The practicalities of KiwiSaver – from an employer's perspective

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Practical issues for employers

- Lessons from the past
- Compliance – what SMEs say
- Employer obligations
- Opting out…
- Employer contributions and responsibilities
- Consultation helps avoid compliance costs
- Tax deductibility
- Mortgage diversion
- Employers as financial advisors
- Impacts on industrial bargaining
- KiwiSaver for sole traders
- Financial literacy adequate?

Lessons from the past

- Drop in workplace super schemes during the 1990s due to compliance issues
  - Had to issue prospectuses
  - Had to give detailed reporting on funds' performance
  - Short-term reporting not always relevant to long-term investment

Compliance: What SMEs said

- EMA survey 2006: *"As an employer, is the [KiwiSaver] compliance you will be required to undertake for your employees acceptable to you?"*
- SMEs: 68% said no

Employer obligations

- Deduct contributions along with PAYE
- Forward to IRD
- IRD sends to registered KiwiSaver fund managers for investment
- Select a fund manager if staff don’t choose one themselves

Opting out…

- 700,000 workers start a new job each year – ongoing compliance for employers.
- Six-week period to opt out if they choose (two weeks from start date)
- Opt-out forms sent to IRD
- Employer to stop the deductions from next pay
- Deductions made but not yet passed on to IRD can be refunded to employee
- Stop deductions for contributions holidays
- Employees who opt out late will cause further compliance issues.

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Employer contributions

- Optional
- Employer to choose the amount
  - Can count towards the 4% minimum rate
- Small tax incentive
  - Matching contributions up to 4% of gross pay are exempt from SSCWT

Employer's responsibilities

- Give out information pack – legal requirement within first week of employment
- Give IRD the names, addresses and tax numbers of staff who want to join – 20th of every month
- Pay KiwiSaver deductions to IRD along with PAYE
- Give employees investment statements from their chosen KiwiSaver scheme providers

Exempt employers' responsibilities

- Employer must apply to become exempt and have an existing superannuation scheme that:
  - Is a registered super scheme
  - Is open to all employees 18-years and over (except temporary workers)
  - Allows transfer of funds to/from other schemes
  - Provides for contributions of at least 4% of gross base salary

- Still need to cater for employees who want to join KiwiSaver

Consultation helps avoid compliance costs!

- Last minute changes during 2006
- Changes themselves largely positive, but no employer consultation, so compliance issues re:
  - KiwiSaver SSCWT deductibility & then extension of deductibility to existing super schemes
  - Mortgage diversion
  - Allowing minimum payments to be paid by employer contribution

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Tax deductibility

- For KiwiSaver
  - Tracking the employment records of casual employees for tax deduction = high compliance cost.
- For existing schemes
  - Deductibility will require all trust deeds to be reviewed & amended

Mortgage diversion

- *"Unnecessary triple handling of mortgage repayments by employer, Inland Revenue and the super scheme."* – Michael Littlewood, (Retirement Policy and Research Centre, The University of Auckland)

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Minimum payments by employer contribution

- Allowing the minimum contribution to be paid by employer contribution
- Threshold minimum of 4% of income – may be too high for low income earners → pressure on employers to contribute.
- Could lead to industrial arm-twisting – ultimate compliance cost

Employers as financial advisors?

- Employers should avoid giving financial advice
- No liability if the employer is only:
- · Supplying an information pack
- · Giving a factual description of KiwiSaver
- · Promoting the benefits of retirement savings in general.
- Risk of being stuck with legal consequences of advice outside these exceptions
- Theory vs practice

Impact on industrial bargaining

- Employer contributions as bargaining tool
- EMPU campaigning for contributions as part of this year's wage talks
- Employers should not be arm-twisted to pay for staff retirement savings

KiwiSaver for sole traders?

- Up to them
- Miss out on salary sacrifice

Can low-income workers save?

- Depends on financial priorities — pay off debt/mortgage first?
- Temptation to stay in for five years, collect the first-home subsidy, then opt out
- Tax cuts would boost savings ability
- KiwiSaver not one-stop-shop for savings

Adequate financial literacy?

- Greater need for financial literacy in schools
- Necessary to make good decisions about KiwiSaver
- KiwiSaver among first major financial decisions many will make
- Do we have a savings problem?

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Big picture issues

- Relative attraction of KiwiSaver
- Compulsory employer subsidy?
- Success/lack of success of KiwiSaver