

## **SUMMARY OF KIWISAVER**

### **WHAT IS KIWISAVER?**

1. KiwiSaver is a non-compulsory savings vehicle through which a percentage of an employee's gross wages are deposited into a nominated private investment fund by their employer. The scheme is designed to compliment New Zealand Super and encourage additional long-term savings habits through asset accumulation.
2. Funds will only be able to be withdrawn from KiwiSaver under limited circumstances including:
  - a. after retirement or 5 years after the first contribution (which ever is the later);
  - b. a one-time withdrawal to assist with the purchase of a first home (after 3 years of membership);
  - c. financial hardship; and
  - d. upon cessation of being a KiwiSaver member.
3. First homebuyers are also entitled to a home ownership deposit subsidy of \$1000 per year of savings, up to a maximum of \$5000 per person.

### **THE DEVELOPMENT OF KIWISAVER**

4. The development of KiwiSaver was based upon the recommendations of the NZ "Savings Product Working Group" and was announced as part of New Zealand's 2005 Budget.
5. The KiwiSaver Bill had its first reading in the New Zealand Parliament on Thursday 2 March 2006 and was subsequently referred to the Finance and Expenditure Select Committee. Submissions on KiwiSaver closed 28 April 2006 and the Committee is now due to report by 1 September 2006.
6. It is expected that the Scheme will be implemented by 1 April 2007.

### **HOW DOES KIWISAVER WORK?**

7. All new employees aged between 18 and 65 years will automatically become a KiwiSaver member. Deductions will commence after week 11 unless employees decide to opt out in the first 2 to 6 weeks of employment. Existing employees, those who are self-employed and persons under age 18 may choose to opt in to the scheme.
8. All Australian and New Zealand citizens are eligible to use KiwiSaver, provided they are physically present in NZ.

9. KiwiSaver members are able to:
  - a. choose a preferred KiwiSaver private investment fund;
  - b. transfer between funds;
  - c. choose to contribute either 4% or 8% of their gross pay; and
  - d. choose to defer contributions for between 3mths and 5 years (after 1 year of membership). There is no limit on the number of times a deferral may be made.
10. Contributions are subject to PAYE tax at the contributor's marginal tax rate.
11. The NZ Government provides incentive through an upfront deposit of \$1,000 for each new member (which cannot be withdrawn to purchase a home or in times of financial hardship), a first homebuyers' subsidy and contributions towards membership fees.
12. KiwiSaver balances are not guaranteed by the NZ Government and Scheme assets may not be used as security for borrowing.

### **COSTS AND BENEFITS**

13. A quantifiable measurement of the overall cost / benefit of KiwiSaver is not available. However, costs to the NZ Government are estimated to be in the order of \$700m (GST Excl) between 2005/06 – 2009/10. These costs will be offset with savings when KiwiSaver members begin to retire which will liberate funds for domestic investment and should lead to a reduction in off-shore borrowing.
14. The financial sector will benefit from the increased use of private investment funds.
15. The employer will be subject to some compliance costs as they must:
  - a. provide basic information on new employees to Inland Revenue;
  - b. provide employees with an information pack; and
  - c. make deductions on the employee's behalf and pay these, along with PAYE tax, to Inland Revenue to be deposited in the employee's nominated investment fund.

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