

Hon Bill English

Minister of Finance

Hon Peter Dunne

Minister of Revenue

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Greater level of private savings for KiwiSaver

Changes to KiwiSaver will encourage a higher level of private savings, make the scheme more financially sustainable and build a large pool of local capital, Finance Minister Bill English and Revenue Minister Peter Dunne say.

“While KiwiSaver has been very effective in attracting new members, it has done so at a high cost to taxpayers, with the scheme costing the Government over \$1 billion a year in subsidies and tax breaks,” Mr English says.

“Budget 2011 includes changes that will see KiwiSaver funds continue to grow rapidly, but with a larger share of contributions coming from members and employers, and a lower share from the Government.”

This is expected to raise national savings, as it will reduce the amount the Government is borrowing, largely from foreigners, in order to fund private savings.

“KiwiSaver funds will continue to accumulate rapidly. Total funds are projected to rise from \$7.9 billion currently, to about \$25 billion by 2015, and almost \$60 billion in 10 years. The Budget changes do not significantly change the expected inflows into the funds.

“Reducing Government borrowing and increasing private contributions to KiwiSaver will also lift national savings. That’s important, as New Zealand’s high levels of foreign debt are a handbrake on growth and one of our major economic vulnerabilities,” Mr English says.

Just over 43 per cent of all KiwiSaver contributions to date have been funded by the Government – mainly through Member Tax Credit and Kick-Start payments. This does not include the Employer Superannuation Contribution Tax exemption which, if counted, would bring the Government's share closer to 50 per cent.

The \$1,000 Kick-Start is unchanged. The Budget changes include:

- From 1 April 2012: The tax-free status of employer contributions will be removed. These will be taxed at an employee's marginal tax rate.
- For the year to 30 June 2012 and beyond: The Member Tax Credit rate will be halved from \$1 to 50c for every \$1 contributed by members, up to \$521 a year – half the current maximum. These payments are made annually after the government financial year, so the first payments at these new levels will occur in the second half of 2012.
- From 1 April 2013: The minimum employee contribution rate will rise from 2 per cent to 3 per cent.
- From 1 April 2013: Compulsory employer contributions will also rise from 2 per cent to 3 per cent.

Budget 2011 changes to KiwiSaver will save \$2.6 billion over four years.

Mr Dunne says the changes ensure KiwiSaver remains an attractive and subsidised savings option that is financially sustainable into the future.

"We believe most people will find 3 per cent affordable, and the employer and Government contributions, alongside the \$1,000 Kick-Start payment, will continue to offer a very attractive rate of return for the money employees put in themselves," Mr Dunne says.

"We have given workers and employers two years to adjust and plan for the increased contribution rates, which will kick in at a time of strong forecast economic growth.

"Taxing employer contributions to KiwiSaver at the employee's marginal tax rate makes sense. About half of the benefit of the current arrangements goes to the top 15 per cent of income earners, who get a larger tax break due to their higher marginal income tax rate.

"In addition to these changes, the Government will discuss the Savings Working Group's recommendation of a one-off enrolment exercise with employers after the Budget and look at how that might be done without unnecessary compliance and administrative costs," Mr Dunne says.

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