

14 April 2008

To: Office of the Minister of Finance

From: Tax Strategy, Treasury

BENEFIT TO SUPER ANNUITANTS UNDER PROPOSED PACKAGE (SCENARIO A)

The level of NZ Superannuation is linked to average take home (or net) wages. Like other forms of income, tax is paid on NZ Superannuation.

When taxes fall there are two steps that may lead to an increase in the amount of money super annuitants receive in the hand each week:

1. The tax paid on superannuation decreases, so the amount super annuitants receive in the hand goes up.
2. The level of superannuation is increased by inflation each year to ensure it keeps up with the cost of living. If inflation increase is not enough to keep up with growth in net average wages (which are also affected by tax cuts), NZ Superannuation is increased again.

Table 1 shows the projected level of net NZ Superannuation received by a married couple under the current tax scale and under the current proposal. Projections are based on forecast wage and CPI growth from the preliminary forecasts and assume a 1 April 2009 start date.

Table 1: Projected net married couple weekly rate of NZ Superannuation

	Current Tax System	Current Proposal	Weekly Increase
2008/09	\$439.80	\$439.80	\$0.00
2009/10	\$451.90	\$475.46	\$23.56
2010/11	\$465.90	\$488.92	\$23.02
2011/12	\$483.68	\$513.62	\$29.94
2012/13	\$500.10	\$530.02	\$29.92

Other rates of NZ Super are based on the net married couple rate, for example NZ Super for a single super annuitant living alone is set at 65% of the net married couple rate. This means the benefit to other super annuitants will be proportional to that received by a married couple.

Additional note: Figures are based on an earlier scenario that differs from the final package. Under the personal tax package announced in Budget 2008 the married couple rate increases by \$22.94 per week from 1 October 2008, this is compared with no increase until 1 April 2009 shown above. Note also that rates shown in the above table were based on projections of wage growth and inflation. Actual rates may have differed.