

Regulatory Impact Statement: Government payment of an employer contribution to qualifying paid parental leave recipients

Coversheet

Purpose of Document	
Decision sought:	Analysis produced for the purpose of informing final Cabinet decisions on the government payment of a three percent employer contribution to paid parental leave recipients who contribute at least three percent to their KiwiSaver accounts
Advising agencies:	Inland Revenue (IR) with input and review from the Ministry of Business, Innovation and Employment
Proposing Ministers:	Minister of Revenue, Minister of Commerce and Consumer Affairs
Date finalised:	26 April 2023
Problem Definition	
Concerns about how well KiwiSaver is working for women have been raised by Te Ara Ahunga Ora Retirement Commission and the New Zealand Institute of Economic Research (NZIER), as well as by KiwiSaver providers.	
Executive Summary	
<p>The government is concerned about retirement outcomes for women. The position of women at retirement is typically less secure than that of men, who have savings which are on average 20 percent higher than women. Lower average balances, coupled with a higher average life expectancy can result in less financial security for women at the point of retirement and beyond.</p> <p>The reasons for differences in retirement savings are varied but include overrepresentation in lower paid roles, time spent out of paid employment and lower rates of labour force participation – often as a result of caring and child-rearing duties.</p>	
Possible options	
<p>The government is interested in reducing the gender retirement savings gap for women in paid work, with a particular focus on KiwiSaver enhancements relating to government Paid Parental Leave (PPL) arrangements. Two options have been identified in addition to the status quo (Option 1):</p> <ul style="list-style-type: none"> Option 2: the government pays a three percent employer KiwiSaver contribution into the KiwiSaver accounts of PPL recipients who similarly contributed at least three percent of their PPL payments to their KiwiSaver accounts. Option 3: the government pays a three percent employer KiwiSaver contribution into the KiwiSaver accounts of PPL recipients, irrespective of how much they are contributing to their KiwiSaver from their PPL payments. 	

While women are expected to disproportionately benefit from the proposal owing to the greater representation of women among PPL recipients, the proposal would benefit all PPL recipients regardless of gender.

Inland Revenue's preferred option

On balance, IR supports the overall proposal of a government payment of a three percent employer contribution. While the solutions to issues such as overrepresentation in lower paid roles and lower rates of labour force participation among women lie outside KiwiSaver, developing comprehensive solutions to these issues represents a long-term project which would require resourcing as part of the government's work programme.

Although the overall impact of the proposal is likely to be small, and disproportionately benefit wealthier households who are able to contribute to their KiwiSaver accounts while a member of the household is on PPL, the proposal would nonetheless go some way toward mitigating the effect of time spent out of work for PPL recipients. Additionally, although the amount paid to a PPL recipient over the course of parental leave would be small, the effect of compound interest over the remainder of a caregiver's career would increase the absolute value of the contribution and promote an improvement in financial security for caregivers in retirement.

While this is a finely balanced assessment, IR supports option 2 over option 3, as this is consistent with current KiwiSaver settings where employers must pay a contribution only if the employee contributes three percent or more from their pay. This alignment with existing KiwiSaver settings means it is likely to be lower in cost and simpler to administer. Additionally, the selection of option 2 would not preclude the subsequent selection and implementation of option 3 at a later date, if a future government decided the proposal had merit and should be adopted as part of a future budget initiative.

Views from consultation

Due to the time constraints imposed by the budget process and time constraints in preparing advice, consultation with the public or with iwi and hapū has not been undertaken on the options.

However, in 2022 a joint agency working group¹ undertook some initial engagement on a range of issues and options for KiwiSaver Enhancement. While the working group engaged on broad issues and enhancement options, it did not get feedback on the PPL options specifically from iwi or hapū, business or small business representatives KiwiSaver providers or the general public.

However, feedback from these meetings on the enhancement approach generally indicate it is likely that:

- either option would be supported by KiwiSaver providers
- iwi and hapū might support option 3 over option 2.

¹ This included officials from the Ministry of Business, Innovation and Employment (MBIE), Ministry of Social Development (MSD), IR and the Public Service Commission (PSC).

The Treasury

In general the Treasury does not support the government payment of an employer KiwiSaver contribution to eligible PPL recipients. Although the proposed KiwiSaver enhancements are a positive first small step, they are unlikely to address wider gender disparity issues.

