

The Treasury

Budget 2015 Information Release

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Key to sections of the Official Information Act 1982 under which information has been withheld.

Certain information in this document has been withheld under one or more of the following sections of the Official Information Act, as applicable:

- [1] 6(a) - to prevent prejudice to the security or defence of New Zealand or the international relations of the government
- [2] 6(c) - to prevent prejudice to the maintenance of the law, including the prevention, investigation, and detection of offences, and the right to a fair trial
- [3] 6(e)(iv) - to damage seriously the economy of New Zealand by disclosing prematurely decisions to change or continue government economic or financial policies relating to the entering into of overseas trade agreements.
- [4] 9(2)(a) - to protect the privacy of natural persons, including deceased people
- [5] 9(2)(b)(ii) - to protect the commercial position of the person who supplied the information or who is the subject of the information
- [6] 9(2)(ba)(i) - to prevent prejudice to the supply of similar information, or information from the same source, and it is in the public interest that such information should continue to be supplied.
- [6a] 9(2)(ba)(ii) - to protect information, where the making available of the information would be likely otherwise to damage the public interest
- [7] 9(2)(d) - to avoid prejudice to the substantial economic interests of New Zealand
- [8] 9(2)(f)(iv) - to maintain the current constitutional conventions protecting the confidentiality of advice tendered by ministers and officials
- [8a] 9(2)(f)(ii) - to maintain the current constitutional conventions protecting the collective and individual ministerial responsibility
- [9] 9(2)(g)(i) - to maintain the effective conduct of public affairs through the free and frank expression of opinions
- [10] 9(2)(h) - to maintain legal professional privilege
- [11] 9(2)(i) - to enable the Crown to carry out commercial activities without disadvantage or prejudice
- [12] 9(2)(j) - to enable the Crown to negotiate without disadvantage or prejudice
- [13] 9(2)(k) - to prevent the disclosure of official information for improper gain or improper advantage
- [14] Not in scope

Where information has been withheld, a numbered reference to the applicable section of the Official Information Act has been made, as listed above. For example, a [4] appearing where information has been withheld in a release document refers to section 9(2)(a).

In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.

Briefing note

Reference: BN2015/255

Date: 12/5/2015

To: Gary White, office of the Minister of Finance
Maraina Hak, office of the Minister of Revenue

cc: Struan Little, Deputy Commissioner
Matt Benge, Chief Economist
David Carrigan, Policy Director
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From: Tom Broadhead

Subject: **KiwiSaver minimum balances**

The current rules (changed in 2014) supporting the first home withdrawal provisions in the KiwiSaver Act 2006 allow members to withdraw all of their accumulated funds except the kick-start contribution.

The Budget night legislation that has been drafted (the Draft Legislation) to repeal the kick-start payment changes the minimum balance so that instead of referring directly to the kick-start, it will instead refer to \$1,000 (i.e. the value of the kick-start). In this way the minimum balance restriction continues to operate regardless of whether the member received a kick-start or not.

We understand that Ministers have asked whether or not the minimum balance could be set at a different amount in the Draft Legislation and whether this different amount could apply only to members who did not receive the kick-start.

Administrative considerations

The minimum balance could be set at any level. There are no administrative implications of changing this figure for Inland Revenue (other than making changes to the Draft Legislation), however we cannot say with confidence whether KiwiSaver providers would find it difficult to implement a new minimum balance (or different minimum balance amounts for different people) as we have been unable to consult with providers given time constraints and the Budget sensitivity.

