

Women in Super's comments and Issues in respect of the 2005 Budget announcements

Kiwi Saver Scheme

- While details are not yet available on many aspects of the Kiwi Saver scheme, generally, and subject to the following points, Women in Super supports the Government's initiative (see attached Press release)
- It is proposed that money collected by the IRD from salaries for the Kiwi Saver scheme remains with the IRD until it is of sufficient size to enable it to be forwarded to the underlying funds - +/- 8 weeks. What interest rate will be earned on such funds and how will this be calculated and reported on to individuals? WIS suggest that this interest rate should be not be any less than the current rates that could be obtained from a bank. Will this interest be taxed and at what rate? WIS suggest it should be taxed at the individual's marginal tax rate.
- It is proposed that the Government will negotiate the fees on Kiwi Saver with the expectation being that these fees will be less than fees on current superannuation schemes. How will this impact on existing schemes and members, will there be sufficient margin to cover advice and servicing typically expected and currently received by retail members? It is essential that the establishment of the Kiwi Saver scheme does not adversely effect existing superannuation schemes.
- Bearing in mind that it is suggested that there will be only a relatively short list of default providers - how will the product managers/providers be selected and how and who will determine the default product managers/providers for members who do not choose a product manager/provider themselves?
- How and who will determine the default investment fund (and what will the risk profile of the fund be?) for members who do not elect a fund for themselves?
- It is proposed that the cost of compliance for employers is reduced. Will these same changes be applicable to current employer retirement schemes?.
- What sort of reports will be received by members, how will they know their contributions have reached their account?
- The \$1000 subsidy will only be available to those in Kiwi Saver or those schemes which fully convert. If members are motivated by the \$1000 kick start and then "opt out" soon after, there will be many small individual account levels to be managed. This is not cost effective.
- There is concern that current employer schemes will be disadvantaged by the establishment of Kiwi Saver which offers an incentive to join and reduced fees for members. This may result in existing schemes being wound up or migrated to Kiwi Saver with the result that members, under current legislation, will need to be paid out their current balances. It is unlikely that such withdrawal amounts will all be reinvested. This could result in short term "dis-savings".
- The proposed minimum contribution rate of 4%, or optional increased rate of 8%, may be onerous for many women, insufficiently flexible to accommodate women's changing circumstances and lower income levels and may be a barrier to many women to join the scheme. A tiered contribution rate, similar to that implemented by the State Sector Retirement Saving Scheme, should be considered.
- While there is the ability to take a contribution holiday of up to 5 years, allowing continual contribution holidays will not assist long-term savings. This ability requires strict controls.
- While the availability of withdrawals for hardship and home ownership deposits should be encouraged the focus of Kiwi Saver should be on long-term retirement savings.
- With Kiwi Saver primarily offered to permanent employees, and the self employed and beneficiaries able to voluntarily opt in, it will be essential that the education programme surrounding the scheme reaches everyone.
- The proposal that members can redirect contributions to pay off mortgages is good however will need careful management given the focus of the scheme which we believe should be long-term retirement savings.
- We support New Zealand Superannuation remaining gender neutral, as there will be a lot of people unable to join the Kiwi Saver scheme.

Proposed Tax changes on Collective Investment Vehicles (CIVs) – Managed Funds.

- The desire to reduce the overall inequality of the tax structure on CIVs is welcome. These vehicles provide flexibility and are an excellent way to save (for as little as \$100 per month) and to invest across a diversified investment portfolio without the need for large amounts of money.
 - Not all the details are available in respect of the proposed reform, particularly in respect of international tax changes. In addition, the issue of Deferred Tax credits will need to be addressed.
 - The removal of tax on gains in domestic CIVs with income passed through to be taxed at the individual investor's own personal tax rate is positive because many individuals currently pay more tax than if the investments were held directly.
 - Individuals in the 39% tax bracket could be worse off as they will pay tax at 39% on income CIVs rather than the current 33%.
- The tax changes on CIVs will require significant system changes. Given legislation is yet to be drafted with implementation planned for 1 April 2007, there is concern in the industry that there may be insufficient time available for making all of the required changes. The cost of such changes could be considerable but are impossible to quantify until all the details of the proposed changes are available.
- Tax changes should be implemented at the same time as Kiwi Saver is established.