

Women in Super

Wāhine Whakamoamo

P O Box 2656
WELLINGTON

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Hon Dr Michael Cullen
Minister of Finance
Parliament Buildings
WELLINGTON

Dear Dr Cullen

Earlier this year you invited feedback from the industry on two options you are considering to encourage saving for retirement.

Option 1 – the removal of SSCWT tax inequities for those earning less than \$38,000 pa.

Women in Super strongly supports the removal of tax inequities caused by the over taxation of employer contributions for those who earn less than \$38,000 pa. We also support the removal of the same inequity in taxation of investment income.

Women in Super support moves towards the implementation of a retirement savings regime that includes the deferral of tax on employer contributions and investment income until such time as savings are drawn down as income. This provides:

- an incentive for savers to put aside some income for future use
- a more equitable taxation of retirement income
- a much needed extension of the tax base when the baby boomers retire.

To manage the fiscal impact of such an initiative we would suggest implementation in two or three stages. Deferral of tax on investment income coupled with a cap on employer contributions that could be extended up to a maximum value over a period of say, 10 years.

We realise such a move is costly, and may not be affordable at this time. In this case, **Women in Super** suggest an interim initiative be implemented for an agreed period, say 10 years, to reduce the rate of SSCWT, and the tax rate applied to superannuation investment income, to a flat rate equal to the lowest marginal tax rate. To avoid any abuse of the tax advantage it would be necessary to require a benefit lock-in period and/or an amendment to the Fund Withdrawal Tax provisions.

Option 2 – extension of the 6% tax incentive for employer contributions

You also identified consideration of the extension to all taxpayers, of the 6% incentive currently available to the top marginal tax group only. We assume this represents a 6% reduction on the effective marginal tax rate for all income earners. While **Women in Super** cannot comment on the success, or otherwise of the current advantage this provides to a small group of savers, it believes there are better ways in which savings for retirement can be encouraged.

These are:

- to reduce or remove taxation on all retirement savings contributions and investment income at source. Fiscal impact being managed by limiting contributions eligible;
- to collect tax at the marginal tax rate of the individual on draw down of retirement savings;
- to implement other initiatives in order to gain maximum impact from such changes.

Other initiatives:

Mandatory provision by employers of, as a minimum, a payroll deduction facility to allow direct contribution by employees to a savings scheme. A mandatory payroll deduction facility would encourage a change of mind set for employees and employers to a situation where the normal expectation is that a portion of income would be directed to savings. This mechanism allows all income actually received to be used for daily living, with the knowledge that some savings have already been taken care of.

Promotion and encouragement of workplace savings schemes. This provides an ideal environment for low to middle income earners to access a long-term savings vehicle. The use of employer master trusts provides group benefits that include lower administration fees, access to low cost wholesale investment management charges and access to financial advice that this income group may not normally seek or be able to afford.

We believe it is imperative to act now on these issues while recognition of the need to save is at a high level within the general population¹. Those on low to middle incomes currently face some significant barriers to saving. The Household Savings Survey indicates that New Zealanders savings levels are lower than for any other OECD country and that debt plays a dominant role in household finances. This raises potential issues for our society, if the ability of the population to provide for their own retirement remains the same or worsens, Government and all taxpayers will have an increased liability to fund the safety net.

Women in Super believes New Zealand needs a longer term, integrated strategy from Government to address the issues surrounding retirement saving. We are hopeful that the Periodic Report Group - Retirement Income Policies due to report to the Minister of Social Services in December 2003 will assist this goal.

Women in Super welcomes the opportunity to comment on the matters you have raised, and look forward to Government action to address retirement savings issues – not only for the future of the New Zealand economy, but also to deliver individual New Zealanders with choice and dignity in retirement.

Yours sincerely

Linda McCulloch
For and on behalf of
Women in Super

¹ AMP SuperWatch July 2002