

Tax policy report: Enhanced KiwiSaver Package - impact on existing schemes

Date:	30 March 2007	Priority:	High
Security Level:		Report No:	T2007/466 PAD2007/077

Action sought

	Action Sought	Deadline
Minister of Finance	Agree to recommendations	3 April 2007
Minister of Revenue	Agree to recommendations	3 April 2007

Contact for telephone discussion (if required)

Name	Position	Telephone
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30 March 2007

Minister of Finance
Minister of Revenue

Enhanced KiwiSaver Package - impact on existing schemes

Executive summary

This report complements the accompanying joint report on the detailed design of the enhanced KiwiSaver package (Enhanced KiwiSaver package – detailed design). In designing the parameters officials have borne in mind the key aim of KiwiSaver. KiwiSaver aims to provide a vehicle for retirement savings that has key features desirable to government, such as lock-in and portability. The purpose of the tax credits and compulsory employer contributions have also been borne in mind:

- The purpose of compulsory employer contributions is to incentivise savings in long term locked-in retirement vehicles. This aims to address the low level of private savings in New Zealand.
- The purpose of the employer tax credit is to partly reimburse employers for the contributions they make towards their employees' locked-in savings.

The report sets out officials' recommendations on detailed design parameters to address the impact of enhanced KiwiSaver proposals on existing registered superannuation schemes. It is recommended that for existing schemes:

- the member tax credit apply only in respect of contributions to existing schemes where the contributions are subject to complying fund rules and the tax credit be paid into a complying fund;¹
- employer contributions to existing schemes (whether to a complying or a non-complying fund) count towards the compulsory amount in limited existing circumstances; and
- the employer tax credit apply only in respect of matching employer contributions to complying funds.

This report also identifies regulatory barriers that may prevent schemes establishing complying funds or bolting on a KiwiSaver section to an existing scheme. To level the playing field between KiwiSaver and existing schemes (while ensuring the regulatory regime is appropriate and minimising compliance costs), officials recommend that the Review of Financial Products and

¹ A complying fund is a section within a registered superannuation scheme that is approved by the Government Actuary as having met certain criteria, such as KiwiSaver lock-in rules and portability. A non-complying fund is a scheme (or a section within a scheme) that is not approved by the Government Actuary.

Providers (RFPP) reforms for both existing and KiwiSaver schemes be introduced at the same as the employer tax credit and compulsory employer contributions (1 April 2008).

This report also makes recommendations on technical issues related to complying funds.

Recommended action

It is recommended that you:

Member tax credit

(a) **Agree** that the member tax credit apply only in respect of contributions to an existing scheme where the contributions are subject to complying fund rules and that the tax credit is paid into a complying fund.

Agreed / Not agreed

Agreed / Not agreed

(b) **Agree** that for the member tax credit to apply both employee and employer contributions be subject to KiwiSaver lock-in rules.

Agreed / Not agreed

Agreed / Not agreed

Allowing contributions to existing schemes to count towards the compulsory amount

(c) **Agree** that employer contributions to an existing scheme (whether that scheme is defined contribution, defined benefit, complying or non-complying) count towards the compulsory amount only in respect of:

(i) employers who provide access to a superannuation scheme as at the date the proposals are announced.

Agreed / Not agreed

Agreed / Not agreed

(ii) existing scheme members (ie members prior to 1 April 2008), except where the employment contract of existing employees (ie employees prior to 1 April 2008) provides access to the scheme.

Agreed / Not agreed

Agreed / Not agreed

(iii) the existing employment (ie employment as at 1 April 2008).

Agreed / Not agreed

Agreed / Not agreed

(d) **Note** that there is a technical issue in determining whether an employer contribution to a defined benefit scheme equates to 4% of an employee's gross salary or wages and that officials are considering how best to address the issue.

Noted

Noted

Should the employer tax credit apply in respect of contributions to non-complying funds?

(e) **Agree** that:

(i) the employer tax credit not apply in respect of contributions to a non-complying fund.

Agreed / Not agreed

Agreed / Not agreed

and either (officials' preferred option):

(ii) employees elect whether contributions are subject to complying fund rules.

Agreed / Not agreed

Agreed / Not agreed

or:

(iii) require employer contributions be subject to complying fund rules.

Agreed / Not agreed

Agreed / Not agreed

[information deleted as this issue is still under active consideration

(f)

]

Technical issues in relation to complying funds

(g) **Agree** that the calculation of compulsory employer contributions be the lesser of the employee's contribution or 4% of the employee's gross salary or wages.

