



28 April 2006

S06.15

Submission to the Finance and Expenditure Select Committee On the KiwiSaver Bill

The National Council of Women of New Zealand (NCWNZ) is an umbrella organisation representing 38 nationally organised societies. It has 32 branches throughout the country attended by representatives of those societies and some 150 other societies. It also has a growing number of individual members. The Council's function is to serve women, the family and the community at local, national and international levels through research, study, discussion and action.

General Comments

This submission follows others made by NCWNZ over the years on the topic of savings. While opposed to compulsory savings NCWNZ has consistently advocated personal savings whether investing in one's own home or business or putting money into savings schemes, even if confined to a special bank account. But in Keynesian terms, the marginal propensity to save (MPS) depends on the amount of disposable income one must devote to consumer spending. With the rising costs of energy, telephone line charges and rates it is not surprising that many people are sceptical about saving. And, if the credit card debt is anything to go by, too many are into a negative savings situation so would have to pay off consumption debt before contemplating any form of positive saving. Not that this should deter advocates of savings schemes which may encourage better budgetary habits.

This Bill by necessity covers a wide range of initiatives and consequential clauses. NCWNZ has chosen to address only a few at this time.

Specific Comments

In order to gauge their opinions, NCWNZ members were asked to consider the following three questions:

1. Some economists maintain that one of the best assets to invest in is one's own home. Do you think **'money invested in privately provided investment funds'** (Scheme features in Explanatory Notes page 33) would be more secure/provide more options?
2. Given that KiwiSaver is designed to be a work-based scheme, what impact will this have on workers in casual or part-time employment, most of whom are women, or women at home?
3. Members were asked to comment on the following:
Employers will be required to
 - distribute information packs, provided by IRD, to new employees and employees who opt in about the KiwiSaver scheme
 - pass employee information to IRD of those who opt in within the prescribed time frames
 - make deductions from their employees' wages and pay this to the IRD along with PAYE.

The responses received from NCWNZ's Branches and affiliated organisations have informed this submission.



Investment opportunities

Members generally agreed that paying off mortgages on homes were a top priority form of saving and that young workers should save for their first homes, taking advantage of the contribution promised by Government in the Bill. It was felt that some young workers may not consider this amount to be sufficient, especially with many financial institutions offering very generous terms on mortgages. As for the privately provided schemes, many replies referred to examples of funds being embezzled, poorly or unethically invested and often failing to give the promised returns. The 'Enron' scandal is an extreme case but there are others which give the savings industry an unfortunate image.

Now that Government, through the Ministry of Economic Development, is working on regulation provisions governing financial intermediaries, the public may gain more confidence in saving schemes. NCWNZ has already contributed to this discussion and looks forward to the outcome.

From the '**Statement of Consultation undertaken**' (pp 36 & 37 of the Explanatory note) it would appear that overseas-based financial fund providers are more likely to benefit from the KiwiSaver than domestically-based entities. There is widespread concern among our members who believe that the 'Buy New Zealand-Made' Campaign should include the promotion of domestic financial services such as those provided by Kiwibank, TSB Bank and the Southland Building Society. While international organisations may have access to a wider range of investment options, there need to be assurances about best ethical practices e.g. avoiding the tobacco industry or dubious pharmaceuticals involving genetic modification or unnecessarily cruel vivisection.

Part 2 Membership of KiwiSaver

Subpart 1 – Becoming Kiwi Savers

Clause 8 – Who automatic enrolment rules apply to

Members noted that most banks offer savings schemes whereby payments can be made on an irregular basis, so that casual and seasonal workers can readily participate. Affordability is a problem even for full-time employees. Releasing as little as 4% of one's earnings to a savings scheme is likely to be a strain for many. However the opportunity to opt out of KiwiSaver is reassuring as is the provision for a 'contribution holiday' (**Clauses 12 to 16 and 86-97**). It was suggested that a lesser incentive could be an amendment to the Social Security Act (1964) making funds in a KiwiSaver exempt from assessment for the Accommodation Supplement.

Clause 25 – How to opt in

Clause 28 – Effect of opt-in by persons other than employees

NCWNZ recognises that self-employed people can make their own savings arrangements to join a KiwiSaver scheme, while noting the great value of the self-employed to the New Zealand economy e.g. farmers, sharemilkers, personal service providers. It is pleasing that they would be entitled to the same incentives offered by the KiwiSaver should they enter an approved scheme.

