-2.6
United States	9.6	9.1	5.2	2.1	-0.4
Canada	12.0	15.3	9.1	3.4	-0.2
Germany	13.1	12.8	11.4	9.9	10.7
France	13.2	9.5	11.6	12.2	11.6
Netherlands	4.1	14.3	14.1	8.4	5.7
Japan	23.7	16.3	12.4	5.0	2.4
New Zealand	3.6	2.8	-1.6	-7.2	-14.8

Data for Japan for 1970s are for period 1972-1979. Source: OECD

11. The reason for negative household saving in New Zealand over a sustained period of time is hard to pinpoint. The Reserve Bank has pointed to a broad range of possible explanations for the general decline in the saving rate over

1 This is because Statistics New Zealand does not produce a complete set of institutional accounts. As a result, there is a degree of uncertainty in the treatment and allocation of certain transactions between households and the other sectors.

recent years, including:

- an increasing tendency to accumulate wealth through housing rather than financial assets;
- the impact of an increase in Crown saving;
- general wealth effects from rising asset prices;
- financial sector liberalisation; and
- demographics.

12. New Zealand's persistent current account deficit and high level of net external indebtedness also suggest a poor national saving record. A considerable portion of assets in New Zealand are owned by foreigners or are financed by loans from foreigners. This partly reflects a lack of domestic saving and partly high demand for New Zealand assets by offshore investors. The result is that New Zealand's investment income balance with the rest of the world is currently in deficit by around 7 to 8% of GDP. Estimates of external assets and liabilities for 145 countries for the period 1970-2004 show New Zealand is an outlier – with the 3rd highest level of net liabilities in the OECD.

KiwiSaver will help, especially if it is enhanced

13. KiwiSaver starts on 1 July 2007. From this date, the majority of new employees will be automatically enrolled in KiwiSaver when they start a job.

14. KiwiSaver has a limited set of incentives to join:
    - $1,000 kickstart
    - fee subsidy
    - housing deposit subsidy; and
    - the Specified Superannuation Contribution Withholding Tax (SSCWT) exemption.

15. The original KiwiSaver model assumed take-up of 25% of the workforce within five years. This level of take-up would be significant, but we could achieve the outcomes we seek more quickly with a higher level of take-up. Many other countries, including Australia, USA, and the UK, make significant use of tax incentives to encourage saving.

16. This paper proposes a set of enhancements to KiwiSaver, collectively called KiwiSaver Plus. The package builds on the core features of the original KiwiSaver model in a manner that significantly enhances the incentives to join and to continue making regular contributions.

C Proposal

Broad details

17. KiwiSaver Plus builds on the core KiwiSaver model by offering tax incentives for employees and non-employees, such as the self employed, to save on an ongoing basis. It has three key aspects: individual (member) tax credits; matching employer contributions; and employer tax credits. Matching employer contributions will be phased in and capped at 4% of the employee's gross salary. To ensure that KiwiSaver members can fully capitalise on the matching employer contributions, the ability of employer contributions to count towards the minimum

4% contribution to KiwiSaver will be phased out. By 2011/12, all members contributing to KiwiSaver through their pay will be contributing 4% of their gross salary and receiving a matching 4% contribution from their employer. These details are further described in box one.

Box 1: Key Features of KiwiSaver Plus

Tax credit for member contributions (member tax credit)

The member tax credit matches member contributions into KiwiSaver (and other complying funds) at a rate of 100% up to a maximum of $20 per week ($1040 per year).

Direct contributions into a KiwiSaver account (e.g., by the self employed) will also be eligible for the tax credit.

This will come into effect from 1 July 2007.

From 1 April 2008, any employees that become new members to KiwiSaver will need to contribute a minimum 4% of their salary (i.e. employer contributions will not count towards the minimum 4%). For employees joining prior to 1 April 2008, and who receive employer contributions that count towards the minimum 4%, the increase in the minimum employee contribution will be phased in over four years.

Tax credit for employer contributions (employer tax credit)

The employer tax credit reimburses employers for matching contributions they make into their employees' KiwiSaver (or other complying fund) account at a rate of 100% up to a maximum of $20 per week for each employee.

This would come into effect from 1 April 2008.

Matching employer contributions

In addition, employer contributions would become compulsory to the extent that the employee contributes. The compulsory matching employer contributions would be phased in from 1 April 2008 as follows (as a percentage of gross salary or wages):

2008/09: 1%
2009/10: 2%
2010/11: 3%
2011/12: 4%

Compulsory employer contributions would be required to vest with the employee immediately.

18. The cap on the tax credits means that households with low to moderate incomes are likely to benefit relatively more from the enhanced KiwiSaver package than higher-income earners. This design decision was made for two reasons:

- *To maximise the amount of new savings.* Low to middle-income earners are the individuals least likely to be saving already. Therefore, targeting saving schemes at lower income earners is likely to have a greater pay off for household savings than schemes that offer the greatest benefits to high-income earners, which are the international norm. As a result, the extent of switching that occurs under a scheme targeted at these individuals is likely to be less than for a scheme targeted at high-income households who are most likely to be saving in the first place.

- *To target the credits in a way to reduce inequality.* Recent Statistics NZ data showed that New Zealand still has considerable inequalities in income and wealth. Income inequality increased significantly in New Zealand from the mid 1980s to 2000 and has stabilised since then. The latest data, however, does not include the impact of *Working for Families*, which deliberately targets tax relief at those most in need – low and middle income families. *KiwiSaver Plus* can be seen as a companion to *Working for Families*.

19. Notwithstanding the enhancements, the core design features of KiwiSaver will remain broadly unchanged. In particular:

- New employees will be automatically enrolled in KiwiSaver from 1 July 2007;
- Employee contributions will be voluntary (i.e., new employees can opt out of KiwiSaver and current employees can opt in);
- KiwiSaver accounts will be portable and employees will be able to continue contributing to their existing KiwiSaver account when they change employers;
- After three years of being enrolled in a KiwiSaver scheme, individuals will be able to withdraw their own contributions and any employer contributions that have been vested for the purchase of a first home;
- After one year of being enrolled in a KiwiSaver scheme, individuals will be able to divert up to half of their own contributions to make mortgage payments on their principal place of residence;
- After three years of being enrolled in a KiwiSaver scheme, some individuals may be eligible for a first home deposit subsidy;
- Funds will be locked in until the age of eligibility for New Zealand Superannuation (NZS) or five years, whichever is later;
- All new KiwiSaver members will receive a one-off $1,000 government kickstart;
- KiwiSaver members will be eligible for an annual fee subsidy; and
- The SSCWT exemption will apply on employer contributions to both KiwiSaver and complying funds.