Agreed / Not agreed

Agreed / Not agreed

(h) **Agree** that a register of complying funds be established.

Agreed / Not agreed

Agreed / Not agreed

(i) **Agree** that the value of the member tax credit be apportioned across the qualifying schemes that a person is a member of, with each scheme being paid a proportion of the credit in accordance with the contributions made to each qualifying scheme, and that scheme providers be required to provide Inland Revenue with the member's name and IRD number so that apportionment can be determined.

Agreed / Not agreed

Agreed / Not agreed

(j) **Agree** that Inland Revenue be able to access and audit records of contributions to complying funds to ensure that employers are not claiming credits to which they are not entitled.

Agreed / Not agreed

Agreed / Not agreed

(k) **Agree** that eligibility to become a complying fund member be restricted to those who are less than the age of eligibility for New Zealand Superannuation.

Agreed / Not agreed

Agreed / Not agreed

(l) **Agree** that the ability for a member of a complying fund to transfer to a KiwiSaver scheme at any time remain.

Agreed / Not agreed

Agreed / Not agreed

(m) **Agree** that the scheme insurer be able to cancel cover where a member chooses to transfers funds out of a complying fund.

Agreed / Not agreed

Agreed / Not agreed

Peter Martin
for Secretary to the Treasury

Mike Nutsford
Policy Manager
Inland Revenue

Hon Dr Michael Cullen
Minister of Finance

Hon Peter Dunne
Minister of Revenue

Background

1. This report sets out officials' recommendations on detailed design parameters to address the impact of the enhanced KiwiSaver package on existing registered superannuation schemes.
2. In designing the parameters officials have borne in mind the key aims of KiwiSaver. KiwiSaver aims to provide a vehicle for retirement savings that has key features desirable to the government, such as lock-in and portability.
3. The purpose of compulsory employer contributions and the employer tax credit have also been borne in mind. The purpose of compulsory employer contributions is to incentivise savings in long term locked-in retirement vehicles. This aims to address the low level of private savings in New Zealand. The provision of the employer tax credit aims to partly reimburse employers for the matching contributions that they make towards their employees' locked-in retirement savings. This suggests that the policy decisions on the treatment of existing schemes should, as far as possible, ensure that the provision of the employer tax credit applies only when employer contributions are made towards locked-in savings. There are, however, a number of other factors that ought to be taken into consideration, including the potential fiscal cost of the option and the possibility of leakage of existing savings.

This report considers:

- (a) Whether the member tax credit should apply in respect of contributions to a non-complying fund;
- (b) Whether to allow employer contributions to existing schemes to count towards the compulsory amount;
- (c) Whether the employer tax credit should apply in respect of contributions to a non-complying fund;
- (d) How to reduce the practical and regulatory barriers to establishing a complying fund or a KiwiSaver bolt-on section; and
- (e) Technical issues in relation to complying funds.

(a) Should the member tax credit apply in respect of contributions to a non-complying fund?

4. Officials consider that the member tax credit should not be available in respect of contributions to an existing scheme unless the contributions are subject to complying fund rules.² Otherwise, the tax credit would be able to be withdrawn in most instances when the member leaves employment with their current employer. Officials also consider that matching employer contributions should be subject to complying fund rules for the member tax credit to apply. This would ensure that complying fund members are no better off than KiwiSaver members (ie both employer and employee contributions would need to be subject to the KiwiSaver lock-in rules under both schemes for the member tax credit to apply).

² A complying fund is a section within a registered superannuation scheme that has been approved by the Government Actuary as having met certain criteria, such as KiwiSaver lock-in rules and portability. A non-complying fund is a scheme (or a section within a scheme) that has not been approved by the Government Actuary.

5. The likely result of this requirement is that members will switch existing savings for savings into a complying fund in order to take advantage of the tax benefits now offered by the government. This will put pressure on employers to set up a complying fund.

6. If employers do not establish a complying fund they may wind up their scheme as members may choose to contribute to KiwiSaver instead of to the existing scheme in order to access the member tax credit. The risk that this will occur is difficult to determine (as it will depend on the benefits the scheme offers relative to other schemes and the extent to which members value the tax credits).

