

## SAVINGS POLICY

### SUMMARY

Labour will give everyone a secure retirement by making workplace saving universal, guaranteeing New Zealand Super and setting aside money for our ageing population. This package of 3 policies tackles the tough issues to deliver a lasting solution to the problems of high debt and low savings.

#### 1. Universal KiwiSaver

- *Scope:* Labour's plan will make KiwiSaver compulsory for every employee aged 18 to 65 from 2014.
- *Employer contribution:* Labour will gradually increase employer contributions at a rate of 0.5 per cent a year, from 3 per cent to 7 per cent, over 9 years.
- *Employee contribution:* Labour will retain the current minimum employee contribution of 2 per cent.
- *Government Incentives:* The \$1,000 kick-start will be spread over 5 years. Labour will not make any more changes to the member tax credit.
- *Accessing and withdrawing KiwiSaver funds:*
  - While there will be no general ability to opt-out under this scheme, Labour will retain the withdrawal and hardship provisions as set out below.
  - Labour will retain the current 65 years eligibility age to access KiwiSaver savings.
  - New Zealanders will continue to be able to access their KiwiSaver funds on the grounds of hardship. Hardship grounds will also be applied to allow the suspension of contributions.
  - First home buyers will still be able to access their KiwiSaver savings to put towards their first home.
  - Labour will review the provisions around migration as part of the tripartite consultation.
  - Labour will examine the details and implications for relationship property and bankruptcy as part of the tripartite consultation process.
- *Non-KiwiSaver schemes:* New Zealanders will not have to change their investment scheme, provided the scheme becomes KiwiSaver compliant.

- *Consultation Process:* Labour will establish a tripartite consultation process involving government, employer and employee representatives to ensure the detail of the scheme works for employers and employees.
- *Scheme Structure:* Labour will retain other key aspects of the scheme. KiwiSavers will still be able to choose their provider and the risk profile of their investment.

## 2. Raising the Eligibility Age for NZ Super

- *Eligibility Age:* Labour will gradually lift the age of NZ Super eligibility from 65 to 67 starting in 1 April 2020 and taking 12 years to phase in.
- *Phase-in Timetable:* There will be no change for the next 9 years. The age will be lifted 2 months each year starting in 2020. This means:
  - No change for anyone born before 1955. This includes everyone currently receiving NZ Super or those close to retirement.
  - Those 45 years or younger will have at least 22 years to plan for this change in the eligibility age.
  - For those aged 46 to 56, the eligibility age will increase at 2 months a year starting in 2020. Those currently aged 51 will become eligible for NZ Super at 66, giving them 15 years to plan for the extra year.
- *Transitional Assistance:* Labour is committed to ensuring the transition to a NZ Super eligibility age of 67 is done fairly. Labour will ensure there is transitional assistance for those who can't keep working.
- *Rate of NZ Super:* There will be no change to the rate of NZ Super. Labour is committed to retaining the current rate for a couple of 66 per cent of the average wage.
- *Consultation Process:* Labour's tripartite consultation will also deal with changes in the NZ Super eligibility age.
- *ACC payments:* The implications of raising the eligibility age on ACC claimants entitlement to weekly compensation will be included in the tripartite consultation.

## 3. Resuming Contributions to the NZ Super Fund

- *Level of Contribution:* Labour will restart contributions starting with \$750 million in 2012/13 rising by \$750 million a year until we reach the legislated contribution rate in 2015/16.

## **POLICY DETAILS: UNIVERSAL KIWISAVER**

### **Scope**

Labour's plan will make KiwiSaver compulsory for every employee aged 18 to 65 from 2014. This will include full-time, part-time and casual workers. Self-employed can opt in but will not be required to participate. This is the same as occurs in Australia.

A minimum annual income threshold will apply (i.e. those on income below the threshold will not be required to enrol in KiwiSaver).

Beneficiaries and students not in the workforce will not be required to join KiwiSaver.

Labour is aiming to get as many New Zealanders into KiwiSaver as possible. The details about the coverage of the scheme and the minimum income threshold will be subject to the tripartite consultation process. This will include an assessment of whether contractors and temporary residents/migrant workers should be included in the scheme.

### **Employer Contribution**

Labour will gradually increase employer contributions from 3 per cent to 7 per cent, over 9 years.