Manatū Wahine Ministry for Women and Ministry for Social Development

In previous advice, Manatū Wahine Ministry for Women and the Ministry of Social Development supported the government payment of an employer KiwiSaver contribution to eligible PPL recipients.

Ministry of Business, Innovation and Employment

MBIE supports option 2 over option 3 for the same reasons as IR above. Option 3 has the significant benefit of better addressing income inequality between PPL. However, in MBIE's view, distributional inequity is better addressed via interventions which, unlike PPL, are not tied to participation in paid work.

MBIE notes that neither option addresses the more fundamental issues identified with current KiwiSaver contributions settings, regarding the adequacy of default contribution rates, affordability of contributions, and support for the self-employed to save for the future beyond investing in their home and business.

Further, because the gender retirement savings gap is driven by differences in participation in paid work, changes to reduce this gap will be more effective if they are not tied to participation in paid work. However, providing additional government contributions for recipients of PPL would improve retirement savings outcomes for women who also contribute from their PPL.

Limitations and constraints

This analysis has been prepared at pace under time constraints. Officials were instructed to prepare a Budget bid for this proposal late in the Budget process and before detailed policy design had been completed. Due to the timing and proposed inclusion as a Budget item, there was no opportunity for external consultation on the proposal beyond the limited discussions that were carried out in 2022 as part of broader early-stage KiwiSaver enhancement policy work.

Responsible Manager

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Policy and Regulatory Stewardship

Inland Revenue
s 9(2)(a)

26 April 2022

Quality Assurance (completed by QA panel)	
Reviewing Agency:	Inland Revenue and the Ministry of Business, innovation and Employment
Panel Assessment & Comment:	<p>The Quality Assurance Panel with representatives from Inland Revenue and the Ministry of Business, Innovation and Employment has reviewed the Regulatory Impact Statement (RIS) <i>Government payment of an employer contribution to qualifying paid parental leave recipients</i> prepared by Inland Revenue and considers the information and analysis partially meets the quality assurance criteria.</p> <p>This is because the time constraints imposed on the policy development of the proposal have not enabled consultation on the various options and refinement of the preferred option.</p>

Section 1: Diagnosing the policy problem

What is the context behind the policy problem and how is the status quo expected to develop?

1. The position of women at retirement is typically less secure than men. The reasons for differences in retirement savings are varied but include the overrepresentation of women in lower paid roles, time spent out of paid employment and lower rates of labour force participation. This also includes more women than men exiting the paid workforce or taking leave from paid work to raise children and/ or care for family members.
2. Women are also more likely than men to experience financial hardship and to be sole parents which may lower retirement funds over time.² Access to affordable, quality childcare is a significant barrier to women's paid employment. Māori and Pacific women are overrepresented among those who are not in the paid workforce due to caring responsibilities.³

What is the policy problem or opportunity?

3. Although women live longer on average than men, their KiwiSaver balances are on average 20% less than those of men.⁴ As noted above, the reasons for this are varied but include such factors as the gender pay gap, the overrepresentation of women in lower paid roles, time spent out of paid employment and lower rates of labour force participation.

² Stats NZ NZ General Social Survey (2014) The hardship rate for children in sole-parent households is typically three to four times higher than for two-parent households. A major factor in the difference is the more limited potential for paid employment hours in a one-adult household, with or without children. Bryan Perry, *Child Poverty in New Zealand* (2022).

³ Dale, M.C and St John, S. (2020). *Women and Retirement in a post COVID-19 world*

⁴ Review of Retirement Income Policies 2019 and Te Ara Ahunga Ora Policy Brief 01 (2022)

4. These issues affect women's ability to contribute to their KiwiSaver accounts and otherwise save for their retirement, including their eligibility for the member tax credit (MTC), a government incentive designed to encourage New Zealanders to save for their retirement.
5. The primary solutions to address these inequalities lie outside of KiwiSaver settings. These solutions include labour market interventions as well as education policy relating to childcare. However, providing additional government contributions for recipients of PPL would enable better outcomes for women who are currently in the workforce and others who contribute to KiwiSaver from their PPL. While PPL is available to all parents regardless of gender, we estimate that for the 2020 – 21 financial year, approximately 95 percent of PPL recipients identified themselves as women.⁵

What objectives are sought in relation to the policy problem?