(b) Allowing employer contributions to existing schemes to count towards the compulsory amount

7. The costs for employers of providing superannuation would increase substantially if employers were required to contribute 4% of the employee's salary or wages to a KiwiSaver scheme on top of contributing to their existing scheme. This could result in the employer winding up the existing scheme (to avoid having to make double contributions) and starting to contribute only to KiwiSaver, which could result in the leakage of existing funds (including leakage from savings into consumption). It should be noted that this is only one of the various responses. Other options available to employers include stopping contributing to the existing scheme (and potentially offering members transfers to alternative schemes) or amending their trust deed to bolt-on a KiwiSaver section, which in turn may allow the employer to divert some or all future contributions to the KiwiSaver bolt-on section.

8. To mitigate the risk of wind-up, officials recommend that employer contributions on behalf of existing scheme members should be able to count towards the compulsory amount (whether this contribution was made to a defined benefit or defined contribution scheme, or to a complying or a non-complying fund).³ Although this implies that some of the compulsory contributions may go into accounts that do not have key KiwiSaver features (ie they will go to non-complying funds), there will be a strong incentive (the member tax credit and the SSCWT exemption) for employees to elect that contributions are subject to complying fund rules.

9. To ensure the goal of compulsory contributions are subject to the KiwiSaver lock-in rules going forward, transitional (grand parenting) rules are required. This will ensure that employer contributions to non-complying funds count towards the compulsory amount only in limited existing circumstances.

10. Employer contributions to an existing scheme would count towards the compulsory amount only in respect of:

- i. employers who provide access to a superannuation scheme as at the date the proposals are announced;
- ii. existing scheme members (ie members prior to 1 April 2008), except where the employment contract of existing employees (ie employees prior to 1 April 2008) provided access to the scheme; and
- iii. the existing employment (ie employment as at 1 April 2008).

³ A complying fund is a section within a registered superannuation scheme that is approved by the Government Actuary as having met certain criteria, namely KiwiSaver lock-in rules. A non-complying fund is a registered superannuation scheme (or a section within a scheme) that is not approved by the Government Actuary as having met those criteria.

i. Applies only to employers who provide access to a scheme as at date of announcement of proposals

11. Officials consider that the ability for employer contributions to an existing scheme to count towards the compulsory amount should apply only in respect of employers who provide access to a scheme as at the date the proposals are announced (ie Budget day). This would stop, for example, an employer starting to provide access to a scheme prior to 1 April 2008, paying a 0% employer contribution until 1 April 2008, a 1% employer contribution until 1 April 2009 and so on. This means that they would pay only the compulsory amount but would allow their employees to access the funds at an earlier point in time than those employers who contribute to KiwiSaver.⁴

ii. Applies only in respect of existing scheme members, unless scheme offer part of employment contract

12. Officials consider that the ability for employer contributions to an existing scheme to count towards the compulsory amount should apply only in respect of existing scheme members, so as not to undermine the objective that all future compulsory contributions should be locked-in. If it were to apply also to new scheme members, KiwiSaver schemes would be less attractive as compulsory employer contributions could be accessed via an existing scheme with less stringent lock-in rules than through a KiwiSaver scheme. The effect of the 'existing scheme members' restriction is that employers will likely set up a complying fund within their existing scheme and change their offer to new members so that employer contributions up to the compulsory amount go towards the complying fund. If they do not change the offer, the employer would be in the position of having to pay compulsory contributions of up to 4% to a KiwiSaver scheme on top of the current employer contribution offer if they are not able to cease contributions under the provisions of the scheme offer.

13. Officials recommend that 'existing scheme members' be defined as those members who have joined an existing scheme before the date that compulsory contributions are introduced. If employer contributions are compulsory from 1 April 2008 as proposed, this would give employers approximately ten months from the announcement of the proposals to amend their current offer.

14. Officials consider, however, that an exception should apply for new members where the offer is part of an existing employee's employment contract (so that the government is not legislatively overriding employment contracts). That is, if a person is currently employed by XYZ Ltd and their employment contract provides for access to XYZ's scheme but they have chosen not to access it, if they decided to join the scheme at a later point the employer contributions to the scheme would count towards the compulsory amount, even if they were not subject to complying fund rules. 'Existing employee' would be defined as an employee as at the date compulsory employer contributions were introduced (ie 1 April 2008).

iii. Applies only in respect of existing employment

15. In addition, it is recommended that the ability for employer contributions to an existing scheme to count towards the compulsory amount should apply only in respect of the existing employment. For example, if a person is a member of a mastertrust, changes jobs and their new employer also provides access to the same mastertrust, contributions by the new employer could not count towards the compulsory amount. Again, the likely result of this rule is that the new employer

⁴ This risk may be more of a theoretical than a real risk.

would have amended its offer so that employer contributions would be subject to complying fund rules. 'Existing employment' would be defined as employment as at the date compulsory employer contributions were introduced (ie 1 April 2008).