20. The key similarities and differences between KiwiSaver Plus and the original KiwiSaver package are outlined in table two. For comparison, the way in which complying funds would be treated under KiwiSaver Plus is also included. A complying fund is a section within a registered superannuation scheme approved by the Government Actuary as having met certain criteria similar to KiwiSaver e.g. KiwiSaver lock-in rules, portability and vesting.

Table 2: Comparison of KiwiSaver and KiwiSaver Plus

Key features	KiwiSaver	KiwiSaver Plus	Complying Funds
Automatic enrolment on change of job, can opt out, and can choose to opt in	✓	✓	x
Locked-in savings (broadly) until age 65	✓	✓	✓
Scope to withdraw funds for purchase of first home, and to divert contributions to pay mortgage	✓	✓[2]	✓[3]
Approved providers with competitive tax treatment[4]	✓	✓	✓
Requirement that fees are not unreasonable and government fee subsidy	✓	✓	X
$1,000 initial contribution from government on opening account	✓	✓	X
Employer can make additional voluntary contributions to their employees accounts if they choose	✓	✓	✓
Employer contributions count towards the minimum 4%	✓	X	X
Tax credit to member, matching the first $20 per week of their contributions	x	✓	✓
Compulsory matching employer contributions	x	✓	✓
Tax credit for employer, reimbursing the first $20 per week of their contributions	x	✓	✓

Implementing KiwiSaver Plus

21. To ensure that the Inland Revenue Department (IRD) can deliver KiwiSaver Plus, we propose that it is implemented as follows:

2 KiwiSaver schemes will be required to offer a first home ownership withdrawal facility, but will not have to offer mortgage diversion.

3 This will only apply where the schemes offers a first home ownership withdrawal facility and/or mortgage diversion.

4 This includes the SSCWT exemption and the Portfolio Investment Entities regime.

Member tax credits

- the scheme provider submits an annual return to IRD showing each member's details and the amount of contributions eligible for the tax credit;

- IRD pays the tax credit to the provider to be deposited to the member's KiwiSaver account or complying fund on an annual basis.

Employer tax credits

- reimbursed to employers, leveraging off existing systems such as PAYE to minimise compliance costs and cashflow issues i.e., on a monthly basis.

Compulsory matching employer contributions

- IRD will be the collection agency for contributions into KiwiSaver schemes.

- Scheme providers will collect contributions into complying and non-complying funds.

22. Making IRD the central collection agency for employer contributions to KiwiSaver schemes differs from the current KiwiSaver approach where employers can make contributions directly through their scheme provider. However, this change will ensure that IRD can identify any short payments to KiwiSaver accounts. Scheme providers will be responsible for checking that employer contributions to complying and non-complying funds are made. Where a short payment is identified by IRD or a scheme provider, IRD will use existing collection mechanisms to collect short payments. *[information deleted as disclosure of the information would prejudice the maintenance of the law*]

23. Legislation to give effect to KiwiSaver Plus will be included in two bills to be introduced on Budget night under urgency. A special Budget night bill will incorporate the member tax credit and be passed under urgency (along with other Budget announcements like the corporate tax cut). The May tax bill, which will also be introduced under urgency, will include the compulsory matching employer contributions and employer tax credits and be passed later in the year.

D Analysis

Overall assessment of the package

24. KiwiSaver Plus is likely to result in higher take up and fewer inactive accounts than the original KiwiSaver proposal i.e., accounts that members are not regularly contributing to. Hence, active accounts are likely to be around 70% higher under Kiwisaver Plus. The larger annual contributions that will be made under KiwiSaver Plus should also result in members accumulating larger balances in their funds. Box two illustrates the relative benefits of KiwiSaver Plus and KiwiSaver for the savings of different households.

[information deleted as they include draft costings and are outdated]

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25. The design of KiwiSaver Plus is likely to result in a significant increase in household saving. Key drivers of this result include the capped nature of the tax incentives, the requirement to save 4% of salary to access the tax credit and matching employer contributions, and the way superannuation funds are not materially tax-favoured relative to other portfolio investments. These factors are discussed in more detail below.

Impact on household saving

26. Household saving decisions are influenced by a number of interacting factors including income levels, the relative price of consuming now versus consuming later (reflected in after-tax interest rates) and households' own preferences. While the interactions between these factors are complex, there are some interventions that the government can use to encourage greater private-sector savings such as:

- policies aimed at increasing incomes i.e., economic growth, flowing through to higher wages, can improve saving;
- policies aimed at increasing the return to savings e.g., through tax incentives; and
- investment in programmes, like education campaigns, which are designed to influence saving preferences.

27. Internationally, governments have introduced a number of these interventions with mixed success. For example, although participation in saving schemes increases in response to government interventions, the overall impact on household saving depends on the extent to which the interventions encourage new saving or merely switching from existing saving. KiwiSaver Plus is unique in its approach, combining elements of other international approaches that have been effective at raising household saving. Unlike other schemes, which are compulsory or voluntary, KiwiSaver Plus is a mixture of the two. Matching employer contributions are compulsory, but only to the extent that the employee wishes to contribute to a KiwiSaver scheme. Purely compulsory schemes have tended to encounter a high degree of switching, as those households who already perceive that they are saving sufficiently will simply replace their existing savings with the 'compulsory' form. Similarly, where tax concessions are offered, this behaviour can also result in an increase in consumption i.e. some households can save less for the same after tax return.

28. Under KiwiSaver Plus, the combination of voluntary participation, lock in until the age of eligibility for NZS and a minimum 4% employee contribution limit the scope for tax credits and employer contributions being used to fund higher consumption rather than saving. Further, leaving aside the member tax credits, KiwiSaver funds are not substantially tax advantaged relative to other portfolio investments. Thus, there is less of an incentive to shift the existing stock of savings into KiwiSaver funds.

29. As outlined in paragraph 18, the cap on tax credits means that households with low to moderate incomes are likely to benefit relatively more from KiwiSaver Plus than higher-income earners, and are those households that are least likely to be saving already. By way of illustration, under KiwiSaver Plus, an individual

earning $26,000, who saves 4% of his/her salary in KiwiSaver ($20 per week) will receive an additional $20 from their employer and $20 from the government (i.e., an additional $2 for every $1 saved). As the government contribution is capped at $20 per week, the pay off for an individual earning $52,000 falls to 1.5:1 (i.e., a $40 contribution from the employee matched by $40 from their employer and $20 from the government).

30. In practice, a number of factors will influence whether low-income earners take up KiwiSaver. Some will have no need to save because New Zealand Superannuation (NZS) will be sufficient to offer a similar level of consumption in retirement. Others will have casual, seasonal or irregular patterns of work and income unsuited to regular retirement saving.

