PENSIONS POLICY INSTITUTE
PPI

KiwiSaver: another lesson from New Zealand?

New Zealand's Citizen's Pension has been analysed previously by the PPI. This Briefing Note looks at a simple new policy announced in New Zealand in May 2005 that might provide some ideas for the current UK savings debate.

KiwiSaver - Employees

PENSIONS POLICY INSTITUTE PPI

- Employees automatically enrolled when starting a new job; can opt out within 4 weeks. Others can choose to join.
- Can choose a fund, or be allocated to a default
- Contributions of 4% of gross salary are deducted automatically, unless choose higher rate of 8%
- Government adds NZ$1,000 on joining, locked in till age 65 or 5 years minimum
- Savings are locked in until 65 except if financial hardship, permanent emigration, or – after 3 years minimum – to buy a first home
- Contributions can be stopped for up to 5 years

Purpose

KiwiSaver is designed to get people into the habit of saving.

New Zealand and the UK have different retirement income issues. New Zealand does not have the income inequality, means-testing or complexity concerns of the UK. In New Zealand there is no evidence of widespread 'undersaving'[1], but some concern that the retirement income outlook for young people is unclear[2].

There are few big companies in New Zealand, and there are no tax advantages for work-based schemes. Fewer than 15% of employees are members of occupational schemes, compared to nearly half of UK employees[3]. Retail (personal) pensions have grown strongly. Work-based savings schemes have caught the attention of policy makers as cost effective ways to help New Zealanders overcome any procrastination to save[4].

The charts describe KiwiSaver and the following comments on the idea in a UK context.

Soft compulsion

Compulsory private savings were rejected by New Zealanders in a referendum in 1997. 92% voted against, on an 80% turnout. Not surprisingly, KiwiSaver is a voluntary scheme.

Employers must offer Kiwi Saver, but do not have to contribute. Employees in Kiwi Saver must make contributions of at least 4% of salary, but they can opt out, and can take almost permanent contribution holidays.

Automatic enrolment is only proposed for employees when they start a new job. Others can opt in. It will therefore take some time for the scheme to become widespread, and will focus on younger workers.

There are no published targets for participation, but the assumption used is that 25% of the workforce will have joined after 5 years.

Savings not pension

Throughout the KiwiSaver literature, the word 'pension' is not used once. This is a plan to encourage savings. The language is all about helping people who aspire to save – a contrast from the message in the UK about 'we all need to save more'.

The savings are designed primarily for retirement and are locked in until the age at which the state pension is payable, except in exceptional cases. But no annuity has to be bought, so the savings can be used as the saver chooses.

It is also designed to help home ownership for young people, as KiwiSaver funds can be withdrawn for a deposit on a first home.

KiwiSaver is part of a package which contains other help for home buyers and an expansion in financial education to be developed in 2006.

KiwiSaver - Employers

PENSIONS POLICY INSTITUTE
PPI

- Every employer has to offer the KiwiSaver facility, and distribute information to employees from the Inland Revenue (no small employer exemption)
- No need for an employer to contribute
- Inland Revenue collects contributions from payroll and allocates to the chosen or default fund
- Employer receives information about employees' participation from Inland Revenue
- Employers with an existing occupational pension scheme can choose to convert the scheme to comply with KiwiSaver, get exemption from KiwiSaver, run the scheme alongside KiwiSaver or wind up the scheme

Simple incentives

The incentive from the New Zealand Government to join KiwiSaver for retirement saving is NZ $1,000 (around £380). This lump sum incentive is very simple, and visible. It is similar to the incentive in the UK's Child Trust Fund. A less visible Government incentive will come from a subsidy on the fees payable to KiwiSaver fund providers.

Employers do not get any financial incentive, but their administrative burden is limited. The Inland Revenue will collect contributions and pay them to the fund providers. This direct Government involvement with administration should have the benefit of keeping costs low.

The KiwiSaver incentive is modest by UK standards, where the tax relief on pension contributions and on investment roll up is significant. But as there is no tax relief on savings or pension contributions currently in New Zealand, the new incentive may have some symbolic value.

More substantial (although available to fewer people) is the one-off subsidy of up to NZ$5,000 towards buying a first home that is available after participating in KiwiSaver for three years.

Would it work in the UK?

KiwiSaver got a mixed press in New Zealand, but it has many features that might appeal in the UK: automatic enrolment stopping short of compulsion, a simple design, a visible flat-rate incentive, low administration costs directly controlled by Government, a holistic approach to savings and help with home buying.

All of these features could translate to the UK environment, and might be seen as improvements to the Stakeholder pension.

But two issues to bear in mind. First, KiwiSaver is not trying to solve the range and depth of retirement income issues that concern UK policy makers today. Any features we copy would only be part of the solution. Second, the UK already has significant occupational and personal pension provision, with more generous tax relief available. Would a new BritSaver replace or add to that?

---

[1] Grant M Scobie & Le Thi Van Trinh (2004) *Savings for Retirement: New evidence for New Zealand*, New Zealand Treasury

[3] DWP, *Family Resources Survey 2003/4*

[2,4] Periodic Report Group (PRG) *Retirement Income Report* 2003

See also O'Connell (2004) *Citizen's Pension: Lessons from New Zealand* PPI and www.securingyourfuture.govt.nz

For more information on this topic, please contact
Alison O'Connell
020 7848 3751 alison@pensionspolicyinstitute.org.uk
www.pensionspolicyinstitute.org.uk