19 May 2011

Fact sheet – KiwiSaver changes

Why are changes being made?

- The Government currently spends over $1 billion a year on KiwiSaver subsidies and tax breaks and is borrowing heavily to pay for this. Borrowing money to put into KiwiSaver accounts doesn't make sense as it does not lift overall net savings and may even result in members saving less of their own money.
- Removing the tax-free status of employer contributions will make the scheme fairer – currently 50 per cent of this benefit goes to the top 15 per cent of income earners, due to their higher marginal tax rate.
- The changes will help the Government return to surplus sooner. The Savings Working Group said achieving this and reducing Government borrowing was the one of the most important things the Government could do to lift national savings.

What is changing?

- Budget 2011 makes changes to KiwiSaver that will reduce Government subsidies, and replace them with increased private contributions. This will reduce Government borrowing and lift national savings, while ensuring KiwiSaver remains an attractive option for savers.

The specific changes are – the $1,000 Kick-Start remains unchanged:

- From 1 April 2012: The tax-free status of employer contributions to KiwiSaver and other complying superannuation funds will end. All employer contributions will be subject to Employer Superannuation Contribution Tax (ESCT) paid at the employee’s marginal tax rate.
- For the year ending 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. This will apply to existing and new members. This will also be the new default rate, but members will still be able to select a higher contribution rate of 4 per cent or 8 per cent.

- From 1 April 2013: The compulsory employer contribution rate will also rise to 3 per cent.

Key facts

- The savings from reducing the Member Tax Credit and applying ESCT are estimated to be $513 million in 2011/12 rising to $720 million in 2014/15. This amounts to $2.6 billion over the next four years that the Government no longer needs to borrow.

- When the changes are fully implemented in 2012/13, the Government will still contribute over $600 million a year in KiwiSaver subsidies.

- Officials estimate Budget 2011 KiwiSaver changes will improve the rate of national saving by about 0.2 per cent of GDP a year, with KiwiSaver funds projected to rise from $7.9 billion currently to $25 billion in 2014/15 and almost $60 billion in 10 years.

- They also estimate the changes will reduce our net international liabilities – the amount households, businesses and the Government owes to foreign lenders – by about 2 per cent of GDP over the next decade.

- Even though the Government is reducing its contribution, KiwiSaver remains a highly attractive and subsidised scheme for savers – in fact:

    - New members will continue to receive the $1,000 Kick-Start payment.

    - Most people on the minimum contribution rate will continue to receive more than $1 in combined employer contributions and tax credits for every $1 they put in.

    - Nearly all members contributing at the minimum rate will end up with more KiwiSaver funds at retirement than would have been the case under the current policy settings.

- The Government contributed over $1 billion to KiwiSaver members' accounts in the year to 31 March, 2011, compared to employee contributions of about $1.1 billion and employer contributions of about $700 million. There are currently 1.68 million KiwiSaver members.

Where can I find more information?

- More information about KiwiSaver is available on Inland Revenue's KiwiSaver website: www.kiwisaver.govt.nz.

- Information for employers about ESCT is available on Inland Revenue's tax website: www.ird.govt.nz.