Currently the minimum employer contribution is 2 per cent. National increased this to 3 per cent as part of Budget 2011. This is due to take effect from 1 April 2013 and will continue.

Labour will introduce universal savings starting in 2014 with the first increase in the employer contribution a year later. Contributions will increase at just 0.5 per cent annually and take 9 years to fully phase in. The increase in contributions will be fully phased in by 2022.

We recognise that the 0.5 per cent annual increase in the employer contribution could be taken into account as part of wage negotiations.

Labour will review the employer contribution in 2020 to examine whether further increases in the employer contribution are feasible and desirable. This review will include consultation with business, and employer and employee representatives.

### **Employee Contribution**

Labour will retain the current minimum employee contribution of 2 per cent. This is a more affordable option for low-income New Zealanders.

National set an increase to the employee rate to 3 per cent in Budget 2011. This is due to take effect 1 April 2013. We will reverse this change. KiwiSaver members will still be able to select a higher contribution rate if they want to.

## **Government Incentives: Kick-start and Member Tax Credit**

Labour is committed to retaining these incentives to help New Zealanders save.

The only change will be the way the kick-start payment is paid into KiwiSaver accounts. Under Labour's plan the \$1,000 kick-start will be spread over 5 years. This will make the scheme more affordable to the Crown.

Labour will not make any further changes to the member tax credit.

## **Accessing and Withdrawing KiwiSaver Funds**

Universal KiwiSaver is a long-term policy that makes it simpler for New Zealanders to build secure retirement savings, builds New Zealand's investment base and helps deal with our private debt problem. However, there may be circumstances where an early withdrawal from KiwiSaver is justified.

### *Opt-out*

While there will be no general ability to opt-out under this scheme, Labour will retain the withdrawal and hardship provisions as set out below.

### *Age of Withdrawal*

Labour will retain the current 65 eligibility age to access KiwiSaver savings.

### *Hardship*

New Zealanders will continue to be able to access their KiwiSaver funds on the grounds of hardship. This includes situations relating to economic hardship or hardship as the result of ill-health.

Hardship grounds will also be applied to allow the suspension of contributions. This will take the place of the current provisions around contributions holidays. The detail around the operation of these new provisions will be dealt with through the tripartite consultation.

### *First time home buyers*

First home buyers will still be able to access their KiwiSaver savings to put towards their first home.

Helping New Zealanders into their first home is a priority for Labour. The first home withdrawal of KiwiSaver started in July 2010. In the 9 months since then there have been nearly 1,300 withdrawals totalling \$12 million, with average value of a withdrawal of \$9,640. This is an important mechanism to help New Zealanders into their first home.

Labour will also retain the first-home deposit subsidy of up to \$5,000 per person. We will review the future affordability of enhancing this assistance, fiscal conditions permitting.

## *Permanent Emigration*

Labour will review the provisions around migration as part of the tripartite consultation. We will look towards greater alignment with the Australian scheme.

## *Relationship Property or Bankruptcy*

Labour will examine the details and implications for relationship property and bankruptcy as part of the tripartite consultation process. These are complex areas and ones that would benefit from specialist advice.

## **Non-KiwiSaver Schemes**

New Zealanders will not have to change their investment scheme, provided the scheme becomes KiwiSaver compliant. If the scheme meets the minimum standards of KiwiSaver this will require some minor changes to the trust deed.

## **Tripartite Consultation Process**

Labour will establish a tripartite consultation process involving government and social partners, i.e. employer and union representatives. Bringing together the key parties to settle the policy detail will ensure KiwiSaver endures over the long-term. The consultation process will include other key stakeholders where appropriate. This will give New Zealanders the confidence and certainty they need to plan for their future.

Labour is committed to an enduring KiwiSaver. The tripartite consultations are critical in ensuring the detail of the scheme works for all employers and employees.

The consultation will cover aspects including:

- The coverage of KiwiSaver in terms of contractors and temporary residents/migrant workers.
- The minimum income threshold.
- The effect of universal KiwiSaver on gender equity.
- The detail of the hardship provisions.
- The operation of migration withdrawal.
- The implications for relationship property and bankruptcy.
- Ensure the regulation of the KiwiSaver scheme is adequate and suitable for a universal scheme.
- Examine the impact of this proposal on small businesses to ensure compliance costs are manageable.

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## **Scheme Structure**

Labour will retain other key aspects of the scheme. KiwiSavers will still be able to choose their provider and the risk profile of their investment. This includes the wide availability of a number of low risk investment options.

