

CBC Min (05) 12/1

KiwiSaver: Modifications to Scheme Design

On 29 August 2005, the Cabinet Business Committee:

Background

- 1 noted that on 11 April 2005 Cabinet:
 - 1.1 agreed to the main features and scheme design of a new work based savings scheme (KiwiSaver);
 - 1.2 authorised the Minister of Finance, in consultation with the Minister of Housing and Minister of Education, to agree to outstanding detailed design issues for KiwiSaver;

[CAB Min (05) 13/9]

Locking in funds

- 2 noted that on 11 April 2005 Cabinet agreed that, with the exception of withdrawals in the case of purchasing a first home, financial hardship or permanent emigration, funds will be locked in until the age of eligibility for New Zealand Superannuation [CAB Mm (05) 13/9 paragraph 3.9];
- 3 rescinded the decision referred to in paragraph 2; and instead
- 4 agreed that, with the exception of the withdrawals in the case of purchasing a first home, financial hardship or permanent emigration, funds will be locked in until the age of eligibility for New Zealand Superannuation or for five years from the first contribution, whichever is later;

Being KiwiSaver compliant

- 5 agreed that any existing registered superannuation schemes (RSS) be able to convert to being KiwiSaver compliant by:
 - 5.1 establishing a discrete section within their scheme that complies with the KiwiSaver criteria;
 - 5.2 permitting members individually to voluntarily transfer to that section;
 - 5.3 requiring employers to~ automatically enrol new permanent employees into the KiwiSaver section but with these employees having the opportunity to opt out;
- 6 agreed that members of a KiwiSaver section of an RSS will receive the upfront government contribution, fee subsidy and be eligible for the housing deposit subsidy;

Existing registered superannuation schemes

7 noted that on 2 May 2005 Cabinet agreed that employers with existing RSS be eligible to apply for an exemption from the automatic enrolment provision for new employees if their schemes:

7.1.1 are portable;

7.1.2 are open to all permanent employees;

7.1.3 require total contribution (employer plus employee) of at least 4% of gross salary that vests in the employee immediately [CAB Mm (05) 15/2 paragraph 5];

8 rescinded the decision referred to in paragraph 7; and instead

9 agreed that employers with existing RSS be eligible for an exemption from the automatic enrolment provisions for new employees if their schemes:

9.1 are portable;

9.2 are open to all new permanent employees;

9.3 require the minimum prescribed employee contribution plus the maximum employer contribution for all employees to be at least 4% of gross salary that vests in the employee within five years;

Upfront government contribution

10 noted that on 2 May 2005 Cabinet agreed that:

10.1 Inland Revenue will hold contributions in trust for a further eight weeks after the first contribution is received;

10.2 the upfront government contribution will be provided to an individual's account eight weeks after the first contribution is received [CAB Mm (05) 15/2 paragraphs 13 and 14];

11 rescinded the decision referred to in paragraph 10; and instead

12 agreed that Inland Revenue will hold contributions in trust for a further three months after the first contribution is received;

13 agreed that the upfront government contribution will be provided to an individual's account three months after the first contribution is received (at the same time Inland Revenue passes funds to a provider);

Next steps

14 noted that these decisions may increase the overall fiscal cost though it is not yet possible to quantify the impact of these changes;

15 invited the Minister of Finance to report back to the Cabinet Policy Committee if a forthcoming review of the estimates underlying the Savings Allocation suggests that the current Savings Allocation is not adequate;

- 16 invited the Minister of Finance to issue drafting instructions to the Chief Parliamentary Counsel, in conjunction with Inland Revenue's Internal Drafting Unit, to draft legislation to give effect to:
 - 16.1 the above decisions;
 - 16.2 previous Cabinet decisions [CAB Mm (05) 13/9 and CAB Mm (05) 15/2];
 - 16.3 decisions made by the Minister of Finance, in consultation with the Minister of Housing and Minister of Education [CAB Mm (05) 13/9];
- 17 noted that the Minister indicates that consultation is not required with the government caucuses or other parties represented in Parliament at this stage.

Secretary

Reference: CBC (05) 192