Effect of recommendations

16. While the recommendations outlined above should help to mitigate the risk of wind-up of existing schemes, it is likely that some employers will close the scheme because of the complexities and operate a KiwiSaver scheme for ease of administration. This is particularly so for schemes with employer contributions of 4% or less – for prospective members of such schemes, KiwiSaver is likely to be more attractive (because it offers the \$1,000 kick-start, an ongoing fee subsidy and the same level of employer contributions). Schemes which offer employer contributions of more than 4% may continue to be attractive – contributions of 4% could go to the complying fund (in order to receive the member tax credit and the SSCWT exemption) and contributions in excess of 4% could continue to be subject to the normal withdrawal rules (ie lesser lock-in rules than a KiwiSaver scheme).

17. The number of people for whom employer contributions to non-complying funds can count towards the compulsory amount will decrease over time as members of existing schemes shift employment, at which point compulsory employer contributions will be required to be subject to the KiwiSaver lock-in rules.

Defined benefit schemes

18. There is a technical issue in determining whether an employer contribution to a defined benefit scheme equates to 4% of an employee's gross salary or wages. This is because it is difficult to determine the level of employer contributions that are required by the scheme's trust deed – employer contributions change depending on a number of variables, including fluctuations in values of investments and differing ages at which people retire. This difficulty also arose in the context of the employer exemptions from automatic enrolment. Officials are considering how best to address the problem but at the very minimum an actuarial certification would be required.

(c) Should the employer tax credit apply in respect of contributions to a non-complying fund?

19. The related question arises as to whether the employer tax credit should be available for employer contributions to an existing scheme when the contributions are not subject to complying fund rules (ie when the contribution is made to a non-complying fund).

20. If the employer tax credit was to apply in respect of contributions to a non-complying fund it is not guaranteed that the tax credit would be supporting retirement savings. The fiscal cost could also be significant. It is therefore recommended that the employer tax credit not apply in respect of contributions to a non-complying fund. There is likely to be pressure from the superannuation industry and employer groups for the tax credit to apply in respect of such contributions on the basis that existing schemes will wind-up as otherwise (with the potential leakage of existing savings). The superannuation industry lobbied for the KiwiSaver SSCWT exemption to be extended on the basis that existing schemes were likely to wind-up if it did not apply to them also – the value of the tax credits is far more significant in most cases than the benefits of the SSCWT exemption.

However, the SSCWT exemption was provided to existing schemes in exchange for contributions being locked-in. Providing the tax credits to non-complying funds has a deadweight cost with no lock-in in return.

21. There are two options to ensure that the employer tax credit applies only in respect of contributions locked-in.

Option one – employees elect whether contributions are subject to complying fund rules; if they do, employer tax credit applies

22. Currently, employees have the ability to choose that their contributions (and employer contributions) are subject to complying fund rules. This choice would remain under option one. The effect is that the employee effectively determines whether or not the employer receives the tax credit. If the employee elects not to contribute to a complying fund, the employer would not get the tax credit, but would also not be legislatively compelled to contribute (although they may be compelled by the employment contract).

23. There are strong incentives on employees to contribute to a complying fund (in order to obtain the member tax credit and the SSCWT exemption on employer contributions). Some employees, however, will value flexibility more and choose not to do so, denying their employer the tax credit. In some cases, this could be expensive for the employer (the tax credit for 100 employees is worth \$104,000 per year) and the employer may therefore consider winding up the scheme and contributing only to KiwiSaver. This raises the possibility that those savings will be consumed rather than saved.

What is the risk of wind-up?

24. The size of the risk of wind-up is difficult to quantify. The risk depends on the extent to which employees elect to contribute to a complying fund (the more employees that contribute to a complying fund the lower the risk of wind-up). The risk is more prevalent in employer standalone schemes than with mastertrust schemes, in which a number of employers contribute to the same scheme. In mastertrust schemes if an employer no longer chooses to participate the members' funds often remain in the scheme (whereas with an employer standalone scheme funds are often distributed to members). Approximately \$7.3b out of a total of \$19.3b in registered superannuation schemes is held in mastertrust schemes. An amendment was made during the KiwiSaver parliamentary process to facilitate movement towards mastertrust structures and officials understand that this amendment will be used.

