Savers – Fact sheet

What's new?

People who save through KiwiSaver will benefit from a tax credit that matches their contribution, up to a maximum of $20 per week ($1,040 per year) from 1 July 2007.

For those who are employees, compulsory matching employer contributions will also be phased in from 1 April 2008.

These additional contributions will increase the funds available to members on retirement, helping to improve the adequacy of retirement incomes.

How will it work?

Benefits

✓ All KiwiSaver members will be entitled to a $1,000 kickstart from the government.

✓ All KiwiSaver members will be entitled to an annual fee subsidy of $40.

✓ ***NEW*** From 1 July 2007, all member contributions to KiwiSaver (and complying superannuation funds[1]) will be matched by a tax credit of up to $20 per week ($1,040 per year) that will be paid directly into their KiwiSaver account (or complying superannuation fund).

✓ ***NEW*** From 1 April 2008, all employees contributing to KiwiSaver (and complying superannuation funds) will also be entitled to a matching employer contribution as follows:

From	Minimum employee contribution (% of gross salary)	Employer contribution (% of gross salary)	Total employee and employer contributions (% of gross salary)
1 April 2008	4	1	5
1 April 2009	4	2	6
1 April 2010	4	3	7
1 April 2011	4	4	8

[1] A complying superannuation fund is a section within a registered superannuation scheme that has been approved by the Government Actuary as having met certain criteria similar to KiwiSaver e.g. KiwiSaver lock-in rules and portability.

- ✓ After three years of saving, some savers that are first home buyers will be eligible for a housing deposit subsidy of $1,000 per year of saving, up to $5,000 in total. Eligibility for the subsidy is determined by the individual's income and house price caps.

Participation

- ✓ Employee contributions will continue to be voluntary.
- ✓ From 1 July 2007, most new employees will be automatically enrolled in KiwiSaver, but can choose to opt out.
- ✓ Existing employees will be able to opt in. New employees whose employer is exempt from automatic enrolment[2] will also be able to opt in.

Contributions

- ✓ The contribution rates from gross salary will be either 4 per cent or 8 per cent. The contribution rate will be 4 per cent unless the higher rate has been elected by the employee.
- ✓ ***NEW*** From 1 April 2008, employer contributions will not be able to count towards the minimum 4 per cent contribution for new KiwiSaver members. Transitional rules will be put in place for those employees who join prior to 1 April 2008 and contribute less than 4 per cent.
- ✓ Anyone will be able to join KiwiSaver by contracting directly with a scheme provider and making contributions. These contributions can be of any amount subject to a provider's agreement and will be eligible for the member tax credit.
- ✓ Any time after an initial 12 month contribution period, an employee will be able to apply to Inland Revenue for a contributions holiday.

If you are self employed or not employed

- ✓ You will be able to join KiwiSaver by contracting directly with a KiwiSaver provider.
- ✓ Your contribution rate will be agreed with the scheme provider.
- ✓ You will receive the $1,000 KiwiSaver kickstart and annual fee subsidy of $40 per year.
- ✓ ***NEW*** Your contributions will be matched by a tax credit of up to $20 per week ($1,040 per year) from 1 July 2007.

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2 Employers can apply to the Government Actuary for an exemption from automatically enrolling new employees in KiwiSaver if they already offer access to a superannuation scheme that meets certain criteria.

Withdrawals

- ✓ Contributions are locked in until the age of eligibility for New Zealand Superannuation (currently 65 years of age) or five years of membership, whichever is the later.
- ✓ Exceptions will be made for some funds to be withdrawn for the purchase of a first home, significant financial hardship, serious illness and permanent emigration.
- ✓ After one year of being enrolled in a KiwiSaver scheme, individuals will be able to divert up to half of their own contributions to make mortgage payments on their principal place of residence. These contributions will not be eligible for the member tax credit.

Choice of Scheme

- ✓ Savers can select their own KiwiSaver scheme and investment products and can change schemes or investment products at any time.
- ✓ Savers who do not specify a KiwiSaver scheme are allocated by Inland Revenue to a conservative investment strategy fund with one of six named default KiwiSaver scheme providers.
- ✓ Savers can only have one KiwiSaver scheme at any point in time.

