

KiwiSaver Changes

As expected, the National-led Government has passed under urgency some key changes to KiwiSaver.

The changes were part of a wider package of measures which included reductions in personal tax.

Outline of the changes to KiwiSaver

The following changes are to take effect from 1 April 2009.

- Employees will have the choice of contributing at 2%, 4% or 8% of their gross salary or wages. The default contribution rate for new employees joining on or after 1 April 2009 will be 2%.
- Compulsory employer contributions will be capped at 2% of gross salary or wages.
- The employer tax credit will be removed.
- The exemption from Employer Superannuation Contribution Tax (ESCT) will be limited to 2% of salary or wages. Previously the exemption applied on the first 4% of the employer contribution to KiwiSaver.
- The Member Tax Credit will be effectively a dollar for dollar amount up to a maximum of \$1,043 each year.
This change was not part of the National Party's pre-election KiwiSaver policy. National's previous policy had been to cap the Member Tax Credit at 2%. This would have resulted in a situation where a member earning under \$52,000 pa would have received a Member Tax Credit of less than \$1,043 pa even if they chose to contribute above the 2% minimum rate.
- The annual \$40 fee subsidy will be removed. Again, this change was not part of the National Party's original KiwiSaver policy, but was introduced so as to mitigate the cost of the changes to their Member Tax Credit policy.

Total Remuneration

A total remuneration approach to KiwiSaver is once again permitted. The recent amendment to the KiwiSaver legislation requiring employer KiwiSaver contributions to be paid on top of salary has been repealed. Now employers can offer employees the choice of taking the KiwiSaver subsidy as pay in the hand or as a KiwiSaver contribution.

This change has been backdated to 13 December 2007, the date on which the legislation dealing with employer contributions to KiwiSaver was originally passed.

Our View

The changes reduce the incentives provided to KiwiSaver members, most significantly by the capping of the compulsory employer contribution at 2% of salary or wages and the removal of the exemption from ESCT on employer contributions above 2%.

Since its introduction KiwiSaver has proved extremely popular, with total enrolments now exceeding 850,000. The introduction of the 2% contribution rate is likely to further increase the numbers of new members enrolling. The option of that lower rate may also have the effect of reducing contribution holidays.

The change in the legislation permitting a total remuneration approach is welcome, particularly for those employers who incorporate KiwiSaver within a wider superannuation package. An arrangement whereby an employee can choose how their total employer contribution is invested (for example in KiwiSaver, a non locked-in master trust scheme, or a combination of both) is once again permitted.

Employers should review the arrangements that they currently have in place in the light of these recent changes.

Many employers with defined contribution arrangements have introduced diversion options whereby the first 2%, 3%, or 4% of employer subsidy goes to KiwiSaver. These arrangements in particular will need to be reviewed in the light of the changes.

For further information please contact:

Auckland

*Bernard Reid (09) 300 7163
Mark Weaver (09) 300 7156*

Wellington

*Ian Midgley (04) 499 0277
John Melville (04) 499 0277*