



# Cabinet

CAB Min (07) 12/2

## Minute of Decision

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Minister of Finance  
Minister of Revenue

### Copies to:

Prime Minister  
Deputy Prime Minister  
Hon Jim Anderton  
Minister of State Services  
Minister of Commerce  
Chief Executive, DPMC  
Secretary to the Treasury  
State Services Commissioner  
Chief Executive, Ministry of Economic Development  
Commissioner of Inland Revenue  
Chief of Staff, Prime Minister's Office

## Budget 2007: KiwiSaver Plus

On 19 April 2007, Cabinet:

### Enhancements to KiwiSaver

- 1 **agreed** to the following enhancements to KiwiSaver, which will be announced on Budget Day:
  - 1.1 a member tax credit matching member contributions into KiwiSaver (and other complying funds) at a rate of 100 percent up to a maximum of \$20 per week, effective from 1 July 2007;
  - 1.2 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 percent up to a maximum of \$20 per week for each employee, effective from 1 April 2008;
  - 1.3 compulsory matching employer contributions to KiwiSaver funds phased in from 1 April 2008 as follows (as a percentage of gross salary):

2008/09	1 percent;
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2009/10	2 percent;
2010/11	3 percent;
2011/12	4 percent;

- 2 **agreed** that for people who join KiwiSaver from 1 April 2008, employer contributions no longer count towards the minimum 4 percent KiwiSaver contribution;
- 3 **agreed** that for those employees that join KiwiSaver prior to 1 April 2008, the ability for employer contributions to count towards the minimum 4 percent contribution will be phased out over four years;

### Implementing KiwiSaver Plus

- 4 **agreed** that the package will be implemented as follows:

#### *Member tax credits*

- 4.1 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;
- 4.2 IRD pays the tax credit to the provider to be deposited to the member's KiwiSaver account;

#### *Employer tax credits*

- 4.3 IRD reimburses employers leveraging off existing systems such as PAYE to minimise compliance costs and cashflow issues;

#### *Compulsory matching employer contributions*

- 4.4 IRD will be the collection agency for contributions into KiwiSaver schemes;
- 4.5 scheme providers will collect contributions to existing schemes;

### Key design features

#### *Eligibility*

- 5 **agreed** 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 withdrawal	x	x
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

*Ability to withdraw under KiwiSaver Plus*

6 **agreed** 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 Kiwi Saver 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	✓	✓

*Housing deposit subsidy*

- 7 **noted** that, in accordance with delegated authority from Cabinet [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 or 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 **noted** that officials will be reporting 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 **agreed** to extend eligibility to the housing deposit subsidy to members of complying funds;

*Automatic enrolments for casual employees*

- 10 **noted** 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];
- 11 **agreed** to rescind the decision referred to in paragraph 10; and instead:
- 12 **agreed** that casual employees be excluded from the automatic enrolment rules, except those on a fixed contract of more than 28 days;
- 13 **agreed** that “casual employment” be defined by reference to the Holidays Act 2003, ie employment that is “intermittent or irregular”;
- 14 **noted** 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;

*Short payment of compulsory employer contributions*

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

*Existing schemes*

- 16 **agreed** 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 **agreed** 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 **agreed** 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;

*Fee subsidy*

- 19 **agreed** 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;

**Legislative Implications**

- 20 **agreed** that legislation to give effect to the proposed enhancements to KiwiSaver will be introduced on Budget night under urgency;
- 21 **agreed** that legislation to give effect to the member tax credit will be part of the special Budget night bill and passed under urgency;
- 22 **agreed** 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 **agreed** 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 **invited** 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 decisions in paragraphs 1 to 19;

**Delegated authority to determine remaining design issues**

- 25 **agreed** 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;

**Crown as an employer**

- 26 **agreed** 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;

**Regulatory regime**

- 27 **directed** 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 **agreed** that KiwiSaver providers will be required to disclose their approach to responsible investment;
- 29 **directed** officials to undertake work to investigate mechanisms for giving effect to the decision in paragraph 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 **agreed** that a joint working party, involving scheme provider representatives, be established to develop guidance on responsible investment;

## Financial implications

31 **noted** 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
<i>Operating</i>									
<i>[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]</i>									
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
<i>[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]</i>									
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Less Remaining Budget 2005 Savings Allocation	21.827	(19.079)	21.217	25.110	55.740	59.162	66.124	68.664	74.886
<i>[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]</i>									
<i>Capital</i>									
<i>[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]</i>									
<i>[information deleted as disclosure of the information would prejudice or disadvantage commercial negotiations]</i>									

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

33 **noted** that the IRD implementation and operational costs outlined in the table in paragraph 31 are estimates and will be refined by IRD reporting to Cabinet (through the appropriate Cabinet Committee) by the end of June 2007;

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

35 **invited** the Ministers of Finance, Revenue and State Services to report to Cabinet (through the appropriate Cabinet Committee) to appropriate funding from the new savings contingency described in paragraph 34 as appropriate;

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

37 **agreed** 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 **approved** the establishment of a new Other Expense to be Incurred by the Crown 'KiwiSaver Employer Tax Credit' from 2007/08 in Vote Revenue;

39 **agreed** 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 **approved** the establishment of a new Benefit and Other Unrequited Expense 'KiwiSaver Fee Subsidy' from 2007/08 in Vote Revenue;

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

Vote Revenue Minister of Revenue	\$m – increase/(decrease)				
	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
<b>Total</b>	<b>-</b>	<b>303.300</b>	<b>692.818</b>	<b>1006.200</b>	<b>1214.000</b>
	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	
<b>Total</b>	<b>1358.900</b>	<b>1470.000</b>	<b>1540.900</b>	<b>1618.900</b>	

- 43 **approved** the establishment of a new Non-Departmental Output Expense ‘Retirement Commissioner’ from 2006/07 in Vote Revenue;
- 44 **agreed** 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 **approved** the following changes to appropriations to enable the Retirement Commissioner to incorporate the enhancements to KiwiSaver into planned communications:

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



46 **agreed** 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;

Secretary of the Cabinet

Reference: CAB (07) 136