As with the current scheme, KiwiSaver funds will not be guaranteed by the Crown.

A review of the current default provider scheme will be completed prior to the expiry of current contracts in 2014. Labour will examine the default provider arrangements, including their charges, in advance of that review. Labour will also take into account the recommendations of the Savings Working Group on the issues of disclosure of terms, fees and other charges.

## POLICY DETAILS: RAISING THE ELIGIBILITY AGE FOR NZ SUPER

### Age of Eligibility

Labour will gradually lift the age of NZ Super eligibility from 65 to 67 starting in 1 April 2020 and taking 12 years to phase in.

### Phase-in Timetable

There will be no change for the next 9 years. The age will be lifted 2 months each year starting in 2020. The table below summaries the proposed schedule for raising the age:

Key points:

- No change for anyone born before 1955. This includes everyone currently receiving NZ Super or those close to retirement.
- Those 45 years or younger will have at least 22 years to plan for this change in the eligibility age.
- For those 46 to 56, the eligibility age will increase at 2 months a year starting in 2020. Those currently aged 51 will become eligible for NZ Super at 66, giving them 15 years to plan for the extra year.

Year born	Current Age at 1 April 2011	Age of Eligibility for NZ Super
Before 1955	57+	65 years
1955	56	65 years and 2 months
1956	55	65 years and 4 months
1957	54	65 years and 6 months
1958	53	65 years and 8 months
1959	52	65 years and 10 months
1960	51	66 years
1961	50	66 years and 2 months
1962	49	66 years and 4 months
1963	48	66 years and 6 months
1964	47	66 years and 8 months
1965	46	66 years and 10 months
1966 or later	45 or younger	67 years

## **Transitional Assistance**

Labour is committed to ensuring the transition to a NZ Super eligibility age of 67 is done fairly. Labour will ensure there is transitional assistance for those who can't readily keep working in their normal occupation.

Labour realises that for some people working another two years is simply not an option. For some in manual labour an additional 2 years may not be physically possible.

Under Labour those aged 65 or 66 who are not readily able to keep working in an occupation of the same kind, and unable to support themselves, would qualify for a NZ Super Transition payment. This payment would be set at the same level of NZ Super.

Further details around this payment will be developed as part of the tripartite consultation process.

As part of our commitment to ensuring the transition is fair, Labour will also explore options for the introduction of further flexibility in the access of NZ Super. These options will be considered as part of the tripartite negotiation process.

## **Rate of NZ Super**

Labour will guarantee no changes to the rate of NZ Super. We are committed to retaining the current rate for a couple of 66 per cent of the average wage. NZ Super is a vital safety net that provides every New Zealander with a guaranteed minimum level of income during their retirement. This must be protected for this generation and the next.

We know that for the great majority of retirees NZ Super is their main source of income. Research by the Retirement Commissioner shows that for 60 per cent of superannuitants NZ Super is the only or a very substantial form of income. Making these changes now will ensure that future generations are able to rely on it when it comes time for them to retire.

## **Tripartite Consultation Process**

Labour's tripartite consultation will also deal with changes in the NZ Super eligibility age including:

- Details of the transitional NZ Super payment
- Exploring options for the introduction of further flexibility in the draw-down of NZ Super.
- The implications of raising the eligibility age on ACC compensation

## **ACC payments**

Currently the eligibility age effects the entitlement of ACC claimants to weekly compensation. The implications of raising the eligibility age on this will be included in the tripartite consultation.

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## **POLICY DETAILS: RESUMING CONTRIBUTIONS TO THE NZ SUPER FUND**

### **Level of Contributions**

Labour will restart contributions to the New Zealand Super Fund in our first budget rather than waiting until 2017/18 as National plans to do.

Contributions will be increased every year, starting with \$750 million in 2012/13, and then ramping up by \$750 million a year until we reach the legislated contribution rate in 2015/16.

Over the course of thirteen years, Labour will contribute \$5.5 billion more than National resulting in an estimated \$12.8 billion more in the Fund at the end of that period.

Over time, our higher capital cost from contributing earlier is more than offset by the higher tax revenue that results from increased New Zealand Superannuation Fund investments. As a result, the Crown will actually be \$4.6 billion better off by 2024/25 under Labour's approach, and have more money to meet the future cost of NZ Superannuation.