6. The objective is to improve retirement outcomes for women. Although the primary avenues for addressing the identified inequities lie outside KiwiSaver, the interventions identified could go some way towards mitigating the effect of labour market and social differences on women.

Section 2: Deciding upon an option to address the policy problem

What criteria will be used to compare options to the status quo?

7. The options identified will be compared using the effectiveness and efficiency criteria in the table below. In evaluating the effectiveness of the proposal, the "EAST" behavioural insights framework has also been considered. This identifies the successful features of behavioural change interventions as Easy, Attractive, Social and Timely.

⁵ Gender is taken from individuals preferred titles (i.e., Mr, Mrs or Miss), as disclosing gender is optional upon a Paid Parental Leave application. In a small percentage of cases gender cannot be determined from title (gender neutral or no title provided)

Effectiveness		Cost/efficiency		Wider considerations
Extent to which the proposal addresses the objective	Alignment with EAST	Implementation (Govt)	Employer (incl Govt) Employees Providers	
Size of the potential impact	“Easy” includes simplicity as an original design feature of KiwiSaver “Attractive” includes trust and confidence in KiwiSaver. Social and Timely	Likely size of implementation cost to Inland Revenue, FMA etc	Includes consideration of cost to government as an employer and contract of services	Treaty/Te Tiriti Equity Macro Economic Considerations

What scope will options be considered within?

8. This project is being considered in the context of joint agency work focused on identifying opportunities to enhance KiwiSaver, its settings and design. KiwiSaver was first introduced in 2007 as a private retirement savings scheme intended to supplement the basic retirement income provided by New Zealand Superannuation. However, new and emerging challenges such as financial instability, high inflation and declining rates of home ownership are likely to place pressure on many retirees.
9. With almost 15 years having passed since the KiwiSaver scheme’s commencement, a joint agency group has sought to consider enhancement options to help New Zealanders financially prepare for retirement and become more resilient to short-term financial shocks.
10. This work identified issues relating to the affordability of KiwiSaver contributions and the adequacy of KiwiSaver savings for retirement, as well as the impact of gender on women’s KiwiSaver balances. The government is particularly interested in options that would improve the gender gap in retirement savings.

What options are being considered?

Option 1 – Retain the status quo

11. The government could choose to retain the status quo and take no active steps toward addressing the existing retirement gender equity issues. Wider government work on options to address these issues (e.g. pay equity, access to affordable childcare) would continue as resources allow.

Option 2 – The government would pay a matched three percent “employer” KiwiSaver contribution to contributing PPL recipients

12. The government could subsidise the payment of a three percent KiwiSaver “employer” contribution to PPL recipients provided the recipient also pays at least a three percent KiwiSaver employee contribution into their KiwiSaver retirement savings accounts.

Option 2 – The government would pay a three percent “employer” KiwiSaver contribution to eligible PPL recipients, irrespective of how much they contribute to their KiwiSaver account from their PPL payments

13. The government could subsidise the payment of a three percent KiwiSaver “employer” contribution to all PPL recipients, regardless of whether or not they were making an employee contribution into their KiwiSaver retirement savings account.

Comparison of options against the status quo

14. The following table uses assessment criteria to assess Options 2 and 3 against the status quo (Option 1). Each option is scored on how it contributes to each criterion in comparison to the status quo and the high-level reasons for the score are recorded directly below each criteria score. The final assessment is provided in the final row of the table.

Key:

++ much better than doing nothing/the status quo

+ better than doing nothing/the status quo

0 about the same as doing nothing/the status quo

- worse than doing nothing/the status quo

-- much worse than doing nothing/the status quo

How do the options compare to the status quo/counterfactual?

		Option 1	Option 2	Option 3
Effectiveness	Extent to which the proposal addresses the objective	0 No change in savings for eligible PPL recipients.	+	+
	Alignment with EAST	0 No change to EAST alignment.	++	-
Cost/efficiency	Implementation (Govt)	0 No impacts to employer. Employee or providers.	-	--
	Employer (incl Govt), Employees and Providers	0 0 Continued poor alignment with Article 3 of Te Tiriti 0 No impact on trust and confidence 0 No impact on inflation	0 Minimal impacts. However, the government payment of a contribution could “crowd out” contributions from the private sector. For example, some employers may already be contributing and could chose to either reduce their contributions or cease contributing to their employee’s KiwiSaver altogether.	0 Minimal impacts. Some employers could already be contributing and could chose not to continue.

