

# **Savings Working Group**

## **Terms of Reference**

### **Background**

Savings and capital formation is an essential part of any economy. There has long been debate about savings policy in New Zealand, most often focussed on whether national savings are “adequate” and whether the resulting stock of investments is appropriately allocated and delivering what it should. In addition, New Zealand has experienced a current account deficit in each year since 1973, implying that national investment has continuously exceeded national saving. Net external liabilities are large and have been rising rapidly over recent years. Budget 2010 projections show net external liabilities growing from just under 90 percent of GDP to exceed 100 percent by 2014, continuing to rise thereafter. To address this, it is critical that New Zealand increase national savings. As well as helping to address imbalances, higher levels of savings and better allocated savings are likely to benefit economic growth and investment performance.

A Working Group of independent members (Chair plus six members) will be convened to provide a report to the Minister of Finance on these issues. The intention of this Working Group is to provide high level advice on options that would help deliver better functioning domestic savings performance. Improved savings performance helps address imbalances and can improve economic growth and investment performance. This advice will cover broad options available, including the advantages and disadvantages in respect to each of the areas above.

### **Aims**

The aims of this process are:

- to provide a point of reference for the Government as it develops its medium-term savings strategies; and
- to stimulate a public discussion on issues of national saving in the New Zealand economy, linking this discussion to investment and growth.

In particular, it is expected that the Group will consider:

- Fiscal policy – the role of Government saving as an important component of national saving, including potential long-term saving/debt targets and any offset between Government and private saving.

- Taxation – the impact of the tax system, particularly taxation of capital income, on the level and composition of national saving and investment decisions, and options for improvement. These will include, but are not limited to:
  - The case for moving to a dual income tax system, whereby labour and capital income might be taxed at separate rates;
  - Indexation or partial-indexation of the tax system so that real, rather than nominal, income is taxed.
- KiwiSaver – the role of KiwiSaver in improving national saving outcomes. This will include, but is not limited to:
  - Considering options to improve the operation and outcomes of KiwiSaver. This will include options where Kiwisaver is both voluntary and compulsory; and
  - The fairness and effectiveness of current Kiwisaver subsidies.

The Group is also likely to cover other areas it considers of importance to national saving.

This process is seen as a key part of preparing the background for examination of savings issues by Ministers. It has not been designed to lead to specific recommendations: rather it is to allow identification and discussion of the issues that Ministers will need to consider in their considerations of savings strategies.

### **Out of Scope**

The Group is not expected to discuss the parameters of New Zealand Superannuation or other specific forms of benefits/income support (which are currently being addressed by the Welfare Working Group). While it can consider overall fiscal policy in the context of national saving, is not expected to provide comment on the merits of individual spending areas. The Government has also recently said that it will not introduce broad and widespread taxation of capital gains or land.

### **Format**

The Treasury will produce a public Treasury Discussion Document in August 2010. This will provide a basis for discussion around primary issues and trends. Further background information will be provided on issues of particular interest to the Working Group.

The final report of the Working Group and the initial Treasury Discussion Document will be published on a website. Other Working Group update or background information may also be published.

## Timing

Publication of a Treasury Discussion Document in late-August 2010	This document will explore the range of issues and options that are relevant to medium-term policy in relation to saving in New Zealand, including economic growth, macroeconomic vulnerability, fiscal policy, taxation and KiwiSaver.
Working Group meetings, around six meetings in total, starting in late August 2010	While this is up to Working Group members, the likely format will be a series of sessions between September and December. These will probably break the project into its various topic areas. The Group will consider material prepared by the Secretariat and any outside work it wishes to commission.
Draft report prepared by December 2010	<p>The report will summarise discussion to date and outline policy options.</p> <p>A final working session open to the public will cover the substantive discussion to date and tentative conclusions.</p>
Working Group reports to the Government by the end of January 2011.	

### **Composition of the Working Group**

The Working Group will comprise a maximum of six people in addition to the Chair, chosen and appointed by the Minister of Finance on the basis of their authority, knowledge of the issues addressed in the Treasury Discussion Document and ability to articulate the issues to a wide audience.

### **Expectations on Working Group Members**

Working Group members will be expected to commit to six meetings between August and January, along with preparation, including each member acting as a formal discussant on the Treasury Discussion Document. The Group as a whole will not necessarily be expected to form

a consensus on all areas in their final report. Where there is no consensus, the report should cover the areas of disagreements and the major competing arguments.

The Chair of the Working Group, will be expected to facilitate the interaction of the Working Group and to compile the Working Group's report, with assistance from the secretariat. The Chair will also take the lead on external engagement in relation to the deliberations of the Working Group.

**Resources**

The Chair will be supported by a Secretariat, mainly from within Treasury to assist with facilitating the interactions of the Working Group and with drafting the report under direction of the Chair. Treasury will also provide communications support.

**Output**

The primary output will be the final report to Government, which will be published. The Working Group is expected to make papers it receives publicly available after each session.