25. In addition, the wind-up risk with existing schemes is mitigated somewhat by the existence of reserve funds in these schemes. These reserve accounts generally hold funds that the employer is able to have reverted to them, or are available to the last member of the scheme. Where the scheme is wound up, many trust deeds provide that the reserve account must be divided amongst all remaining members. This can sometimes act as a disincentive on employers to wind-up a scheme.

Option two – require employer contributions to be subject to complying fund rules and provide the employer tax credit in respect of those contributions

26. If Ministers are concerned about the risk of wind-up associated with option one, another option would be to legislatively require employer contributions to be subject to complying fund rules. In effect, this would override the current scheme offer. The downside to this is that the

decision to lock-in contributions to a complying fund is taken away from the employee (and made by the government), although employees always have the opportunity to cease contributing to the scheme altogether. This situation is not dissimilar to KiwiSaver – in order to participate contributions must be locked-in. Taking the choice away from employees as to whether employer contributions are locked-in could be perceived as inconsistent with the underlying KiwiSaver principle of employee voluntarism.

27. The existing balance and employer contributions in excess of 4% would continue to be subject to the existing scheme rules. If the scheme had a complying fund, the employer would receive a tax credit for its contributions. If the scheme did not have a complying fund, the employer would not receive a tax credit for its contributions.

28. Option two should be considered only if Ministers are seriously concerned about the risk of wind-up. Although it reduces the risk, it does so by legislatively compelling employer contributions to be subject to complying fund rules, making the election of locked-in employer contributions to existing schemes the default rather than an active choice.

Officials' comment

29. On balance, officials recommend option one because it gives the employee the ability to choose whether their savings in respect of an existing arrangement are to be locked-in.

(d) Reducing the practical and regulatory barriers to establishing a complying fund or a KiwiSaver bolt-on section

30. The Minister of Finance has asked officials to report back on possible mechanisms that could be used to reduce the practical and regulatory barriers that may prevent schemes establishing complying funds or bolting on a KiwiSaver section to an existing scheme.

Complying funds

31. It is relatively easy for a scheme to establish a complying fund as it only requires trust deed amendments (which will have an associated legal cost). There are some small technical barriers to establishing a complying fund which officials aim to address in remedial legislation.⁵

KiwiSaver bolt-on section

32. In respect to KiwiSaver sections established under existing trust deeds, there are regulatory barriers which do not apply to complying funds. The industry has suggested that greatest barriers to establishing a KiwiSaver bolt-on section are the requirement for an independent trustee and the reporting requirements (these requirements do not apply to complying funds). These are the same requirements that apply to KiwiSaver schemes (bolt-on sections are considered to be equivalent to KiwiSaver schemes for all intents and purposes). Another further barrier is that employers need to operate two systems in relation to the deduction and on-payment of contributions (contributions to the KiwiSaver bolt-on are paid via Inland Revenue and non-KiwiSaver contributions are paid direct to the scheme provider).

⁵ It is expected that the changes would be addressed in the May tax bill and/or the bill to be introduced on Budget night under urgency to give effect to the member tax credit.

33. *[information deleted as this issue is still under active consideration]*

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(e) Technical issues in relation to complying funds

45. Officials have identified a number of technical issues in relation to complying funds which need to be addressed given that the enhanced KiwiSaver package proposals are to apply equally to complying funds.

Basis for calculating compulsory employer contributions

46. The minimum contribution to a complying superannuation fund is 4% of *gross base* salary or wages (ie gross salary or wages but excluding bonuses, overtime etc). Gross base salary is the industry norm in calculating contributions and is the minimum contribution rate required for an employer to be exempt from the KiwiSaver automatic enrolment rules.

47. Under the proposal, the compulsory employer contribution to a person's KiwiSaver scheme would be the lesser of the employee's contribution or 4% of the employee's *gross* salary or wages (which includes bonuses, overtime etc). Despite *gross base* salary or wages being the industry norm, officials consider that the compulsory employer contributions to a complying fund should also be calculated on a *gross* basis. Otherwise, the compulsory employer contribution to a complying fund would be less than the compulsory employer contribution to a KiwiSaver scheme. The SSCWT exemption for employer contributions to a complying superannuation fund is calculated on an employee's gross salary or wages.

