

# The Treasury

## Budget 2015 Information Release

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- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.



## Briefing note

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Reference: BN2015/184

Date: 10 April 2015

To: Maraina Hak, Advisor to the Minister of Revenue

cc: Gary White, Advisor to the Minister of Finance  
Struan Little, Deputy Commissioner  
Matt Benge, Chief Economist  
David Carrigan, Policy Director  
Emma Grigg, Policy Director  
Mike Nutsford, Policy Manager  
Jill Compton, PA to Deputy Commissioner

From: Chris Gillion, Policy Manager

Subject: **KiwiSaver kick-start – applying a 21 May implementation date**

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The KiwiSaver kick-start payment is a payment of \$1,000 paid to all new KiwiSaver enrollees. It is proposed that the kick-start payment will be repealed as part of Budget 2015 and a Cabinet paper is due for consideration by Cabinet at its meeting on 20 April 2015. This briefing note outlines the approach to implementing the removal of the kick-start on 21 May (Budget day) and its risks. A report seeking agreement to the recommended approach and any detailed decisions will be sent to Ministers very soon.

The issue is how to implement the removal of the kick-start so that it is effective from 21 May 2015. Any proposal should be simple, effective, equitable, minimise any fiscal risk, induce minimal or no behavioural response and result in no one losing their entitlement.

### Ways people join KiwiSaver

Individuals join KiwiSaver by one of three ways:

- Automatically enrolled via their employer
- Proactively opt-in via their employer
- Proactively opt-in via a provider

The table below shows the average monthly enrolment in KiwiSaver via the three available enrolment methods for the last 12 months:

### Monthly enrolment in KiwiSaver

Auto enrolment via employer	6,986
Opt-in via employer	1,001
Opt-in via provider	9,317

It is expected that a similar number of individuals will join in May 2015.

## **Impact of operational practices on a strict 21 May 2015 implementation date**

### Employer enrolment

When starting new employment, an employee is automatically enrolled into KiwiSaver by their employer with the ability to opt-out. Existing employees can opt-in to KiwiSaver at any stage via their employer. Under both of these enrolment methods, enrolment takes effect when the first KiwiSaver deduction is taken from the employee's pay.

For a new employee who is automatically enrolled, the first KiwiSaver contributions deduction occurs in their first pay period.

For an employee who opts-in, the first KiwiSaver contributions deduction occurs in the pay period following their communication to opt in.

Each month, employers send Inland Revenue an Employer Monthly Schedule (EMS) which details all tax, KiwiSaver and other deductions made to an employee's pay in the previous month that are paid to Inland Revenue. When Inland Revenue receives an EMS from an employer that details KiwiSaver deductions from a new enrollee, that enrollee is set up in the various systems with a KiwiSaver start date of the 15<sup>th</sup> of the month that the EMS relates to.

While there is provision for employers to enter an employee start date on the EMS, this is often left empty and is not used in the KiwiSaver systems.

If a 21 May cut-off date for eligibility to the kick-start payment was strictly enforced these operational practices would have the following consequences:

#### *Auto enrolment via employer*

- 1) Employment start date before Budget day and paid in June – An employee who starts work with a new employer prior to 21 May but who is paid in June (June EMS period) would not automatically receive a kick-start payment as they would be deemed to have joined KiwiSaver on 15 June. The result is that a person who should receive the kick-start would not get it. It is difficult to estimate the number of people in this category but it is expected to be small.
- 2) Employment start date after Budget day and paid in May – An employee who begins work sometime between 22 May and 31 May 2015 who is paid in May would automatically receive the kick-start payment as they would be deemed to have joined KiwiSaver on the EMS default date of 15 May. The result is a person who otherwise should not have received the kick-start would in fact receive it. A very rough estimate is that approximately 676 people may fit this category.

Employees who start employment prior to Budget day and are paid in May, or start in May after Budget day and receive their first pay in June, would be correctly categorised.

#### *Opt-in via employer*

Issues arise with respect to the following situations:

- 1) Any employee who opts in prior to Budget day and is paid in June will incorrectly miss out on the kick-start

- 2) An employee who opts in after Budget day but is paid in May will receive the kick-start when they otherwise should not have.

Employees who opt-in before to Budget day and are paid in May, or opt in after Budget day and are paid in June, would be correctly categorised.

#### Provider enrolment

Under existing processes, Inland Revenue deems an individual to have joined KiwiSaver via a provider when their application is accepted by the provider. This information is then provided to Inland Revenue with the date of acceptance. The provider uses the date the applicant applied as the provider acceptance date. Therefore under existing processes those individuals who are accepted by a provider on or before 21 May will receive a kick-start, while those who are accepted after 21 May will not. This will require a minor change to the administration system.

