

6<sup>th</sup> May 2008

To: Office of the Minister of Finance

From: Tax Strategy, Treasury

## BENEFIT TO SUPER ANNUITANTS UNDER PROPOSED PACKAGE

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.

As the proposed tax package takes effect from 1 October these effects are separated in time. Net super increases as a result of the tax changes from 1 October and will be adjusted for CPI growth from 1 April 2009.

Table 1 shows the current rate of net NZ Superannuation (NZS) for a married couple and rates from 1 October 2008 and 1 April 2009. The rate for 1 April is an estimate based on the forecast wage and CPI growth from final forecasts. Table 2 shows the net rates for single super annuitants living alone.

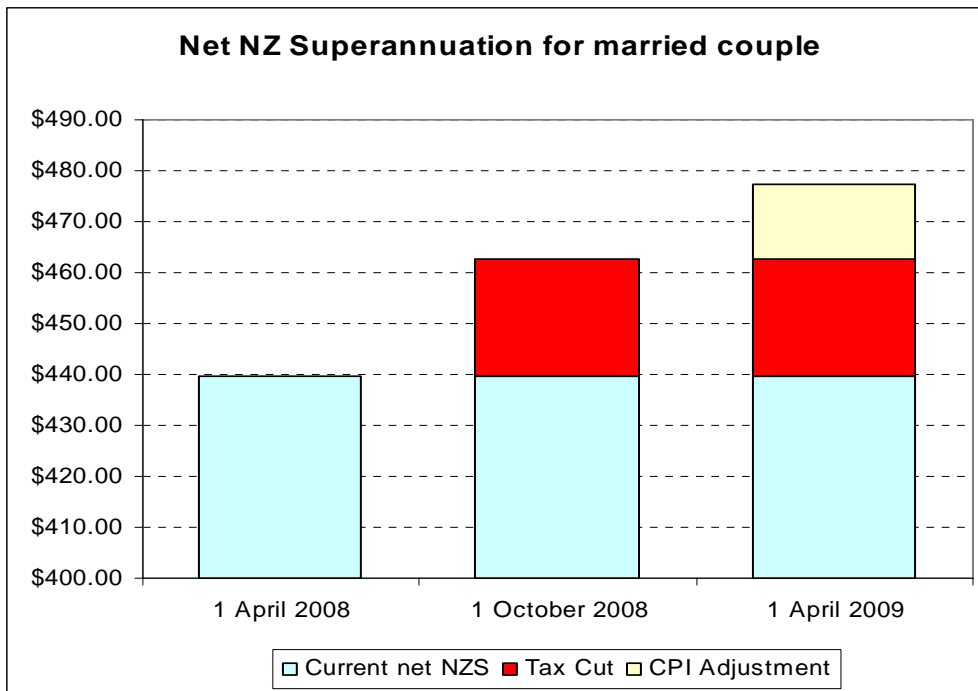
Table 1: Married couple rate of Net NZS (estimated rate in italics)

	Net weekly payment	Weekly Increase
1-Apr-08	\$439.80	
1-Oct-08	\$462.74	\$22.94
<i>1-Apr-09</i>	<i>\$477.46</i>	<i>\$14.72</i>

Table 2: Single Super annuitant living alone rate of Net NZS (estimated rate in italics)

	Net weekly payment	Weekly Increase
1-Apr-08	\$285.87	
1-Oct-08	\$297.79	\$11.92
<i>1-Apr-09</i>	<i>\$310.35</i>	<i>\$12.56</i>

The changes to 1 April 2009 are represented graphically below:



Rates of NZS will increase again on 1 April 2010 and 2011 through a combination of tax cuts, annual CPI adjustment, and interaction with the net average wages. Final rates will depend on actual wage and CPI growth.