Wider considerations	Treaty/Te Tiriti Impact on inflation Trust and confidence in KiwiSaver	0	<ul style="list-style-type: none"> - Poor alignment with Article 3 of Te Tiriti + Minor positive impact overall on trust and confidence 0 No material impact on inflation 	<ul style="list-style-type: none"> + Some alignment with Article 3 of Te Tiriti + Minor positive impact overall on trust and confidence 0 No material impact on inflation
Overall assessment		0	++	0

What option is likely to best address the problem, meet the policy objectives, and deliver the highest net benefits?

15. Each of the options considered above has specific costs and benefits. For example:

- Option 1 – Status quo:
 - Taking no additional action would maintain the status quo, with resource continuing to be applied as it is currently and the KiwiSaver gender inequality issues outlined in the problem definition would remain. This assumes that no other KiwiSaver policy enhancements are currently being considered. However, work focused on developing wider solutions to gender pay and participation in paid work could continue as resources allow.
 - Both options 2 and 3 apply to PPL recipients. Although IR does not have comprehensive data on the gender of PPL recipients it is estimated that 95 percent of those receiving PPL in the 2020-21 financial year were women, with men comprising two percent of PPL recipients. The gender of the remaining three percent of PPL recipients was unknown on his methodology.⁶
- Option 2 - government would pay a three percent KiwiSaver employer contribution to PPL recipients provided the PPL recipients contributed at least three percent of their PPL to their KiwiSaver accounts:
 - Currently, approximately 15% of PPL recipients contribute to their KiwiSaver accounts while receiving PPL. As the proposal would incentivise PPL recipients to contribute to their KiwiSaver accounts, it is possible that the proportion of PPL recipients contributing to their KiwiSaver would increase, along with the KiwiSaver balances of PPL recipients.
 - At the current maximum government PPL contribution of \$661.12 (gross) per week, a three percent government contribution would represent \$19.83 per week, for a maximum of \$516 over 26 weeks of PPL. As PPL recipients would have to contribute the same amount to qualify for the government contribution, this would represent up to \$1,032 in annual KiwiSaver contributions which might otherwise not be made.
 - Additionally, the proposal's incentivisation of KiwiSaver employee contributions could also result in KiwiSaver members receiving some portion of the Member Tax Credit (MTC). The MTC matches KiwiSaver employee contributions at 50 percent up to a maximum of \$1,042.86, meaning the government contributes up to \$521.43 to a KiwiSaver member's account each year. A KiwiSaver member who contributes \$516 over 26 weeks of PPL would receive an MTC of \$258 from the government.

⁶ Gender is taken from individuals preferred titles (i.e., Mr, Mrs or Miss), as disclosing gender is optional upon a Paid Parental Leave application. In a small percentage of cases gender cannot be determined from title (gender neutral or no title provided).

- Although the proposal would result in a small contribution in absolute terms, it would account for approximately 20 percent of the shortfall of contributions for a woman on the median wage taking a full year off full-time paid work. Additionally, the impact of compound interest over the remaining course of a retiree's working life would increase the value of this contribution considerably.
- However, as the receipt of the government subsidy is conditional on the PPL recipient also contributing, there is a risk that the benefit of this proposal could disproportionately accrue to higher income households who are able to afford KiwiSaver contributions while on PPL.
- Option 3 - government would pay a three percent KiwiSaver employer contribution to PPL recipients regardless of whether they were making employee contributions:
 - Requiring the member to have contributions deducted from PPL is likely to result in a large proportion of the new benefit being captured by those who are more financially comfortable and so can afford to have deductions made from their PPL. However, it maintains the core KiwiSaver principle of "matched employee contributions".
 - Making government contributions while on PPL unconditional would reach a greater number of those unable to afford to make their own KiwiSaver PPL deductions. However, it would not encourage 'employee' contributions.
 - Option 3 would also cost significantly more in fiscal terms. Although the administrative costs of Options 2 and 3 are not expected to be substantially different, the cost of Option 3 is expected to have an upper estimate of \$101.8m over the 2022/23 – 2026/27 forecast period. This is more than five times the expected cost of Option 2 (of \$19.219m).