31. Automatic enrolment is likely to support a higher level of KiwiSaver take up at all income levels. Although automatic enrolment with the choice to opt out is not widely used in other schemes, in cases where it is used, participation has been particularly high. For example, in the US, where particular employers made enrolment in the 401(k) programme the default, i.e. opt out rather than opt in, participation rates increased. Participation rates further increased where there was support from the employer (i.e., through matching contributions).

32. Automatic enrolment also enables people to make the decision to start saving through KiwiSaver at a point where their income is likely to be changing (i.e., starting a new job). If a person is not already saving for retirement, foregoing 4% of salary could be difficult and they may face liquidity constraints. (Under the original KiwiSaver model employer contributions were allowed to count towards the minimum 4% contribution). However, if their new job has a higher salary, this constraint may be eased.

Impact on national saving

33. The impact on national saving of KiwiSaver Plus will depend on the way in which it is financed by the government. Higher levels of private saving[5] will lead to an improvement in national saving if the debt accrued by the government to fund the package is smaller than the resulting increase in private saving. In other words, although KiwiSaver Plus is likely to improve private saving and could alter the composition of national saving, this on its own may not lead to an improvement in national saving.

34. Fiscal discipline is therefore important for fully realising the potential gains of KiwiSaver Plus. The actual impact of the package on national saving will not be clear for some time. As such, clarity around the longer-term fiscal and macroeconomic implications of the package will be important in managing external perceptions. For example, in its latest review of New Zealand, Standard and Poor's confirmed New Zealand's credit rating on foreign currency debt at AA+ with a stable outlook. However, it was noted that this rating could come under pressure if the government's fiscal position was to weaken or if there was no medium-term improvement in the current account deficit.

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5 Private saving comprises business and households saving. Officials have assumed that business saving will not be impacted by this proposal. For further information on the impact of the package on businesses refer to the section on broader economic impacts.

35. If an increase in national saving can be maintained over the longer term, then, all other things being equal, this is likely to lead to an improvement in the current account deficit, reducing New Zealand's reliance on foreign capital to fund domestic investment.

Broader economic impacts

Businesses

36. KiwiSaver Plus will have economic impacts that extend beyond the household sector. In particular, the package will impact on businesses' labour costs. The short term consequences will vary between businesses. For example, for those employers who already offer workplace superannuation schemes with contributions of 4% and above, and who switch to contributing to locked-in accounts, the actual impact may be a reduction in labour costs as they will be eligible for an employer tax credit. For other employers, the compulsory matching contributions will increase costs, although these costs are mitigated by the employer tax credits. For example, in the first year when compulsory matching employer contributions are capped at 1% of the employee's salary, the employer tax credit will fully cover employers' compulsory contributions for all employees earning less than $104,000 and contributing to KiwiSaver.

37. KiwiSaver also gives all employers (in particular smaller employers) access to a sophisticated superannuation scheme at low cost. KiwiSaver schemes are likely to be comparable to those currently offered by the largest employers, and are something that smaller employers may not be able to set up or offer themselves. This will assist them in offering a competitive remuneration package in order to attract and retain staff.

38. To offset the pressure on businesses in the short term, the compulsory matching employer contributions will be phased in over four years (as outlined in box one). Further, as part of the business tax package, all corporate employers, except those that are tax exempt, will benefit from the reduction in the corporate tax rate. Unincorporated employers are therefore likely to be the businesses most disadvantaged by the changes in the short term. By virtue of being self employed, the principals in these businesses will be eligible for the member tax credits but not the employer tax credits.

39. International experience with payroll taxes shows that the majority of the incidence of the tax is passed on to the employee through higher inflation (due to higher costs of production) and lower nominal wage growth. This suggests that over the longer term, employees are likely to bear more of the incidence of compulsory employer contributions through more modest nominal wage increases. (Due to the Reserve Bank's inflation targeting regime, any longer-term inflationary impact is likely to be minimal). For employers who employ a large number of low-skilled workers, contributions to KiwiSaver funds could credibly be used as a bargaining chip in wage negotiations. This would be more difficult for employers whose workforce is dominated by highly-skilled labour and therefore less substitutable. However, these employers are more likely to be already making contributions to workplace superannuation schemes.

40. Transitioning to the ‘new’ KiwiSaver environment may also impose some additional compliance costs on employers, mostly around changes to the payroll systems, which could be incorporated into the annual payroll update. However, KiwiSaver has been designed to minimise these costs by building off existing systems.

Providers

41. The costs on providers are likely to be somewhat higher than under the original KiwiSaver package and will include system changes to facilitate the member tax credit claim. However, providers will benefit from significantly higher take up under KiwiSaver Plus. They will also benefit from the lower rate of inactive accounts and larger annual contributions, as this should result in significantly larger average accumulated balances and fewer small balances.

Housing market

42. The impact on the housing market of KiwiSaver Plus is unlikely to be significant. The package itself does not impose any additional liquidity constraints on individuals as it is not compulsory and individuals will be able to withdraw their own contributions and employer contributions for the purchase of a first home (but not for the purchase of an investment property). However, individuals will not be able to withdraw member tax credits in this situation. As the package provides additional incentives to save in financial assets, it also reduces the relative tax advantage of housing.

Impact on monetary policy

43. In recent statements, the Governor of the Reserve Bank has noted that fiscal policy has become more stimulatory. Given that the focus of KiwiSaver Plus is on improving savings, he is likely to be less concerned about this particular proposal than the possible alternatives e.g., additional government spending or a personal income tax cut. Preliminary modelling also indicates that the impact on inflation of the package is minimal. However, the way in which it is factored into any subsequent interest rate decisions and/or statements will depend on how the Governor views the overall fiscal package for Budget 2007.

Flow-on effects to financial market performance and regulation

44. Australian experience shows that compulsory superannuation has helped to enhance financial markets by increasing the financial asset holdings of Australian households and expanding and deepening financial markets and institutions. At the end of 2006, there were A$1.1 trillion of assets held in managed funds in Australia, of which $600 billion were held in superannuation funds. This compares to $64 billion of assets in managed funds in New Zealand, of which $20 billion were held in superannuation funds. There was a significant increase in the scale of flows of saving into superannuation funds as a result of Australia's compulsory superannuation - from an average 2.8% of GDP in 1989-1995 to an average 4.6% of GDP in 1996-2002 - generating a marked shift in the composition of household assets. KiwiSaver Plus is expected to generate new savings that will largely flow into managed funds. According to preliminary estimates, these flows will build up quickly at first and then stabilise at around one per cent of GDP after five years.

