New Zealand Society of Actuaries (Inc)
Celebrating our 50th year

5 September 2006

Hon Dr M Cullen
Minister of Finance
Parliament Buildings
PO Box 18-041
WELLINGTON

Dear Dr Cullen

KiwiSaver

We write to you to express our concerns for the future of existing registered employer-sponsored superannuation schemes following the introduction of the tax concession for the new KiwiSaver scheme.

The new tax exemption from SSCWT for employer contributions to a KiwiSaver scheme will undoubtedly assist in attracting employees to join and save through the scheme on a regular basis. The proposal is designed to encourage employers to make a contribution to the retirement savings of their employees and this will see new employers launch schemes. In many ways this is a welcome development which we applaud.

How this will impact on existing schemes is somewhat unknown but we expect that this proposal will be detrimental to the future of these schemes. We would therefore like to see measures put in place which will prevent any adverse impact on such schemes.

First we summarise the position of employer based superannuation schemes in NZ, as follows:

- A small but important number of employers have continued to provide superannuation benefits to their employees.
- The number of employees covered by superannuation has increased slightly in the last 2 years due to the success of the State Sector Retirement Superannuation Scheme and the general need by employers to provide benefits to attract and retain staff in a tight labour market. Nearly 15% of employees are members of employer sponsored superannuation schemes, which have assets in excess of $11 billion. Annual contributions (including any transfer values) are over $950 million.
- While there has been a significant move by employers away from standalone schemes to master trust schemes, a number continue to provide their own scheme. This trend to master trusts will continue in the future.
- The move to master trusts is consistent with the KiwiSaver scheme approach which puts the member at the forefront and the employer playing a secondary role with the scheme.

Faced with the new tax development we can see the smaller standalone schemes deciding to switch to master trusts as a means of accessing a KiwiSaver scheme through the same master trust provider. Others though, and particularly the larger ones, will undoubtedly prefer to continue on a standalone basis but will be discouraged from doing so if they are on a disadvantageous tax basis compared to a KiwiSaver scheme.

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The new "bulk transfer" provisions of the Superannuation Schemes Act go some way to ensuring that the transfer from a standalone scheme to a master trust does not result in leakage from the existing savings pool. However, it will not guarantee this as the trust deeds of many standalone schemes still require individual member consent before benefits can be transferred and in these cases, schemes are just as likely to be wound up to facilitate the change.

Accordingly we would like you to consider the following ideas for existing schemes:

- Employer contributions to a scheme could be exempt from SSCWT up to the 4% limit provided the tax saved is held in a locked up account for the benefit of the individual member. If the member agrees to transfer part or all of their benefit payment (when they leave the employer's scheme) to a KiwiSaver scheme the locked-in tax-savings for that member would be transferred with them. If not it would be paid to the IRD.
- While the basis on which an existing scheme can add a KiwiSaver section has been simplified and is welcome we would like to see employers able to make contributions direct to the scheme rather than be required to go via the IRD.
- A scheme could be able to include a lock up section for both employee and employer contributions and gain the tax exemption but without having to be a KiwiSaver scheme.
- New employees would still be provided with full details on their alternative option of joining a standalone KiwiSaver scheme.

We note here that a great deal of effort went into trying to make the exempt employer concept work but with the revisions made to the KiwiSaver scheme this concept is now effectively redundant.

We would be pleased to work with your officials to refine and expand on the above ideas. With the delay in the introduction of KiwiSaver till July 2007 we believe there is sufficient time to make progress on this matter and advise schemes of any changes to allow them to plan for these prior to the implementation of KiwiSaver.

Yours sincerely

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