



## **Media Release**

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### **Greater flexibility for KiwiSavers comes at a cost**

Reducing the minimum KiwiSaver employee contribution from 4% to 2% provides some welcome flexibility for KiwiSavers and their employers, but comes at a cost that may ultimately detract from the end savings outcome.

That's according to the Association of Superannuation Funds of New Zealand (ASFONZ) which promotes workplace savings.

The changes take effect from 1 April.

ASFONZ Chair David Ireland says reducing the minimum member contribution rate to 2% is generally regarded as a positive step that makes KiwiSaver more affordable for workers to both join up and to continue saving.

"On the plus side, fixing the compulsory employer rate at 2% simplifies what had been a complex set of transition rules.

"But limiting the tax relief on employer contributions to the new fixed compulsory level of 2% and removing the employer tax credit and fee subsidy will hurt."

Mr Ireland says the clear message ASFONZ is getting from Government is this is the last of the major policy changes planned for KiwiSaver.

"The certainty that message provides comes as welcome relief to all involved in workplace savings.

"The new rates also provide flexibility for both employers and employees, with scope for some to supplement the new 2% minimum contributions with other savings arrangements."

Mr Ireland says existing KiwiSaver members need to be aware they won't move automatically from 4% to 2%.

"They need to elect the new contribution rate if that's what they want, and need to be aware of the consequences for their member tax credit entitlements, as well as the impact on the overall amount they are likely to have saved by the time they get to age 65.

“We urge KiwiSavers to consider options to supplement their KiwiSavings.

“Solely relying on a 2% (employer contribution) + 2% (member contribution) and a matching Government contribution capped at \$1040 p.a. may not deliver an adequate end savings outcome.”

Mr Ireland says capping the tax relief on employer contributions at 2% and removing the employer contribution tax credit may limit interest in doing more than the bare minimum in terms of KiwiSaver involvement.

“This will be hardest felt by those employers who had moved straight to a 4% employer contribution rate based on the pre-December 2008 rules, and is a real shame.

“The challenge now for Government is to rebuild trust with employers, KiwiSavers and providers alike, which has taken a fair hammering over the short history of KiwiSaver,” he says.

Mr Ireland also says that reducing the contribution rate to 2% makes the mortgage diversion feature of KiwiSaver even more of a nonsense.

“If you divert half of 2%, you end up with an inadequate level of savings and a minimal contribution to mortgage repayments. With the contribution rate now reduced by 2% - which was the most you were previously able to divert to pay off your mortgage – the opportunity was there to remove this distraction from the scheme design.

ASFONZ understands that well under 1% of KiwiSavers have taken up the mortgage feature, which is expensive and cumbersome for providers to administer. A concern of ASFONZ is that the feature also confuses KiwiSaver’s long term savings message, undermining the integrity of the overall scheme.

“With the changes that come in from 1 April, the rationale for retaining the feature seems to have gone, or at least needs a re-think,” says Mr Ireland.

For further information

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