45. Increased holdings of financial assets are likely to feed through to the development and liquidity of domestic financial markets. However, this will depend on whether the underlying base of real assets and businesses (reflected in the financial assets) also expands so that the increase in market capitalisation reflects an expansion in real assets rather than asset price inflation. This will be influenced by the extent that markets and agents develop to intermediate the increase in superannuation funds into investment in these real assets and businesses

46. Some of the increased flow of saving into managed funds will come from new savers with limited financial expertise. To maintain an adequate degree of confidence in the activities of the superannuation industry, consideration may need to be given to the appropriateness of the regulatory regime given that, over time, KiwiSaver schemes and superannuation schemes with complying fund status are likely to dominate the industry. Another issue that may need to be considered is the scope for abuse of KiwiSaver funds by employers channelling their matching contributions back into their own businesses and what to do to prevent this risk from materialising.

47. There are also some inconsistencies between the regulatory regime for existing superannuation schemes and that which will govern KiwiSaver schemes. The Ministry of Economic Development (MED) is already examining the supervisory and regulatory arrangements of non-bank financial institutions, including superannuation providers, in its review of non-bank financial products and providers. This review is likely to recommend that the regulatory arrangements governing superannuation providers are amended so that there is greater consistency across the sector and to ensure that the regime as a whole is more robust and in line with international practice than is currently the case.

48. For these reasons, it would make sense for officials to bring forward the part of this review that focuses on superannuation schemes, so that any necessary changes can be introduced in parallel with the introduction of the employer tax credit and matching employer contributions on 1 April 2008 to minimise costs to providers.

49. As the proposed enhancements to KiwiSaver significantly enhance the government incentive to save through KiwiSaver, public pressure for KiwiSaver providers to be accountable for the way in which they invest is likely to emerge, particularly in respect of responsible investment. Responsible investment is generally defined as the integration of environmental, social and corporate governance (ESG) concerns into investment management and ownership practices.

50. Disclosure requirements can be a low cost way of encouraging responsible investment. For example, the UK government passed legislation in 2000 requiring all pension funds to disclose the extent to which they consider social, ethical or environmental issues in their investment process. The Australian government also requires similar disclosure of all investment product providers, with the addition of labour standards. A key benefit of disclosure requirements, rather than more onerous restrictions, is that they allow providers to market themselves as responsible investors, but also ensure that fund members are aware of the portfolio decisions that are being made on their behalf. They are also likely to be

significantly lower cost in terms of board and management time.

51. We therefore recommend that Cabinet agrees that KiwiSaver providers will be required to disclose their approach to responsible investment and directs officials to investigate mechanisms to give effect to this. We also recommend that a joint working party is established involving scheme provider representatives, such as the Investment, Savings and Insurance Association (ISI), to develop guidance on responsible investment.

E *[information deleted as this issue is still under active consideration*

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Next Steps

56. Officials will report back to the Ministers of Finance and State Services by 30 April 2007 on a communication and engagement strategy for Budget Day and beyond.

57. Some State sector unions have already made claims for employer-subsidised superannuation schemes, and State sector employers will need guidance on dealing with these pay bargaining issues, and more generally on how to factor in the value of mandatory employer subsidies when updating their remuneration strategies. *[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations*

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F Key Design Features

58. Decisions by Cabinet are required in six key policy design areas:

- eligibility for the tax credits and matching employer contributions;
- withdrawal of the tax credits and matching employer contributions;
- eligibility for the housing deposit subsidy;
- automatic enrolment for casual employees;
- treatment of existing schemes; and
- dealing with short payments of employer contributions.

Eligibility

59. No changes are being proposed regarding who is eligible to join KiwiSaver. However, decisions are required on who should be eligible for the member tax credits and compulsory employer contributions. Our recommendations are summarised in table three. In making these recommendations, we have given consideration to:

- preserving the overall objectives of KiwiSaver;
- maintaining consistency with the original KiwiSaver design;
- minimising the scope for abuse; and
- minimising complexity.

Table 3: Eligibility for member tax credits and compulsory employer contributions

	Eligibility for:	
	Member tax credit	**Compulsory employer contributions**
Employees		
< 18 years	X	X
18 years until 65 or after five years of membership (whichever is later)	✓	✓
> age of eligibility for withdrawal	X	X
Self-employed		
< 18 years	X	X
18 years until 65 or after five years of membership (whichever is later)	✓	X
> age of eligibility for withdrawal	X	X
ACC or Paid Parental Leave recipient	✓	X
All others (includes beneficiaries)		
< 18 years	X	X
18 years until 65 or after five years of membership (whichever is later)	✓	X
> age of eligibility for withdrawal	X	X
Members whose principal place of residence is overseas (exceptions for government employees and people voluntarily working/ working for a token wage for charitable organisations)	X	X

60. To be consistent with other government policies e.g., interest-free student loans, we also recommend that the member tax credit specifically applies in the cases of:

- government employees living overseas; and
- people voluntarily working, or working for a token wage, for charitable organisations overseas.

Withdrawals

61. Under the original KiwiSaver design, members can withdraw their own funds and employer contributions from their KiwiSaver scheme under certain circumstances. Withdrawal of the government kickstart (i.e. $1,000) is more restricted. No changes to the ability to withdraw members' own funds are being proposed. However, as outlined in table four, we recommend that:

- compulsory employer matching contributions typically be treated for withdrawal purposes the same as member contributions; and
- the ability to withdraw the member tax credit should, in general, be consistent with withdrawal restrictions applying to the $1,000 kickstart.

Table 4: Ability to withdraw member tax credits and compulsory employer contributions

Withdrawal type	**KiwiSaver**	**Ability to withdraw under KiwiSaver Plus**	
		Member tax credit	**Compulsory employer contributions**
Mortgage diversion	Member contributions	X	X
First home ownership	Member + employer contributions (if vested)	X	✓
Significant financial hardship	Member + employer contributions (if vested)	X	✓
Serious illness[6]	All member funds in KiwiSaver account	✓	✓
Permanent emigration	All member funds in KiwiSaver account	Clawed back	✓
Death	All member funds in KiwiSaver account	✓	✓
Age of eligibility for NZS or five years of membership	All member funds in KiwiSaver account	✓	✓

62. Work is being undertaken on the portability of superannuation schemes across the Tasman. A report back is proposed for September 2007. This work could enable transfers to Australian superannuation schemes with similar lock-in rules to KiwiSaver. It is envisaged that the member tax credit would be able to be transferred in such cases.

