

# The Treasury

## Budget 2023 Tax Initiatives Information Release

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### Cabinet Document Details

Title: **Cabinet Paper: DEV-23-SUB-0068: Government Payment of KiwiSaver Employer Contributions to Paid Parental Leave Recipients**

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Office of the Minister of Commerce and Consumer Affairs

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Office of the Minister of Revenue  
Office of the Minister of Commerce and Consumer Affairs

Chair, Cabinet Economic Development Committee

## **GOVERNMENT PAYMENT OF KIWISAVER EMPLOYER CONTRIBUTIONS TO PAID PARENTAL LEAVE RECIPIENTS**

### **Proposal**

- 1 This paper seeks policy approval of the proposed government payment of KiwiSaver employer contributions to paid parental leave (PPL) recipients.

### **Relation to Government Priorities**

- 2 Cabinet recently approved funding for the proposed government payment of KiwiSaver employer contributions to PPL recipients as part of Budget 2023.

### **Background**

- 3 Research has identified that the position of women at retirement is less secure than men. Women's KiwiSaver balances are, on average, 20% less than those of men.
- 4 The causes of this include overrepresentation in lower paid roles, greater time spent out of paid employment and lower rates of labour force participation. These factors affect both women's ability to save for their retirement, the level of their contributions and their ability to benefit from employer and government incentives to save for retirement.
- 5 The primary solutions to addressing these issues lie outside KiwiSaver, and instead in labour market interventions and education policy relating to childcare. However, there are KiwiSaver changes which would go some way toward mitigating the broader effect of labour market and social differences on women's lifetime earnings and retirement savings.
- 6 The proposed government payment of the KiwiSaver employer contribution to PPL recipients' KiwiSaver accounts is one such option. This has been allocated funding as part of Budget 2023.

### **Proposal**

- 7 Under current PPL settings, an eligible employee or self-employed person can receive up to a maximum of \$661.12 (gross) per week, for up to 26 weeks.

Recipients of PPL can choose to have KiwiSaver employee contributions made from their PPL payments at a contribution rate of their choosing. However, uptake of this opportunity is low, with only 14% of PPL recipients choosing to make KiwiSaver contributions from their PPL in 2021/22.

- 8 Under the proposal, the government will pay an employer-style contribution. The government contribution rate will be the same minimum contribution rate as for employers more generally, which is currently three percent of the person's government PPL entitlement.
- 9 Eligibility will be conditional on the individual also making KiwiSaver contributions as a deduction from their government PPL payments. This is consistent with current settings where employers must pay a contribution only if the employee contributes three percent or more from their pay.
- 10 Alongside biological parents, adoptive parents and other carers with permanent responsibility for a child will also be eligible for the contribution by virtue of qualifying for government PPL. The intention of the proposal is to assist retirement savings alongside recognising the unpaid nature of childcare and its impact on earning and saving potential. It will also incentivise PPL recipients to save for their retirement and contribute to their KiwiSaver accounts from their PPL payments.

## **Risks**

- 11 Some employers currently continue to pay an employer contribution to their employees' KiwiSaver while they are on paid and/or unpaid parental leave. If this option was adopted, some employers may review their internal policies regarding employer contributions. It is unclear what the impact would be, as some employers may stop paying contributions during parental leave on the assumption that government is now doing so in their stead. Others may update their policies to be more generous to staff, particularly in sectors where there is competition among employers for workers.
- 12 As the option is for a government contribution based on a set percentage of a regularly updated entitlement amount (PPL payments are generally increased annually), the fiscal cost of making the KiwiSaver contributions is likely to grow each year in nominal terms.

## **Consultation**

- 13 In developing advice on a range of KiwiSaver options, officials engaged on a variety of issues and enhancement options. However, officials did not get feedback specifically on this PPL option from iwi, hapū, business or small business representatives, or KiwiSaver providers.