Impact on State sector employees

- ✓ Like private sector employees, employees in the State sector will be able to opt into KiwiSaver and receive KiwiSaver benefits, such as the member tax credit.
- ✓ In some circumstances, contributions that State sector employers make to existing superannuation schemes e.g., the State Sector Retirement Savings Scheme (SSRSS), will count towards the required compulsory employer contribution. In these situations, employees will not be eligible for KiwiSaver compulsory employer contributions as well.
- ✓ Although there is no decision to close existing State sector superannuation schemes, over time it is expected that KiwiSaver will become the core saving vehicle.

Where do I go for more information?

More information is available at www.kiwisaver.govt.nz. The website includes a link to an online tool to help you estimate how much you can save with KiwiSaver.

The Sorted website (www.sorted.org.nz) now hosts the "Sort Me" tool – a free online financial check-up that aims to assess just how financially sorted you are. In addition, the online calculator on the Sorted website will be upgraded over the next few days to include the new KiwiSaver features.

By late June, your employer will have received copies of the KiwiSaver Employee Information Pack to give you.

KiwiSaver Examples

1. Meg and Jack

Meg and Jack are 30 years old. They both earn $37,500 per year – a combined household salary of $75,000, which is the average household income for couples.

Meg and Jack join KiwiSaver through their respective workplaces on 1 July 2007, and both contribute 4 per cent of their salary.

Five years after joining KiwiSaver, Meg and Jack decide to buy a house. As they are both eligible for the KiwiSaver housing deposit subsidy, with the savings they have made through KiwiSaver, they have a total deposit of $35,500 (in today's dollars).

When Meg and Jack retire at age 65, they have total accumulated savings of $390,000 (in today's dollars). This is enough to generate them an extra $20,000 to $25,000 a year of gross income during their retirement, over and above what they will receive through New Zealand Superannuation (currently $22,164 per year for a couple).

2. Mike

Mike is 50, single and works full time. He has a gross salary of $45,000, which is approximately the average full-time wage.

Mike joins KiwiSaver through his workplace on 1 July 2007 and contributes 8 per cent of his gross salary – about $70 per week.

When Mike retires at age 65, he has accumulated savings of $110,000 (in today's dollars). This is enough to generate him an extra $8,000 a year of gross income during his retirement, over and above what he will receive through National Superannuation (currently $14,407 per year).

3. Aroha and Robert

Aroha and Robert are 30 years old. They both earn $22,500 per year – a combined household salary of $45,000, which is approximately 60 per cent of the average household income for couples.

Aroha and Robert join KiwiSaver through their respective workplaces on 1 July 2007, and both contribute 4 per cent of their salary – about $35 per week between them.

When Aroha and Robert retire at age 65, they have total accumulated savings of $300,000 (in today's dollars). This is enough to generate them an extra $15,000 to $20,000 a year of gross income during their retirement, over and above what they will receive through New Zealand Superannuation (currently $22,164 per year for a couple).

Questions and Answers

A. Benefits

How do I claim my member tax credit?

Your KiwiSaver scheme provider (or complying superannuation fund provider) will make an annual claim to Inland Revenue on your behalf, based on the information it holds of the contributions you have made. Upon receipt of the member tax credit your provider will credit the amount to your KiwiSaver account (or complying superannuation fund).

Why do I need to wait until 1 April 2011 for the compulsory employer contribution to reach 4 per cent of my gross salary?

To help manage the cost to employers of compulsory matching contributions, particularly for those that are not currently offering work place superannuation schemes, the government has decided that the compulsory matching contributions will be phased in over four years.

Will I be able to get the member tax credit and compulsory employer contributions if I am contributing to a non-KiwiSaver scheme?