Eligibility for housing deposit subsidy

Eligibility under KiwiSaver Plus

63. In accordance with the delegation from Cabinet (Cab Min (05) 13/10 refers) we, together with the Minister of Housing, have confirmed the income and regional

6 Cabinet has previously agreed to a change so that a member would be able to withdraw all funds in their KiwiSaver account if they suffer serious illness (CBC Min (07) 5/3 refers). A legislative change to give effect to this decision will likely be made in the May tax bill.

house price caps that govern eligibility for the housing deposit subsidy. The income caps for the deposit subsidy will be set at $100,000 gross per annum for a household with one or more borrowers, and $140,000 for households with three of more borrowers. The regional house price caps currently in use are $400,000 for higher priced areas (e.g., North Shore City, Auckland City and Queenstown Lakes District) and $300,000 for the rest of New Zealand. These caps will be reviewed before the policy takes effect in 2009.

64. It is unlikely that there will be a material change in the take up and fiscal cost of the housing deposit subsidy as a result of the changes to KiwiSaver. This is because take up and cost of the subsidy is driven by the income and regional house price caps. However we have asked officials to report back to us to confirm the scope of the impacts.

Extending eligibility to complying funds

65. Currently the housing deposit subsidy is available to members of KiwiSaver and members of work-based schemes that are exempt from automatic enrolment. The decision to extend the SSCWT to complying funds (EDC Min (06) 22/1 refers) raises the question of whether access to the housing deposit subsidy should also be extended to members of these funds.

66. We recommend that access to the housing deposit subsidy should be extended to members of complying funds. This would promote a more level playing field between exempt employer schemes and complying funds. The majority of schemes that satisfy the requirements for exemption from automatic enrolment are the same schemes that have established, or are likely to establish, a complying fund. However, the $1,000 kickstart and the fee subsidy will remain unique to KiwiSaver and would not be extended to non-KiwiSaver funds.

Automatic enrolment for casual employees

67. The policy intention for KiwiSaver was for employees to be exempt from the automatic enrolment rules if they were employed for a continuous period of 28 days or less. If employment was extended beyond 28 days, the employee would then become subject to the automatic enrolment rules (as if they had started new employment). This second rule was put in place to avoid contracts being structured in such a way so as to avoid the automatic enrolment rules. Casual agricultural workers are also excluded from the automatic enrolment rules (if an employee ceases to be a casual agricultural worker, the automatic enrolment rules then apply).

68. The rules are simple to apply in circumstances where employers and employees are fully aware of the length of employment when it is contracted. Employment law, however, has shown that in the case of 'casual' employment, there is not continuous service between assignments. In these situations an employer would need to have a tracking system in place to determine whether an employee is employed for a continuous 28 day period. Employer groups are concerned that this would place undue compliance costs on employers.

69. A further problem arises when the initial contract is for less than 28 days and, before it ends, is extended beyond 28 days. Case law has shown that in these

circumstances employment is deemed to be one assignment, meaning that the employee should have been automatically enrolled on day one (because the contract lasts longer than 28 days). In this circumstance employers inadvertently breach their obligations.

70. We therefore recommend that casual employees are excluded from automatic enrolment. Casual employment would be defined as per the Holidays Act 2003 i.e., employment that is “intermittent or irregular”. This would reduce the compliance burden on employers and administrative costs. Casual employees could still able opt in to KiwiSaver. A key risk of this approach is that employers could structure contracts to avoid the automatic enrolment rules. Monitoring the size of the casual workforce, and therefore the extent of this carve out, would help to manage this risk. We recommend that Cabinet directs officials to report back to relevant Ministers by the end of 2008 if there are any concerns.

71. The current rules would continue to apply in respect of temporary fixed-term employment. That is, temporary employees would not be automatically enrolled if their contract was for less than 28 days. Automatic enrolment would apply if the contract was for 28 days or more.

72. There are two options for introducing legislation to give effect to the exclusion of casual employees from automatic enrolment, which Cabinet is being asked to agree on. The amendment could be introduced as part of the May tax bill under urgency on Budget night and passed later in the year. This would allow time for select committee to debate the proposal. However, it could complicate Budget communications as the treatment of casual employees as currently set out in the KiwiSaver Act would apply from 1 July 2007 and change from 1 April 2008. Alternatively, the amendments could be introduced under urgency on budget night as part of the special Budget night bill, and passed under urgency. We recommend that authority be delegated to the Ministers of Finance and Revenue to determine which legislative vehicle to use for this matter and any other residual issues that might arise.

Existing schemes

73. The introduction of KiwiSaver Plus, in particular the introduction of compulsory employer contributions, will have a significant impact on existing schemes. Our recommendations aim to mitigate this impact (and the risk that current schemes may wind up as a result of the introduction of the enhanced KiwiSaver features), while still ensuring that the tax credits apply only in relation to savings that are locked-in. Key factors we have considered include:

- ensuring that complying fund members are no better off than KiwiSaver members;
- avoiding double dipping (i.e., requiring an employer to contribute 4% of their employee’s salary into KiwiSaver on top of contributions to an existing scheme); and
- enabling employees to decide whether they are comfortable with their superannuation funds being locked in.

Taking into account these factors, we recommend that:

a The member tax credit applies only in respect of contributions to an existing scheme that are subject to complying fund rules and where the matching employer contributions are also subject to KiwiSaver lock-in rules.

b Employer contributions to existing schemes count towards the compulsory amount in limited existing circumstances (whether this contribution was made to a defined benefit or defined contribution scheme or to a complying or a non-complying fund).

c The employer tax credit applies only in respect of contributions to a complying fund and employees elect whether contributions are subject to complying fund rules.

Short payment of compulsory employer contributions

74. KiwiSaver is not a government-guaranteed scheme. However, in some limited circumstances, some employers may fail to meet their obligation to match employee contributions. In these situations, we recommend that the government covers any short-paid contributions to the extent that the government is prepared to give a credit for that contribution. That is, the government pays any short payment up to $20 per week (the amount of the employer tax credit). Over time, this will mean that some employers will owe money to the government, which IRD will attempt to recover (whether the short payment was made to a KiwiSaver or an existing scheme). *[information deleted as disclosure of the information would prejudice the maintenance of the law*

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Delegated authority

75. We recommend that the Minister of Finance and Minister of Revenue be delegated authority to make decisions on all remaining design issues in conjunction with the Minister of Commerce (where appropriate).

G Financial Implications

76. Although the most significant cost of KiwiSaver Plus is the tax credits, the impact of higher take up on the $1000 kickstart and fee subsidy, and impact on the

Crown as an employer also affect the overall cost of the package. In addition, IRD will incur some costs in implementing the proposal, as well the Retirement Commission in reworking its KiwiSaver communications. More details on each of these costs are outlined below, followed by a summary of the fiscal implications.