Register of complying superannuation funds

48. Officials consider that a register of complying funds should be established so that people have certainty about which schemes qualify for the tax credits. This would be similar to the KiwiSaver Schemes Register, which the Government Actuary is required to establish under the KiwiSaver Act.

Apportionment of member tax credit between schemes

49. A person may be a member of a complying superannuation scheme and a KiwiSaver scheme (and potentially a member of more than one complying scheme). To ensure that a member does not receive more than one member tax credit, it is recommended that the value of the credit be apportioned across the qualifying schemes that the person is a member of. It is recommended that each scheme be paid a proportion of the member tax credit in accordance with the contributions made to each qualifying scheme. It is further recommended that scheme providers be required to give Inland Revenue the member's name and IRD number when making a claim on behalf of a person, so that Inland Revenue can determine whether apportionment is necessary.

Ability to police employer tax credit

50. While Inland Revenue currently has no relationship with complying funds, the changes to introduce an employer tax credit would be included in a Revenue Act. This way Inland Revenue would have the ability to access and audit records of contributions to complying funds to ensure that employers were not claiming credits to which they were not entitled.

Age of eligibility to be a complying fund member

51. Currently there is no age restriction on a person becoming a member of a complying fund. To be consistent with KiwiSaver schemes, it is recommended that a person only be able to become a

complying fund member if they are younger than the age of eligibility for NZS. If a person had reached the NZS qualification age, they would continue to be able to join the scheme, and have funds subject to the existing scheme rules, provided the scheme permitted it.

Portability of complying funds

52. A technical issue in relation to the rules regarding complying funds has been raised with officials. This issue is not specific to the enhanced KiwiSaver package, but the issue is likely to be exaggerated as a result of them.

Employer retention of membership

53. Currently a member of a complying fund may transfer their funds to a KiwiSaver scheme at any time at their own discretion (even when they are still employed by the employer who provides access to the scheme). Superannuation industry lawyers have indicated to officials that this was creating concern amongst employers. The crux of their concern is that such a feature would have the effect of undermining a scheme's critical mass. It was conveyed to officials that employers with existing schemes may not want to establish complying funds if members had the ability to transfer their balances out of those sections while still in employment. They considered that such portability should only be available on cessation of employment.

54. The issue of portability while in employment is more of a concern for existing schemes than for KiwiSaver schemes. This is predominantly because of the fact that many employers have historically used these schemes to provide benefits linked to employment. Employers are concerned that such portability would undermine this rationale. However, it should be noted that KiwiSaver schemes, including employer chosen schemes, are portable at the discretion of the member. As KiwiSaver becomes the industry standard, and if the proposals for compulsory employer contributions are introduced, it is likely that the use of superannuation as an employee retention tool will diminish. In light of this, and to maintain consistency with KiwiSaver, officials recommend that the member's right to transfer to other complying funds or KiwiSaver schemes be retained.

55. It should be noted that this may increase the number of transfers to KiwiSaver schemes, which in turn might exacerbate the wind-up risk with existing superannuation schemes.

Insurance

56. A further issue raised with officials was that the requirement for portability would have an adverse flow on consequences for the insurance aspects of the scheme. Many existing superannuation schemes attach insurance benefits to the superannuation benefits. Most arrangements require an insurer to pay the relevant benefit where the insured event arises during the course of the member's membership with that scheme.

57. Officials have been informed that a number of existing schemes that provide a death or disablement benefit prescribe the member's entitlement as a prescribed multiple of salary less that member's total account balances. As a result of such a provision, there is concern that the ability to transfer balances will reduce the member's accumulation, and accordingly increase the liability of the issuer, and accordingly the premiums being paid by the employer.

58. Officials believe that a viable option will be to enable the insurer to cancel the cover where a member chooses to transfer the funds out of the complying fund section. This would ensure that the insurer would not have considered the transfer of the accumulation in its risk assessment, which in turn, would mean that the premiums that are currently charged are unlikely to be affected. This protects the status quo, by maintaining the member's right to transfer, while ensuring that employer would not have to bear the costs of premiums that have been decreased by transfers to other schemes. However, officials are uncertain whether such a solution will be sufficient and will need to discuss the issue with existing superannuation and insurance providers.

Consultation

59. The Ministry of Economic Development has been consulted on the proposals in this report.