## **Financial Implications**

- 14 The fiscal cost of this proposal is \$0.510 million for departmental administrative costs (capital and operating) and \$19.219 million for the Government contribution over the forecast period (2022/23 to 2026/27). These

fiscal costs are being funded through Budget 2023 (CAB-23-MIN-0139 refers, 11 April 2023).

## **Legislative Implications**

- 15 Although the proposal has received funding, its implementation will require legislative amendments to existing legislation, including the KiwiSaver Act 2006.
- 16 We recommend including the proposal in this paper in a bill to be introduced on Budget night (18 May 2023). This Bill will go through the normal select committee process and be enacted by 31 March 2024.
- 17 The proposal itself would take effect beginning in the 2024/25 financial year (i.e. commencing 1 July 2024).
- 18 Additionally, we propose that Employer Superannuation Tax (ESCT) apply to the proposed government “employer” contribution. This would ensure that the government’s “employer” contribution is treated in the same way as a conventional employer contribution.

## **Impact Analysis**

### **Regulatory Impact Assessment**

- 19 A Regulatory Impact Statement has been completed and is attached in the appendix.
- 20 The Regulatory Impact Analysis Panel with representatives from Inland Revenue and the Ministry of Business, Innovation and Employment has reviewed the Regulatory Impact Statement and confirmed that it partly meets these requirements.

### **Climate Implications of Policy Assessment**

- 21 The Climate Implications of Policy Assessment (CIPA) team has been consulted and confirms that CIPA requirements do not apply to this proposal as it not expected to result in any significant, direct emissions impacts.

## **Population Implications**

- 22 The proposal is expected to offer a benefit to primary caregivers, many of whom are women. The proposal will have positive distributional and equity outcomes for the gender retirement savings gap as it would disproportionately benefit women.
- 23 However, this option will likely be paid to recipients in higher income households more often than it would to those in lower income households, due to affordability constraints discouraging some from opting-in to deductions from their PPL. This means that uptake by Māori, Pacific, solo parents and those with disabilities is likely to be disproportionately low.

## Human Rights

- 24 The proposals discussed in the consultation document are not inconsistent with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

## Consultation

- 25 The Ministry of Social Development the Ministry for Women, the Public Service Commission, the Financial Markets Authority, and the Treasury were consulted in developing this proposal.
- 26 The Treasury was consulted in the preparation of this Cabinet paper.

## Communications

- 27 The communications regarding this proposal will be included in the Minister of Finance's communications regarding Budget 2023

## Proactive Release

- 28 The Treasury coordinates a proactive release of Budget documents following Budget Day. This release is to improve transparency of the Budget decision-making process. The proactive release of documents will include this paper and related advice from the Treasury and MBIE.
- 29 We propose to proactively release the Regulatory Impact Statement, with appropriate redactions, on the introduction of the Bill on Budget night

## Recommendations

The Minister of Revenue and Minister of Commerce and Consumer Affairs recommend that the Committee:

- 1 **Note** the proposed government payment of the KiwiSaver employer contribution to eligible PPL recipients was allocated funding as part of Budget 2023;
- 2 **Agree** the government will pay a three percent "employer" KiwiSaver contribution to eligible PPL recipients' KiwiSaver accounts (if they are also contributing at least 3 per cent from their PPL themselves) beginning 1 July 2024;
- 3 **Agree** that ESCT should apply to the government "employer" contribution in the same way as to a conventional employer contribution;
- 4 **Authorise** the Minister of Revenue to introduce a Bill containing the measures referred to in recommendation two, above;
- 5 **Authorise** the Minister of Revenue and the Minister of Commerce and Consumer Affairs to make further policy or operational decisions consistent with the policy decisions in this paper; and

- 6 **Note** that the Bill referred to in recommendation four, above is scheduled to be introduced on Budget night (18 May 2023), will go through the normal select committee process, and be enacted by 31 March 2024.

Authorised for lodgement

Hon David Parker

Minister of Revenue

Hon Dr Duncan Webb

Minister of Commerce and Consumer Affairs