Costs of tax credits

77. The overall cost of the tax credits is largely driven by assumptions on the profile and level of take up of KiwiSaver Plus. The cost estimates in table six assume that take up levels off at around 50% after ten years (and reaches over 40% within five years). In formulating this estimate of take up, officials have drawn on overseas evidence, the SSRSS experience and have also revisited some of the assumptions underpinning the original KiwiSaver modelling.

Table 6: Costs of tax credits

$ million	2007/08	2008/09	2009/10	2010/11	2011/12	*2016/17*
Member tax credit	144	351	478	586	661	*837*
Employer tax credit	62	292	453	585	674	*841*
Total	**206**	**643**	**931**	**1171**	**1335**	***1678***

Costs of increased KiwiSaver take up

78. As take up is expected to be higher under KiwiSaver Plus, the cost of the original KiwiSaver elements (i.e., $1,000 first year kick-start, the fee subsidy and the interest cost of IRD holding contributions) will also increase. This increase in cost is outlined in table seven.

79. Cabinet previously agreed that the fee subsidy be set at a flat dollar amount per member per annum, and that the amount should aim to cover the administration fee of the default schemes (CBC Min (06) 3/7 refers).The modelling in table seven assumes that the fee subsidy is set at $40 per member per annum. This is slightly lower than the $55 per member per annum set aside in the savings allocation, prior to any information being available on fees charged by default providers. It is now estimated that the most expensive fee to be charged by a default scheme (for a default investment product) is $37 per member per annum. We therefore recommend that Cabinet agrees to a fee subsidy of $40 per annum as this should fully cover the most expensive administration fee charged by a default provider for a default investment product.

Table 7: Additional costs of increased KiwiSaver take up

$ million	2007/08	2008/09	2009/10	2010/11	2011/12[7]	*2016/17*
$1,000 kick-start	89	33	52	15	-8	*-52*
$40 fee subsidy	4	5	5	6	5	*0*
3 month holding interest	0	0	0	0	0	*0*
Total	**93**	**38**	**57**	**21**	**-3**	***-52***

7 The reduction in the cost to the government of the $1000 kickstart by 2011/12 is a result of faster take up of KiwiSaver in initial years. The kickstart is a one-off payment. With more people joining KiwiSaver in the initial years than under the original KiwiSaver modelling, the cost levels off earlier than had previously been anticipated.

80. There is substantial uncertainty regarding these estimates. For example, depending on perceptions of whether everyone else is joining (or not), overall take up could be higher (or lower) or may level off more quickly (or slowly) than anticipated. If take up is higher/faster in the early years then the fiscal costs could be significantly higher. Table eight presents the total costs (including the tax credits, fee subsidy and $1000 kickstart) for a range of take-up assumptions around the mid-estimate, and also presents a faster take-up profile (where the mid-estimate of take up is reached more quickly).

Table 8: Costs of different take-up scenarios

$ million	2007/08	2008/09	2009/10	2010/11	2011/12	*2016/17*
High take up (65% after ten years)	494	953	1362	1822	1967	*2214*
Mid take up (50% after ten years)	**299**	**680**	**988**	**1192**	**1332**	***1626***
Low take up (40% after ten years)	224	572	841	1019	1141	*1396*
Faster take up (50% after five years)	695	1140	1374	1512	1573	*1621*

[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations

81.

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IRD implementation costs

82. Most of the one-off costs associated with implementing KiwiSaver Plus occur in the 2007/08 and 2008/09 years when the systems and processes are being developed to deliver the new proposals. These relate to:

- project personnel costs; and
- purchase of new software products.

83. The intended design places further requirements on the employer monthly schedule (EMS) process. It is therefore possible that the EMS system may need to be redesigned, which could affect a number of core tax processes that are driven off the EMS.

84. *[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations*

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Retirement Commission communications costs

85. The proposed enhancements to KiwiSaver will mean that some one-off changes will need to be made to the Retirement Commission's Sorted campaign. These costs are outlined in table 11 and include changes to: the online decision guide; planned seminars on KiwiSaver rules and decision making; and television advertising. Given that the incentives being offered under KiwiSaver Plus are likely to encourage greater participation by sectors of the community where low financial literacy has been identified as a problem, the Commissioner has also proposed a new campaign focussing on KiwiSaver, which builds on existing campaigns targeted at Maori and Pacific Island parents (aged 25–44) and New Zealand youth.

Table 11: Retirement Commission costs

$ million	2006/07	2007/08	2008/09	2009/10	2010/2011	2011/12	*2016/17*
Additional cost of Retirement Commissioner communications	0.380	-	-	-	-	-	-

86. Given the actuarial work and web redesign that is required, it will be difficult to have the Retirement Commission's updated website functional by Budget day. However, some of the actuarial work could be done in advance of Budget day. While this will minimise the confidentiality risk, there will still be a gap between the Budget day announcement of KiwiSaver Plus and the Retirement Commission's response.

Impact on the fiscal position

87. Given its size, accommodating KiwiSaver Plus within the government's current fiscal objectives will require considerable fiscal discipline. That is, some fiscal restraint will be required to ensure that debt remains at a level that that is consistent with our long-term objectives and that the government does not have to borrow to make its contributions to NZSF. Ongoing monitoring of KiwiSaver take-up levels will also mean that if take up is higher than expected in early years, the government can make appropriate and timely adjustment to its fiscal position if required. This monitoring will incorporated into the existing monitoring and evaluation programme for KiwiSaver.

88. Some adjustments may need to be made to maintain the credibility of the government's fiscal strategy over the longer term. As these adjustments need to be considered in the context of the wider Budget package, they are outlined in the Cabinet paper on the Budget 2007 package.

G Legislative Implications

89. The key pieces of legislation that officials have identified will require amending to implement the changes to KiwiSaver are the:

- KiwiSaver Act 2006 and associated regulations;
- Income Tax Act 2004;
- Taxation Administration Act 1994;
- Securities Act 1978; and
- Superannuation Schemes Act 1989.

90. We recommend that Cabinet invite the Minister of Revenue to provide drafting instructions to the IRD drafting unit and the Parliamentary Counsel Office (where appropriate) to give effect to the enhancements to KiwiSaver.

H Regulatory Impact Statement

91. A Regulatory Impact Statement is not required because this paper seeks approval for legislation that will give effect under urgency to a decision that will be first announced on Budget day. This decision confers an entitlement on employers and individuals saving through KiwiSaver (tax credits) and an obligation on employers (matching employer contributions). (CAB Min (06) 40/4C refers).

