08.11.2010.

Esteemed members of the Savings Working Group.

As a long time (60 years) advocate of the basic reality that wealth creation for investments and reserves is physically impossible without saving at the expense of hand-to-mouth consumption (potential), I welcome the opportunity for a submission to unbiased professionals with the task to evaluate the points raised.

I understand that wealth creation is not the same as becoming wealthy at someone else's expense like when winning a lottery – which in many cases (e.g. lucky speculation) is much easier than wealth creation – but cannot happen if there are no wealth reserves around, and becomes unsustainable eventually, when borrowed reserves are not repaid through savings at the expense of consumption.

Our current seemingly self contradictory calls for more savings and consumption are to be met by a higher savings rate invested immediately in needed, jobs (and consumption potential) creating infrastructure or profitable productivity where possible.

Two basic factors in the relative decline of our collective savings rate are (1) widening consumption under a widening welfare system and reduced incentive to save, and (2) enticing persuasion by our business world to consume more, even on credit.

Ignoring the ethics involved in these factors, a natural and most effective way to counteract these (1) economy weakening and (2) socioeconomically polarizing into haves and have-nots trends - would be to amend our NZ Super Fund into a permanent institution of Personal Accounts – PAs - with contributions to them built into our taxation system.

This would be ethically and economically superior to e.g. compulsory KiwiSaving (KS) because:

1. There would be no taxpayer subsidies involved.

2. There would be 100% of citizen participation, as even the poorest without taxable income would contribute through GST.

3. Compulsory KS might raise demands for taxpayer backed investment security, whereas NZSF PAs only help to sustain the already existing taxpayer commitment to finance NZ Super – equal to all, regardless how big your PA, or what the NZSF has earned – at reduced wealth redistributive cost to the taxpayer.

4. Thus, the NZSF can afford - up to a point – to invest in low interest domestic development bonds – and because a substantial proportion of its investments need never be sold on the open market when just being taken over by younger contributors – it will be a politically popular investor in nationally sensitive assets.

5. PAs will deliver measurable fiscal relief from their 1st year of introduction, by financing their owners' NZ Super until consumed - (at which point taxpayer financed PAYGO will take over automatically) – and releasing that amount of taxation revenue for use in other areas.

6. This will also eliminate the case for means testing of NZ Super forever, because the bigger the PA of a higher income earner, the smaller the taxpayer cost to pay for it.

7. In the case of death before a PA is consumed by its owner's NZ Super, it becomes part of his/her estate.

8. Together with KiwiSavings, PAs would be available for investment in their owners' 1st home ownership.

9. For simplicity, the initial PA allocation would be proportional to the years of having been a NZ taxpayer, from $1.- for say, a 15 year old, to say $10 000 or whatever, to all 64 year olds. After that, PA contributions would be proportional out of taxes paid.

10. PA allocation of the NZSF would open up a unique opportunity to grant the $1000.- initial KS incentive as a "sleeping KS account within the NZSF", for activation at its owner's choice of time - to all citizens from newborn babies to aged superannuitants who are not yet KiwiSavers - without costing the taxpayer a cent extra, and reducing the taxpayer cost of new KS accounts in years thereafter:

If there are 3 million of us not yet KiwiSavers, it would require the reservation of only $3billion within the $15billion NZSF at present, leaving still $12 billion for PA allocation.

In subsequent years, the perhaps 40 000 newborn babies & citizens a year would be fewer than the hundreds of thousands of KS enrolments per annum so far.

11. It would reduce the unfairness in the current situation, where lower income taxpayers not willing or able to take up KiwiSaving, practically subsidise the better off through govt. granted "incentives".

12. The (almost immediate) bonus to current superannuitants through the superannuitants' prerogative to cash in KiwiSavings is a well deserved reward for life-long contributions in the past, and will effectively demonstrate the tangible and continuing bounties through saving – and help public opinion shift in favour of the long term economic growth strategy of raising the country's savings, investment and wealth ownership rates to the level needed to achieve sustainability of what we desire. (NZ Super entitlement age at 65?)

13. Resuming NZSF accumulation without extra borrowing is possible by reversing recent income tax reductions, but keep the increase in GST for paying into the NZSF.

A commitment of its almost immediate investment in NZ (infrastructure construction etc) would make it an economic winner and politically palatable.

14. Many liberals opposed to compulsory saving would discover it in their "enlightened self-interest" to support widening wealth creation and ownership as a security guarantee against runaway welfare dependency and resultant pressure of increased taxation, and helping the development of a higher personal savings based welfare culture with relatively diminishing redistributive taxation needs.

15. With this, New Zealand would be in the forefront of socio-economic world leadership again, and a much needed example for some troubled laggards in the Western World to take notice of.

Yours sincerely - Jens Meder