



BUDGET 2011: CHANGES TO KIWISAVER

As expected the Government has announced changes to KiwiSaver. These changes will be implemented progressively from 1 April 2012, and are necessary to ensure KiwiSaver is sustainable in the future.

Why KiwiSaver had to change:

- Currently over \$1 billion a year of what goes into KiwiSaver comes from the government via subsidies and tax breaks. This is not fiscally affordable in today's economic environment.
- If the government has to borrow to fund KiwiSaver, as is currently the case, there is no real increase in national savings – the debt that is acquired cancels out the impact of savings through KiwiSaver.
- KiwiSaver now has 1.68 million members, and is gaining members at the rate of around 20,000 per month. This wild success is increasing government expenditure at an unsustainable rate.

The main changes:

- The Member Tax Credit will be halved from \$1 to 50c for every dollar a member contributes, up to a maximum of \$521 per annum (effective from 30 June 2012).
- From 1 April 2012, the tax free status of employer contributions will be removed (will be taxed at the employee's marginal tax rate).
- From 1 April 2013 the minimum employee and employer contributions will rise to 3% (currently set at 2%).

Summary of changes:

Year	Government kick start	Government tax credit	Employee contribution	Employer contribution
2011	\$1000	\$20 p/w maximum	2%, 4% or 8%	2% compulsory (exempt from tax)
2012*	\$1000	\$10 p/w maximum	2%, 4% or 8%	2% compulsory (less tax)
2013	\$1000	\$10 p/w maximum	3%, 4% or 8%	3% compulsory (less tax)

* Member Tax Credit reducing from year ended 30 June 2012

Comments:

- The earliest any of these changes take effect is 1 April 2012, i.e. after this year's General Election, effectively giving KiwiSaver members the opportunity to vote against the changes. Labour has not yet said whether or not, if elected, it would repeal the changes.
- The delayed introduction gives employers and employees time to adjust.
- There are still good incentives for people to be in KiwiSaver and it remains a relatively low-cost scheme.
- These changes do not derail the fundamental design and benefits of the system. They simply transfer additional responsibility for funding retirement savings to the individual and employers. If individuals cannot afford the 2% (and future 3%) contributions, then the ability to suspend contributions is still available.

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