



Saving and Investing

Joint Statement

Minister of Finance and Minister of Revenue

Budget gives \$40 a week to support saving

It is vital New Zealanders save more so we can better deal with our economic and social challenges, which is why Budget 2007 significantly enhances KiwiSaver.

A new system of tax credits and compulsory matching employer contributions will be introduced to encourage more saving and make it even easier for New Zealanders to save through KiwiSaver, the landmark work-based saving scheme.

"KiwiSaver gives New Zealanders a helping hand so more of us can start saving earlier in our working lives to avoid a harder savings challenge later in life," said Finance Minister Michael Cullen and Revenue Minister Peter Dunne.

"The changes we are announcing today will mean more New Zealanders can grow assets beyond the family home which is critical to growing an adequate retirement income to meet their aspirations.

"If we are to build a stronger economy and a fairer society we must do more to improve saving habits.

"If we save more, we spend less. That will mean less inflation and help to ease pressure on interest rates and the dollar. That's good for workers, good for businesses and good for the economy.

"We have one of the poorest saving records in the world. Changing that requires boldness and leadership and that's why the Labour-led government is making saving a centrepiece of Budget 2007.

"Budget 2007 supports saving by providing a contribution of up to \$40 a week in tax credits - \$20 per week for each KiwiSaver and another \$20 a week via a tax credit for employer contributions.

KiwiSavers

- People who save through KiwiSaver will benefit from a new tax credit matching contributions at 100 per cent, up to \$20 per week (about \$1,040 per year) from 1 July 2007.
- In addition, the government is kick-starting KiwiSaver with an initial upfront contribution of \$1000 and will be providing an annual fee subsidy. The subsidy has been set at \$40 per member, per annum.

Employers

- Where an employee opts to stay in KiwiSaver, or to join it and make contributions, a compulsory employer matching contribution will be phased in over four years starting at one per cent in 2008/09. This will match the minimum employee contribution of four per cent by 2011/12.
- Employers will be reimbursed for the cost of matching contributions by the government through a new tax credit capped at \$20 per week per worker (about \$1,040 per worker per year), and their contributions will also remain tax free under amendments introduced last year.

"I am confident the enhanced KiwiSaver scheme will improve our saving record and help us achieve higher sustainable economic growth," said Dr Cullen.

"The cost to support greater saving will not compromise our fiscal objectives. The KiwiSaver enhancements are projected to cost an additional \$303 million in 2007/08, rising to \$1.2 billion in 2010/11.

The saving challenge

"The OECD recently said household debt in New Zealand had climbed sharply to around 160 per cent of disposable income, higher than most other developed countries. Our official savings rate suggests for every dollar households earn, they spend \$1.15 on average. Alternative measures of saving are less negative, but still have an alarming downward trend. A stark reminder of this trend is our persistent current account deficits, currently around 9 per cent of GDP, among the highest in the OECD.

"Owning your own home is important for long term financial security. But it is not the only asset families need. Compared to many developed countries, many of us hold too high a proportion of our assets in housing, reflecting our poor level of savings overall. We need to increase saving in financial assets to sustain our lifestyles in retirement.

Good for savers

"By enhancing KiwiSaver New Zealanders will be able to build up more financial assets, more quickly, so they can have the retirement they deserve. The tax credits will make it easier for many lower and middle-income workers to make the decision to join KiwiSaver. Employer contributions mean workers' savings balances will also grow much more quickly.

"KiwiSaver reinforces the benefits of Working for Families in reducing inequalities. It will help more New Zealanders feel wealthier and more secure.

"And KiwiSaver also helps many into their first home because you are able to withdraw your own and your employer's contributions as a deposit on a first home after three years. Some first homebuyers will be entitled to additional help from the government of up to \$5000 each after five years saving.

Good for business

"The employer tax credit makes it much easier for employers to provide matching contributions. In the first year it will meet the full cost of the contributions for 95 per cent of the workforce. Overall, the net additional costs to employers by 2011/12 should overall be no more than one per cent of the national wage and salary bill at that point.

"KiwiSaver gives businesses more options to reward workers and so assist with the retention and recruitment of skilled staff from within New Zealand and overseas. I am confident it will also help to offset nominal wage increases.

"KiwiSaver also makes it much easier for many smaller employers to offer a workplace saving scheme. It is a simple, easy and administratively low cost scheme - contributions are collected through PAYE, on-paid by Inland Revenue to KiwiSaver scheme providers and then deposited in the saver's account.

"KiwiSaver will also help deepen our capital markets, which should make it easier for businesses to access capital they need to grow and prosper.

Good for the economy

"KiwiSaver will help lift economic performance. If we save more, we will no longer need to borrow so much from overseas to finance consumption and business expansion at home.

"If we are to own more of our own businesses it is vital we save more. If we are to reduce inflationary pressures and help our businesses prosper without the stress of high interest rates and a high dollar, we must save more.

"Active saving policies have worked overseas to strengthen economies like Singapore and Australia where there is now a trillion dollars invested in superannuation funds. In New Zealand there is just \$64 billion.

"The changes the Labour-led government are announcing today mirror the reform of business taxes also unveiled in Budget 2007. Greater saving coupled with improved investment in innovation and productivity will help make the New Zealand economy much more resilient and flexible.

"KiwiSaver is good for workers and their families, good for businesses and good for our future prosperity. It will ensure we can face the challenges of today and tomorrow with much more confidence."

Contacts: Mike Jaspers (Dr Cullen), 04 471 9412 or 021 270 9013, Ted Sheehan (Mr Dunne), 04 470 6985 or 021 638920