I Treaty Implications

92. The changes to KiwiSaver have no Treaty implications.

J Human Rights Act

93. Restricting the member tax credit and compulsory employer contributions to those aged 18 years and older will create an inconsistency with the Bill of Rights Act. Officials have had preliminary discussions with the Ministry of Justice on the implications and understand the scope of the disadvantage to be limited. The exclusion of those under 18 will be transitional, as once they turn 18 they will be

eligible to receive the member tax credit and compulsory employer contributions. In addition, the proposal is consistent with current requirements that only employees 18 years of age or over are subject to automatic enrolment. Persons under 18 years of age are able to opt in to KiwiSaver. Moreover, restricting eligibility to those aged 18 and above supports the government's policy that younger people should be in some form of training rather than working.

K Publicity

94. Officials from IRD and Treasury are working closely with Ministers' offices to develop materials for the communication of this package. Given the requirement for Budget secrecy, stakeholder engagement will not be conducted pre-Budget. A full strategy for informing key stakeholders and providing tailored information for different audiences (including media) will be implemented from Budget day onwards.

95. Officials will continue to report to the Ministers of Finance and Revenue on this activity, and will ensure it is co-ordinated with the overall Budget communications package.

L Consultation

96. The Treasury and IRD assisted in the preparation of this Cabinet paper. MED and the State Services Commission have been consulted on areas of direct relevance to their work. The Department of Prime Minister and Cabinet has been informed of the contents of this paper.

M Recommendations

97. We recommend that Cabinet:

1 **agree** that on Budget day the following enhancements to KiwiSaver will be announced:

a A member tax credit matching member contributions into KiwiSaver (and other complying funds) at a rate of 100% up to a maximum of \$20 per week effective from 1 July 2007;

b An employer tax credit reimbursing employers for matching contributions they make into their employees' KiwiSaver (and other complying funds) accounts at a rate of 100% up to a maximum of \$20 per week for each employee, effective from 1 April 2008; and

c Compulsory matching employer contributions to KiwiSaver funds phased in from 1 April 2008 as follows (as a percentage of gross salary):

2008/09:	1%
2009/10:	2%
2010/11:	3%
2011/12:	4%

2 **agree** that for people who join KiwiSaver from 1 April 2008, employer contributions no longer count towards the minimum 4% KiwiSaver contribution.

3 **agree** that for those employees that join KiwiSaver prior to 1 April 2008, the ability for employer contributions to count towards the minimum 4% contribution will be phased out over four years.

4 **agree** that the package will be implemented as follows:

Member tax credits

a the scheme provider submits an annual return to the Inland Revenue Department (IRD) showing each member's details and the amount of contributions eligible for the tax credit;

b IRD pays the tax credit to the provider to be deposited to the member's KiwiSaver account.

Employer tax credits

c IRD reimburses employers leveraging off existing systems such as PAYE to minimise compliance costs and cashflow issues.

Compulsory matching employer contributions

d IRD will be the collection agency for contributions into KiwiSaver schemes.

e Scheme providers will collect contributions to existing schemes.

5 **agree** that eligibility for the member tax credit apply and compulsory employer contributions applies as follows:

	Eligibility for:	
	Member tax credit	Compulsory employer contributions
Employees		
< 18 years	x	X
18 years – 65 or after five years of membership (whichever is later)	✓	✓
> age of eligibility for withdrawal	x	X
Self-employed		
< 18 years	x	X
18 years – 65 or after five years of membership (whichever is later)	✓	X
> age of eligibility for	x	X

	Eligibility for:	
	Member tax credit	Compulsory employer contributions
withdrawal		
ACC or PPL recipient	✓	X
All others (includes beneficiaries)		
< 18 years	x	X
18 years – 65 or after five years of membership (whichever is later)	✓	X
> age of eligibility for withdrawal	x	X
Members whose principal place of residence is overseas (exceptions for government employees and people voluntarily working/ working for a token wage for charitable organisations)	x	X

6 **agree** that the ability for the member tax credit and the compulsory employer contributions to be withdrawn under the KiwiSaver withdrawal facilities apply as follows:

Withdrawal type	Ability to withdraw under KiwiSaver Plus	
	Member tax credit	Compulsory employer contributions
Mortgage diversion	X	X
First home ownership	X	✓
Significant financial hardship	X	✓
Serious illness	✓	✓
Permanent emigration	Clawed back	✓
Death	✓	✓
Age of eligibility for NZS or five years of membership	✓	✓

7 **note** that, according to Cabinet delegation (Cab Min (05) 13/10 refers), for the purpose of eligibility to the housing deposit subsidy, the Ministers of Finance, Revenue and Housing have confirmed the income price caps of $100,000 gross per annum for a household with one or more borrowers, $140,000 for households with three of more borrowers, and regional house price caps of $400,000 (for higher priced areas) and $300,000 (for the rest of New Zealand), although these will be reviewed in 2009 before the policy is to take effect.

8 **note** that officials will be reporting back to the Ministers of Finance and Revenue on the impact on eligibility to the housing deposit subsidy of the enhancements to KiwiSaver, although it is estimated to be immaterial.

9 **agree** to extend eligibility to the housing deposit subsidy to members of complying funds.

10 **note** that on 26 June 2006, Cabinet agreed that employees who are employed for four weeks or less be excluded from automatic enrolment, but that for those employees, a '"new job" would be deemed to have started on the day enrolment exceeds four weeks, triggering automatic enrolment [CAB Min (06) 23/4A paragraph 27 refers].

11 **agree** to rescind the decision in recommendation 10.

12 **agree** that casual employees be excluded from the automatic enrolment rules, except those on a fixed contract of more than 28 days.

13 **agree** that "casual employment" be defined by reference to the Holidays Act 2003, i.e., employment that is "intermittent or irregular".

14 **note** that officials will monitor the size of the casual workforce and will report to relevant Ministers if there are concerns that the casual employee carve out is undermining the intent of the automatic enrolment rules.

15 **agree** that the government on-pay short paid compulsory employer contributions up to $20 per week (the maximum value of the employer tax credit).

16 **agree** that the member tax credit apply only in respect of contributions to an existing scheme if the contributions are subject to complying fund rules and that employer contributions must also be subject to KiwiSaver lock-in rules for the member tax credit to apply.

17 **agree** that employer contributions to existing schemes count towards the compulsory amount in limited existing circumstances (whether this contribution was made to a defined benefit or defined contribution scheme or to a complying or a non-complying fund).

18 **agree** that the employer tax credit apply only in respect of contributions to a complying fund and employees elect whether contributions are subject to complying fund rules.

19 **agree** that the fee subsidy be set at $40 per annum to fully cover the most expensive administration fee charged by a default provider for a default investment product.

20 **agree** that legislation to give effect to the proposed enhancements to KiwiSaver will be introduced on Budget night under urgency.