Trust and confidence criterion – same for options 1 and 2

16. KiwiSaver providers have previously indicated that frequent 'tweaks' to KiwiSaver have the potential to reduce trust and confidence in KiwiSaver as a stable long-term government intervention. While these are minor changes, we consider that they are more likely to increase trust and confidence in KiwiSaver than to reduce it, because they are increasing government incentives for participation.
17. By acknowledging structural inequities, these options for providing targeted support have potential to strengthen the 'social licence' of the scheme and increase public confidence and engagement in KiwiSaver.
18. The risk that people "over save" in KiwiSaver and would have better financial wellbeing if they used the funds in the present is mitigated by the opt-in nature of those options which would otherwise affect present spending.

Inflation – same for all three

19. Finally, the interventions will not have a material inflationary effect, given the increased government spending would be invested directly into KiwiSaver accounts and not be expended in the economy until a person reaches 65 or is eligible for early withdrawal (e.g. a first home withdrawal or serious illness). The proposed payments would not be

considered income and would therefore not affect entitlement to benefits or Working For Families payments

Views from initial engagement

20. Due to the time constraints imposed on officials in preparing advice and the budget process it has not been possible to undertake consultation with the public or with iwi and hapū on the options.
21. However, in 2022 a joint agency working group undertook some initial engagement on issues and options for KiwiSaver Enhancement.⁷
22. Officials engaged with KiwiSaver and funds management providers, the KiwiSaver lead for the Prime Minister's Business Advisory Council, representatives from capital markets and academic sectors, the Council of Trade Unions, Business New Zealand, the Small Business Advisory Council and staff at a number of iwi savings schemes. Officials also met with representatives of two iwi without savings schemes and two social services providers who work primarily with Pacific Peoples and whānau Māori.

Impacts for iwi and hapū and whānau Māori

23. Engagement with iwi/Māori was limited, but the feedback received indicated that:
 - there is a strong and widely held interest in saving for the future among Māori, focussed on being able to pass on savings to support tamariki and mokopuna.
 - KiwiSaver is valued for its support of home ownership, and its rewards and incentives. However engagement with KiwiSaver could be increased among whānau Māori.
24. Survey data indicates KiwiSaver works similarly for Māori as for non-Māori in terms of participation, when controlling for income level, employment status and other factors.⁸ Māori who contribute to KiwiSaver are more likely than non-Māori to be contributing at 4 and 6 percent. This is consistent with engagement feedback about the high value placed on saving and on KiwiSaver's role in saving towards home ownership.
25. KiwiSaver settings do not vary by ethnicity; however, they currently compound the impact of colonisation for Māori.⁹ Since Māori are over-represented in low paid work, underemployment and unemployment, incomes are significantly lower than for non-Māori. For this reason iwi, hapū and whānau Māori may potentially
 - prefer option 3 over option 2, as it better addresses distributional impacts; and

⁷ These included work to consider KiwiSaver recommendations of the 2019 RRIP, Capital Markets 2029 report and Prime Minister's Business Advisory Council.

⁸ Māori have lower rates of membership and of contribution than non-Māori, due to being overrepresented in unemployment, underemployment and low paid work.

⁹ Māori have lower rates of home ownership, higher rates of unaffordable housing, and are over-represented among the unemployed, as well as in jobs that involve lower pay, fewer skills, and fewer advancement opportunities. Māori have significantly lower net worth and life expectancy than non-Māori.

- prefer any option which is not tied to participation in paid work, over PPL based options.

Impacts for KiwiSaver providers

26. A range of individual KiwiSaver providers have publicly noted the gender retirement savings gap¹⁰ and need to close it.¹¹
27. Both options 2 and 3 may have some small implementation costs and impacts on the KiwiSaver industry, such as updating existing information and guidance on government contribution entitlements. Despite these costs, we expect the options would be supported by industry on the basis that they seek to acknowledge and partially address the gender gap in retirement savings and/or drive KiwiSaver membership and contributions. Each option would also increase KiwiSaver funds under management and industry revenue from management fees.