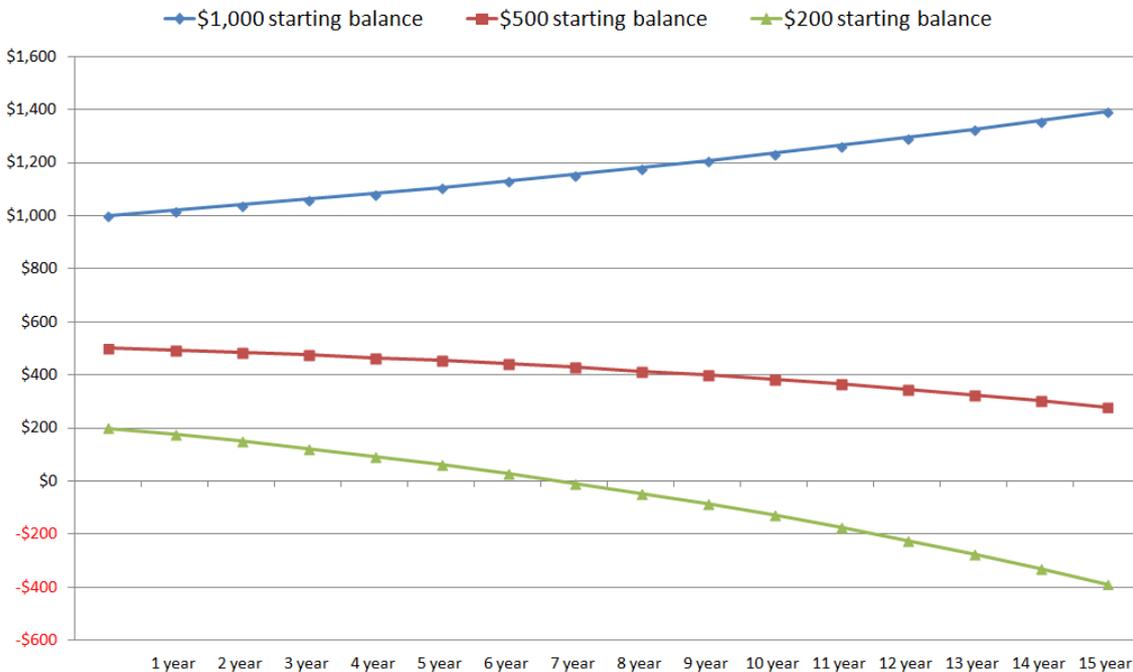
Policy rationale: Uniform amount is simple

There are also advantages to having a simple rule regardless of whether a member has received a kick-start or not. If the minimum balance were to change it would be easier for providers and members to understand if the rule applied to all members. There are at least two rationales for the minimum balance policy: firstly, to keep the accounts open with a meaningful amount to encourage a return to using KiwiSaver as a savings vehicle and secondly, not to have the balance diminished by management fees (which are higher as a percentage for smaller balances due to fixed fees). Whether a member has received a kick-start or not does not factor into these policy reasons.

Policy rationale: Fees can erode balances quickly

It is important that KiwiSaver members are not left with an amount that erodes rapidly due to management fees with no prospect of returns boosting the balance to negate these fees. For illustrative purposes (in the limited time available) we have shown the effect on a \$200, \$500 and \$1,000 balance of the current average default provider fees and average returns for default funds:

Figure 1: Default fund year-end balance after fees with 6% p.a expected annual return



Source: 2014 Government Default Provider Review tender submissions and Treasury analysis. Assumptions: Fees based on average variable fees and fixed membership fee for KiwiSaver default funds (0.55% p.a. plus \$35 p.a.). Returns are 6% p.a. after tax.

Based on the effects of fees for default providers (even assuming reasonable returns of 6% after tax), a \$200 balance would be extinguished in six years and a \$500 balance would also deplete (at a lesser rate). It is clear that the original policy intention to retain \$1,000 in KiwiSaver accounts has an underlying rationale that even with fees, the account balance should still stay stable or appreciate in normal market conditions.

Even if the Draft Legislation kept the requirement to retain at least \$1,000 in an individual's KiwiSaver account, that amount will not necessarily be (or be perceived as) a member's own contributions. The Government will continue to provide subsidies to those members who contribute (50c per \$1 saved up to a maximum of \$521.43) which become intermingled with individuals' own savings.

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