21 **agree** that legislation to give effect to the member tax credit will be part of the special Budget night bill and passed under urgency.

22 **agree** that legislation to give effect to the compulsory matching employer contributions and the employer tax credits will be part of the May tax bill and passed later in the year.

23 **agree** to delegate authority to the Ministers of Finance and Revenue to determine the legislative vehicle to give effect to the exclusion of casual employees from automatic enrolment and any other issues that may arise.

24 **invite** the Minister of Revenue to provide drafting instructions to the Inland Revenue drafting unit, and the Parliamentary Counsel Office (where appropriate) to give effect to recommendations 1 to 19.

25 **agree** that the Minister of Finance and Minister of Revenue be delegated authority to make decisions on all remaining design issues in conjunction with the Minister of Commerce where appropriate.

26 **agree** that the Minister of Finance and the Minister of State Services be delegated authority to determine key Budget day messaging relating to the Crown as an employer, including appropriate post-Budget consultation.

27 **direct** officials to bring forward the part of the Review of Financial Products and Providers that focuses on superannuation schemes, so that where necessary changes to the regulation and/or supervisory arrangements of KiwiSaver or existing schemes can be introduced in parallel with the introduction of the employer tax credit and matching employer contributions on 1 April 2008.

28 **agree** that KiwiSaver providers will be required to disclose their approach to responsible investment.

29 **direct** officials to undertake work to investigate mechanisms for giving effect to recommendation 28, so that responsible investment disclosure requirements can be introduced in parallel with the introduction of the employer tax credit and matching employer contributions on 1 April 2008.

30 **agree** that a joint working party, involving scheme provider representatives, be established to develop guidance on responsible investment.

31 **note** that the estimated funding required to implement and administer the enhancements to KiwiSaver is summarised below:

	$m – Increase/(Decrease)								
	2006/07	**2007/08**	**2008/09**	**2009/10**	**2010/2011**	**2011/12**	**2012/13**	**2013/14**	**2014/15 & Outyears**
Operating									
[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]									
Fee Subsidy	-	8.000	17.000	23.000	28.000	32.000	34.000	37.000	38.000
Kickstart Payment	-	89.000	32.718	52.000	15.000	(8.000)	(2.000)	(28.000)	(35.000)
Interest Payment	-	0.300	0.100	0.200	-	(0.100)	-	(0.100)	(0.100)
KiwiSaver Member Tax Credit	-	144.000	351.000	478.000	586.000	661.000	713.000	762.000	796.000
KiwiSaver									

Employer Tax Credit	-	62.000	292.000	453.000	585.000	674.000	725.000	770.000	820.000
[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]									
[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]									
Less Remaining Budget 2005 Savings Allocation	21.827	(19.079)	21.217	25.110	55.740	59.162	66.124	68.664	74.886
[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]									
Capital									
[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]									
[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]									

32 **agree** to use the remainder of the Budget 2005 Savings Allocation to partially meet the costs of the enhancements to KiwiSaver.

33 **note** that the Inland Revenue implementation and operational costs outlined in the table in recommendation 27 are estimates and will be refined by the Department for reporting back to Cabinet by the end of June.

34 *[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations*

]

35 **invite** the Ministers of Finance, Revenue and State Services to report back to Cabinet to appropriate funding from the new savings contingency described in recommendation 30 as appropriate.

36 **approve** the establishment of a new Benefit and Other Unrequited Expense 'KiwiSaver Member Tax Credit' from 2007/08 in Vote Revenue.

37 **agree** that the scope shown in the Estimates will be 'to enable the payment of a tax credit to KiwiSaver members as set out in the Income Tax Act 2004'.

38 **approve** the establishment of a new Other Expense to be Incurred by the Crown 'KiwiSaver Employer Tax Credit' from 2007/08 in Vote Revenue.

39 **agree** that the scope shown in the Estimates will be 'to enable the payment of a tax credit to employers in respect of their contributions to KiwiSaver as set out in the Income Tax Act 2004'.

40 **approve** the establishment of a new Benefit and Other Unrequited Expense 'KiwiSaver Fee Subsidy' from 2007/08 in Vote Revenue.

41 **agree** that the scope shown in the Estimates will be 'to enable the payment of a fee subsidy to KiwiSaver accounts as set out in the KiwiSaver Act 2006 and associated Regulations'.

42 **approve** the following changes to appropriations for the Kickstart Payment, KiwiSaver Interest Payment, KiwiSaver Fee Subsidy, KiwiSaver Member Tax Credit and KiwiSaver Employer Tax Credit:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11**
Benefits and Other Unrequited Expenses:					
Kickstart Payment	-	89.000	32.718	52.000	15.000
KiwiSaver Interest	-	0.300	0.100	0.200	0.000
KiwiSaver Fee Subsidy	-	8.000	17.000	23.000	28.000
KiwiSaver Member Tax Credit	-	144.000	351.000	478.000	586.000
Other Expenses to be Incurred by the Crown:					
KiwiSaver Employer Tax Credit	-	62.000	292.000	453.000	585.000
Total	-	303.300	692.818	1006.200	1214.000
	2011/12	**2012/13**	**2013/14**	**2014/15 & outyears**	
Kickstart Payment	(8.000)	(2.000)	(28.000)	(35.000)	
KiwiSaver Interest	(0.100)	-	(0.100)	(0.100)	
KiwiSaver Fee Subsidy	32.000	34.000	37.000	38.000	
KiwiSaver Member Tax Credit	661.000	713.000	762.000	796.000	

Other Expenses to be Incurred by the Crown:					
KiwiSaver Employer Tax Credit	674.000	725.000	770.000	820.000	
Total	1358.900	1470.000	1540.900	1618.900	

43 **approve** the establishment of a new Non-Departmental Output Expense 'Retirement Commissioner' from 2006/07 in Vote Revenue.

44 **agree** that the scope shown in the Estimates will be 'to enable the Retirement Commissioner to incorporate the enhancements to KiwiSaver into its communications on retirement income policies'.

45 **approve** the following changes to appropriations to enable the Retirement Commissioner to incorporate the enhancements to KiwiSaver into planned communications:

	$m – increase/(decrease)				
Vote Revenue **Minister of Revenue**	**2006/07**	**2007/08**	**2008/09**	**2009/10**	**2010/11 & Outyears**
Non-Departmental Output Expenses:					
Retirement Commissioner	0.380	-	-	-	-

46 **agree** that the changes to appropriations for 2006/07 above be included in the 2006/07 Supplementary Estimates and that, in the interim, these expenses be met from Imprest Supply.

Hon Dr Michael Cullen
Minister of Finance

Hon Peter Dunne
Minister of Revenue