It is disappointing that women who choose to stay home to raise their children are ineligible to opt-in as the 'work' they do is not recognised as such. These are the people who traditionally live longer than their male employed counterparts therefore need some security in their later years.

Part 3 KiwiSaver contributions

Subpart 1 – Deductions of contributions from salary or wages

Clauses 49 – 57

Compliance costs were raised as a concern by many members who are self-employed and small business entrepreneurs. As expected these perceived costs were a possible barrier to giving approval to the KiwiSaver.



The question also arose as to who would be responsible in the event of errors being made in calculating payments to a savings scheme on a wage-sheet. One respondent said she would find the initial processing time consuming but, with the right software, would not find subsequent payments a problem.

When it comes to complete non-compliance, several members were unhappy about the criteria for the employer exemption (**Part 2 Clauses 19-23**). NCWNZ would not like to see employers penalised in any way for not participating in KiwiSaver whether or not they overcome the bureaucratic hurdles in order to claim exemption.

Part 5 General Provisions

Clause 182 - No Crown guarantee of KiwiSaver schemes or products

Members pondered whether there could be a danger that their compulsory savings plus interest may not be available when they reach retirement age. This concern reflects the perception of limited control over where funds may be invested.

Regulatory impact statement (page 29 paragraph 2)

Here it is claimed that 'Saving and investing is the foundation of the future wealth of New Zealanders as individuals and as a country'.

The implication is that monetary savings must precede investment. Most of our public and private capital development is funded by borrowing first, with the repayments constituting the savings. Indeed a sovereign government has the power to invest in infrastructures by borrowing from itself at little or no interest so those real savings are made by the community, obviating the need for those individual savings to pay for health and education services which ought to be state funded. In other words any future government should not interpret mention on page 36 of the Explanatory Note of 'increased self-reliance for people in retirement' as an excuse to opt out of responsibilities pre-paid by our taxes.

Concluding comments

In general NCWNZ approves the concepts within the KiwiSaver Bill. The non-compulsion, opt out option pleases. Clarity is sought as to whether women who choose to stay at home may have their 'work' recognised as such thereby having the ability to participate. It is hoped that compliance practices will be made as cost efficient and effective as possible.

NCWNZ will be following the progress of this KiwiSaver Bill with great interest and appreciates the opportunity to comment.

Christine Low
National President

Heather Smith
Convener, Economics Standing Committee



KiwiSaver Bill
Oral Submission to Finance and Expenditure Select Committee

When: Wednesday 10 May 2006

Attendees: Beryl Anderson and Janet Hesketh

Members of the committee: Gordon Copeland, Jeanette Fitzsimons, Craig Foss, Hon Mark Gosche, Hone Harawira, George Hawkins, Rodney Hide, Shane Jones (Chairperson), John Key, Dr the Hon Lockwood Smith (Deputy Chairperson), Paul Swain, Chris Tremain, and R Doug Woolerton.

In the oral presentation Beryl noted that there were some consistent themes in the responses from our membership.

- a distrust of 'privately provided investment fund' as there are many influences (outside factors) in the national and global economy that effect a rise or fall of investment funds (eg changes in policy or direction of successive governments)
- considerable concern around compliance; both in terms of the initial set up for a large organisation but more particularly for smaller companies where the use of electronic systems is less likely and where there is more diversity in the wages paid (eg changes in the hours worked each week). One employer put it as strongly as an 'objection to being forced to act as a collection agent for the government with the extra costs my business will have to bear, with penalty rates for any mistakes I make'.
- the effect for the casual and part time workers, for those people who change jobs frequently, those in precarious work, and for those women who opt to work in the home, unpaid, raising a family, and contributing to the national accounts in an unmeasured way.
- the availability of discretionary income to redistribute to longer term savings, even when the benefit is understood. In many instances 4% would be too high.

One of the issues that became clear in listening to discussion, particularly in relation to women, is that once a person is a Kiwisaver, they remain one permanently, so that if contributions cease because no longer in paid employment, the money simply remains and the saving will be resumed when the employment resumes. Contributions can also be made from other income sources, is such are available.

The only major question concerned women's attitudes to saving, to which we replied that we consider women are particularly aware for the need for long-term saving, that, in general, it is women alone in old age who have the least income, and that in recent years they have become more concerned about making provision for their old age.