

KiwiSaver – General Q&A

What impact is KiwiSaver going to have on household saving?

It is expected that KiwiSaver will have a significant impact on household saving, although it is difficult to estimate this impact with any great certainty and it will also take time for the effects to be obvious. KiwiSaver's design combines a number of the elements of international saving schemes that have been successful in raising household saving, such as automatic enrolment, lock in and matching contributions (from the employer and government).

What impact is KiwiSaver going to have on national saving?

It is difficult to estimate with any great certainty the impact KiwiSaver will have on national saving. This depends on how the tax credits will ultimately be funded and the impact it will have on household saving. The government is doing its bit for national saving by continuing to manage its own finances in a fiscally prudent fashion.

How are the Budget 2007 changes going to help financial markets in New Zealand?

The incentives in KiwiSaver are expected to increase the level of participation and the level of contributions made to superannuation schemes (both for KiwiSaver and complying superannuation funds). This will increase the amount of money invested in superannuation funds and managed funds. Over time, a sustained increase in holdings of financial assets by New Zealand households should help broaden and deepen financial markets in New Zealand. It is likely to enhance financial product innovation and help develop greater quantity and quality of financial services. These should better serve both savers seeking good returns and firms seeking funding. Increased saving will also help diversify people's asset portfolios beyond property investments, thus improving the stability of the financial system through diversification and also the resilience of people's balance sheets.

What happens if schemes go bust?

KiwiSaver was not introduced as a government-guaranteed scheme and the Budget 2007 announcements have not changed this.

There is already a regulatory system governing the operation of superannuation schemes generally and the KiwiSaver Act, passed last year, brought in additional requirements for KiwiSaver schemes.

However, given the added incentives these changes will introduce for people to join existing schemes with KiwiSaver features and to ensure the regulatory requirements for schemes operating in the KiwiSaver environment is sound, the government will be extending some of those additional KiwiSaver requirements to other relevant schemes operating with KiwiSaver type benefits. The government will also look into whether any other additional regulatory requirements need to be put in place by 1 April 2008, or shortly thereafter, to ensure there is the appropriate degree of consumer protection.

The regulation of superannuation more broadly has also been included in the current Review of non-bank Financial Products and Providers. Consideration of whether the proposals set out in the Review's discussion document on Collective Investment Schemes (released last year) will require amending as a result of these changes will now be included as part of the Review. For more information about the Review, visit www.med.govt.nz.

What's the expected take up rate of KiwiSaver now?

Under the original KiwiSaver model, it was expected that by 2016/17 40 per cent of New Zealanders aged 18-65 would be KiwiSaver members, with 30 per cent of this population actively contributing to the scheme. The Budget 2007 announcements increase the incentives both to join KiwiSaver and to actively contribute on an ongoing basis. Under the enhanced KiwiSaver it is expected that 50 per cent of New Zealanders aged 18-65 will be actively contributing to KiwiSaver or a complying superannuation fund.

Assumptions around participation in KiwiSaver are difficult to predict. Take up has been estimated on the best information that is currently available, such as overseas evidence and past and current New Zealand experience. However, there is a wide range of plausible participation assumptions and the participation rate is likely to vary across different sub-groups of the labour force.