

KiwiSaver: Treasury Cost Projections, Assumptions for Take-up Rates, and Indicative Balances

2 October 2006

Fiscal cost

The projected fiscal costs were included in Table 6.14 of the Budget Economic and Fiscal Update 2006. An extract of Table 6.14 is as follows:

Extract from Budget Economic and Fiscal Update 2006 Table 6.14:

| (\$ million) | 2006 Forecast | 2007 Forecast | 2008 Forecast | 2009 Forecast | 2010 Forecast |
|-----------------|------------------|------------------|------------------|------------------|------------------|
| Savings Package | 11 | 64 | 228 | 186 | 176 |

Cost of SSCWT exemption

Employer contributions to KiwiSaver schemes will be exempt from Specified Superannuation Contribution Withholding Tax (SSCWT). The exemption will be capped at the lesser of the employee's contribution or 4% of the employee's salary or wages. The estimated fiscal costs of the exemption out to 2010 are as follows (costs are expected to increase beyond 2010):

Estimated costs of SSCWT exemption, fiscal years:

| (\$ million) | 2007 Forecast | 2008 Forecast | 2009 Forecast | 2010 Forecast |
|--------------------------------|------------------|------------------|------------------|------------------|
| Fiscal cost of SSCWT exemption | - | 35 | 71 | 104 |

Assumed take-up rates

For the purposes of estimating the fiscal costs, it is assumed that around 25% of all New Zealanders aged 18-64 will have opened a KiwiSaver account by 2013/14. This equates to around 680,000 accounts. Some of these accounts will be held by people who are already

members of registered superannuation schemes, some will be held by people who are not in the labour force, and some will be held by people taking a contributions holiday.

Indicative balances*

4% Contribution

| Annual gross income | Weekly Contribution | 5 year total | 20 year total | 40 year total |
|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| \$20,000 | \$15 | \$5,400 - \$5,700 | \$25,400 - \$26,800 | \$77,900 - \$84,400 |
| \$40,000 | \$31 | \$9,800 - \$10,100 | \$49,200 - \$51,400 | \$152,500 - \$163,900 |
| \$60,000 | \$46 | \$14,200 - \$14,500 | \$73,100 - \$76,000 | \$227,000 - \$243,400 |
| \$80,000 | \$62 | \$18,600 - \$19,000 | \$96,900 - \$100,600 | \$301,600 - \$322,800 |
| \$100,000 | \$77 | \$23,000 - \$23,400 | \$120,800 - \$125,200 | \$376,200 - \$402,300 |

8% Contribution

| Annual gross income | Weekly Contribution | 5 year total | 20 year total | 40 year total |
|---------------------|---------------------|---------------------|-----------------------|-----------------------|
| \$20,000 | \$31 | \$9,800 - \$10,100 | \$49,200 - \$51,400 | \$152,500 - \$163,900 |
| \$40,000 | \$62 | \$18,600 - \$19,000 | \$96,900 - \$100,600 | \$301,600 - \$322,800 |
| \$60,000 | \$92 | \$27,400 - \$27,800 | \$144,600 - \$149,800 | \$450,800 - \$481,700 |
| \$80,000 | \$123 | \$36,200 - \$36,700 | \$192,300 - \$198,900 | \$599,900 - \$640,600 |
| \$100,000 | \$154 | \$45,000 - \$45,600 | \$240,000 - \$248,100 | \$749,100 - \$799,600 |

* These indicative balances are based on a simple calculation. They assume that the government negotiates with providers to offer a low-fee basic product. The range reflects indicative balances if the government provides no contribution to fees (lower number) or if the government contribution covers all fees (higher number). The likely returns within this range to a saver will depend on the level of the government contribution to fees, which is yet to be determined.

This calculation is based on a 6% nominal rate of return compounding monthly and assuming 33% tax on interest. In practice, the actual rate of return may be higher or lower than this rate. This calculation assumes wages are static over the savings period and contributions and returns are constant. It includes the \$1000 up-front government contribution. Indicative balance figures are rounded to the nearest \$100.