It depends. In order to get the tax credit and compulsory employer contributions, your contributions will have to be made to what is known as a 'complying superannuation fund'. A complying superannuation fund is a section within a registered superannuation scheme that has been approved by the Government Actuary as having met certain criteria similar to KiwiSaver (e.g., KiwiSaver lock-in rules and portability). Ask your superannuation provider if you are unsure whether your scheme is a complying superannuation fund.

What is the amount of the fee subsidy that is being provided?

The fee subsidy has been set at $40 per member per year, and will be paid six-monthly into a member's account, with the first payment made on the date on which the $1,000 KiwiSaver kickstart is paid (that is, three months after Inland Revenue receives the first contribution for a person).

Being a self-employed person what do I get out of the Budget 2007 announcements?

You will be able to join KiwiSaver by contracting directly with a KiwiSaver scheme provider. You will receive the $1,000 kickstart and an ongoing fee subsidy of $40 per year. Your personal contributions will also be matched by a tax credit up to a maximum $20 per week (about $1,040 per year) that will be paid directly into your KiwiSaver account. After three years of saving you may be eligible for the first home deposit subsidy.

B. Participation

Are the same people still allowed to participate in KiwiSaver under the Budget 2007 changes?

KiwiSaver remains voluntary. Eligibility to participate in KiwiSaver has not changed under the Budget 2007 announcements.

What do I have to do, and when?

The KiwiSaver enrolment process and timing has not changed as a result of the Budget 2007 announcements. Full details are available at www.kiwisaver.govt.nz

Can I join KiwiSaver in addition to my current scheme? If so, can I get the member tax credit and the compulsory employer contributions twice?

You can join KiwiSaver as well as be a member of another superannuation scheme. However, you can only get the member tax credit once (up to the cap) on contributions made to a KiwiSaver scheme or a 'complying' superannuation fund (i.e., a superannuation fund that has a section with KiwiSaver-like terms and conditions). If your employer is contributing to your current superannuation scheme, then these contributions may count towards the required compulsory employer matching contributions and they will not be required to make matching contributions to your KiwiSaver scheme as well.

C. Contributions

How have the Budget 2007 announcements changed the rules for my own contributions to KiwiSaver and my employer's contributions?

From 1 April 2008, contributions by employers will become compulsory to the extent that an employee contributes to KiwiSaver (this is phased in from 1 April 2008 to 4 per cent of gross salary by 1 April 2011). Employer contributions will no longer count towards an employee's minimum 4 per cent KiwiSaver contribution (transitional arrangements apply – see below).

Do compulsory employer contributions count towards my minimum contribution requirement?

From 1 April 2008, employer contributions will no longer count towards an employee's minimum KiwiSaver contribution rate of 4 per cent of gross salary. Transitional arrangements will apply for those employees who join prior to 1 April 2008 and have agreed with their employer to have employer contributions to count towards the minimum contribution rate.

With my current super scheme I get an employer contribution above 4 per cent of my salary. Is this going to be cut back (e.g. to 1 per cent in from 1 April 2008)?

No, your employer can continue contributing at this higher level to your existing superannuation scheme. Your employer will not be able to reduce their contribution unless the trust deed governing your superannuation scheme allows them to do so. You will need to contact your superannuation provider to determine whether they can.

D. Withdrawals

When will I be able to withdraw money from my KiwiSaver account? How has this changed under the Budget 2007 announcements?

Following the Budget 2007 announcements there are new rules about when you can and can't withdraw the member tax credits you have accumulated.

You will be able to withdraw all funds (including the $1,000 kickstart and member tax credits) from your KiwiSaver account:

- When you reach the age of eligibility for New Zealand Superannuation, of after five years of membership, whichever is the later; or
- In the event of serious illness.

You will be able to withdraw all your own contributions and any vested employer contributions (but not the member tax credit) if you:

- Permanently emigrate;
- Suffer significant financial hardship[3]; or
- Wish to make a deposit on your first home[4].

In addition, the member tax credit will not be able to be withdrawn under mortgage diversion or for making a deposit on your first home.

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3 In this circumstance you will not be able to withdraw the $1,000 kickstart.

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