Overall assessment

28. Although neither option will directly address the wider issues associated with gender and retirement savings, the assessment model (above) indicates Option 2 is preferable to Option 3. Two key factors in reaching this assessment are the misalignment with the existing matched employee/employer contribution settings which would occur if Option 3 were to be implemented, as well as the significantly lower fiscal cost associated with Option 2.
29. While, as noted above, the overall impact of Option 2 is likely to be small, the proposal would nonetheless go some way toward mitigating the effect of time spent out of work for PPL recipients.

¹⁰ ASB Media Release in 2022 (<https://www.asb.co.nz/documents/media-centre/media-releases/women-better-off-day-to-day-but-miss-out-on-750-million-at-retirement.html>).

¹¹ ANZ Dollars and Sense: A Decade of KiwiSaver (2017); ANZ, KiwiSaver Equity for Women NZIER for KiwiWealth (2022).

Discussion

Affected groups <i>(identify)</i>	Comment <i>nature of cost or benefit (eg, ongoing, one-off), evidence and assumption (eg, compliance rates), risks.</i>	Impact <i>\$m present value where appropriate, for monetised impacts; high, medium or low for non-monetised impacts.</i>	Evidence Certainty <i>High, medium, or low, and explain reasoning in comment column.</i>
Additional costs of the preferred option compared to taking no action			
Regulated groups (PPL recipients)	None	No cost	High
Regulators (Inland Revenue)	This change will bring a small administrative cost to Inland Revenue	\$0.510 million (for the forecast period 2022/23 to 2026/27).	High
Wider government	Fiscal cost to the Crown	\$19.219 million (for the forecast period 2022/23 to 2026/27).	Medium – some uncertainty around behavioural change impact
KiwiSaver fund providers	May be some guidance updates required	Low	High – change will be administered using existing systems
Total monetised costs		\$19.729 million (for the forecast period 2022/23 to 2026/27).	Medium
Non-monetised costs		<i>Low</i>	<i>High</i>
Additional benefits of the preferred option compared to taking no action			
Regulated groups (PPL recipients)	Small increase in savings for eligible recipients. May result in increased number of PPL recipients choosing to contribute to KiwiSaver during PPL.	\$19.219 million in additional “employer” contributions (for the forecast period 2022/23 to 2026/27).	Medium – some uncertainty around behavioural change impact
Regulators (Inland Revenue)	None	No change	High
Others (KiwiSaver fund providers.)	Small increase in funds under management	Low	High
Total monetised benefits		\$19.219 million (for the forecast period 2022/23 to 2026/27).	Medium
Non-monetised benefits		<i>Low</i>	<i>High</i>

Section 3: Implementation

30. Provided Cabinet agrees to progress the policy, the proposal would be introduced in the 2023-24 Annual Rates' Bill and would take effect from the 2024-25 Financial Year (i.e. from 1 July 2024). This would mean that existing PPL recipients who contribute to their KiwiSaver accounts would be eligible for a three percent government contribution on any remaining PPL payments beginning from 1 July 2024 (but not on any PPL payments received prior to 1 July 2024). By contrast, PPL recipients who begin receiving PPL after 1 July 2024 would be eligible for a three percent government contribution for the full duration of their PPL.

Section 4: Delivering an option

How will the new arrangements be monitored, evaluated, and reviewed?

31. KiwiSaver is jointly administered by the Treasury, MBIE, and IR, and is monitored on an ongoing basis as part of the agencies' ongoing stewardship obligations, including through regulatory reviews.
32. The operation and progress of the proposal will be observed by the responsible agencies and reported on as required. Additionally, KiwiSaver settings may be considered by the Retirement Commissioner as part of a statutory review of retirement savings settings every three years, (the focus is set in the Terms of Reference issued by the Minister of Commerce and Consumer Affairs).
33. This provides an opportunity for an independent consideration of KiwiSaver's features and their success in achieving the Government's objectives.
34. The findings of external reporting frameworks which monitors the performance of pension systems around the world (such as the Mercer CFA Institute Global Pension Index) could also be considered as a method of evaluating the operation of the KiwiSaver scheme.