#### **Recommended approach to implementing a 21 May kick-start removal date**

The proposed approach is designed to focus monitoring effort on enrolments that are most at risk of being prompted by the announcement of the cessation of the kick-start, and takes a lower compliance-cost approach where those risks are low. This approach accepts that some low-risk enrolees, particularly auto-enrolled new employees starting new jobs after 22 May and paid in late May, will access the kick-start.

In addition, a person's eligibility for the kick-start in May will be different depending upon their enrolment method. Those enrolling directly with a provider will be denied the kick-start after 21 May. Those enrolling through an employer may receive the kick-start if they enrol after 21 May but before the end of May. This is because Inland Revenue has a more accurate application date for direct enrolments than for enrolments through an employer.

#### Recommended approach for auto-enrolled employees

It is proposed that all new employees paid in May (May EMS) will receive the kick-start. Any employee paid in June (June EMS) would not receive the kick-start automatically. They would need to contact IRD with confirmation of their entitlement to a kick-start (e.g. an employment contract showing they started work on or before 21 May).

This approach has the following implications:

Fiscal	Equity	Admin costs	Compliance costs
An estimated additional cost of \$676,000 of kick-start paid to employees who joined between 22 and 31 May.	<p>Employees auto-enrolled via their employer and paid in May who join KiwiSaver between 22 May and 31 May would receive the kick-start. People opting in via their provider after 21 May would not receive it.</p> <p>This inconsistency also potentially applies between new employees who are auto-enrolled and existing employees who opt-in (depending on the option chosen, see below).</p>	Costs will arise from IRD's contact with June EMS employees.	Compliance costs will arise for employees in the June EMS period who need to contact IRD.

Recommended approach for employees who opt-in via their employer

We have identified two options for removing the kick-start for employees who opt-in via their employer using a **risk based approach**. We propose that once the EMS's for May are received and processed by Inland Revenue (estimated to be 20 June) a determination will be made regarding whether there has been a substantial increase in opt-ins for May and therefore whether a significant fiscal risk has arisen. These two options are as follows:

- 1) Employer opt-in option one would apply if there was **no** substantial increase
- 2) Employer opt-in option two would apply if there was a substantial increase

**Employer opt-in option one:** Under this option all opt-in employees who were paid in May (May EMS) would receive the kick-start. Any employee paid in June (June EMS) would receive the kick-start so long as they provided IRD with confirmation (such as a KS2) to evidence that they opted in by 21 May. A KS2 is the form a new KiwiSaver member fills out to inform their employer of their contribution rate and personal details. This form is signed and dated.

This approach has the following implications:

Fiscal	Equity	Admin costs	Compliance costs
There is an estimated fiscal cost of \$100,000 associated with the incorrect pay-out of the kick-start to employees who opted in after Budget day and had their first KiwiSaver deduction in May. There is a risk that employees who opt in after 21 May provide an incorrect application date on their KS2 form. The risk may be mitigated to some extent by employers checking application forms and proactive communication that IRD will be monitoring and can audit.	<p>Employees paid in May who opt-in after 21 May would receive the kick-start, whereas those opting in via their provider after 21 May would not receive it.</p> <p>Opt-in employees would also be treated differently dependent upon their pay period i.e. an employee who opts-in between 22 and 31 May and is paid in May would receive the kick-start, whereas an employee who opts-in at the same time but is paid in June would not.</p>	There would be costs involved with IRD's contact with employees.	There would be compliance costs for employers who must provide evidence to IRD of their employee's opt-in date.

**Employer opt-in option two:** The second option is that no opt-in employees in the May or June EMS periods would receive the kick-start, unless evidence was provided by their employer that they opted in by 21 May. As the kick-start is not paid out until 91 days after IRD first receives a KiwiSaver contribution, it is possible to halt the passage of the kick-start at the point the May EMS is processed and determine eligibility manually.

The implications from this approach are as follows:

Fiscal	Equity	Admin costs	Compliance costs
<p>As for option 1, there is a risk that employers may provide an incorrect opt-in date for their employees. A similar approach to communicating with employers and monitoring would help mitigate this risk.</p>	<p>Employees paid in May who opt-in after 21 May would not receive the kick-start, whereas auto-enrolled employees would. But opt-ins would be treated the same as those enrolling directly via a provider.</p>	<p>There would be higher administration costs under this option compared with option 1 as all May and June EMS employers who have employees opting in during that period would need to be contacted.</p>	<p>There would be compliance costs for employers as they have to provide evidence to IRD of when their employees opted in.</p>

Approach to individuals who opt in via their provider

An application date is provided to the KiwiSaver provider and this date will be used. However, we will report next week on a few issues of detail.

Chris Gillion  
**Policy Manager**  
 04 890 6056