National Council of Women of New Zealand
Te Kaunihera Wahine O Aotearoa

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26 July 2007 **S07.35**

Supplementary Submission on the 2007 Review of Retirement income policies

This paper sets out come concerns which the National Council of Women of New Zealand have identified as a result of recent changes to the KiwiSaver Scheme and is an addendum to our original submission.

Thank you for the opportunity to provide this further information to our original submission. The budget announcements in May 2007 and subsequent suggestions from government have caused us to review our position and to identify some real concerns which are set out below.

The membership of the National Council of Women is diverse – it includes employers and employees, women who have retired, people who are involved at a variety of levels in a range of not-for-profit organisations, as well as those women whose “work” involves raising a family and contributing to the national accounts in an unmeasured way.

When the KiwiSaver Bill was introduced in 2006 NCWNZ members had various concerns about the scheme but recognised that it provided an avenue for portable, workplace, superannuation which was presently lacking. The KiwiSaver Act appeared to offer an extra option for prudent financial planning. However, the amendments announced in the last Budget, with the introduction of compulsory elements, a widening of eligibility, and an increase in public funding through subsidies, did nothing to allay our concerns. They have raised a greater anxiety that the Government is moving towards making KiwiSaver the principal superannuation vehicle to the possible detriment of the National Superannuation Scheme upon which so many women rely. 55% of retired women are totally dependent on National Superannuation today. It would be a significant disadvantage to women if the universal National Superannuation were allowed to stagnate or diminish in favour of a personal, employment related scheme. We note that the new version of KiwiSaver will absorb significant funds from the public purse in direct subsidies and forgone taxation so that it may be difficult for New Zealand to support two retirement schemes. Our country has a record of preferring single solutions rather than multiple options.

If KiwiSaver were to become the main superannuation scheme we would be very concerned that women would not be able to make sufficient savings because:

- pay equity has not been achieved.
- women have broken periods of employment due to social and family responsibilities. Women frequently choose part-time or lower-paid positions in order to have the time and energy to provide support to children, partners or older family members.
- today’s society has a variety of relationships egg solo mothers, several partners (women are as ‘at risk’ with property division as men when partnership break-ups occur). Many women will experience a part of their lives when they are the sole or principal financial support for the family.
- women live longer and therefore require more money to finance retirement.

In our submission to the original Bill we expressed concern about the risk factors inherent in a 'privately provided investment fund'. We have now had the opportunity to read some of the Investment Statements which providers must supply. To the provider's credit they are at pains to note the obvious risks in any investment and to make it clear that the fund may at any particular time be in profit or loss. Other uncertainties are revealed as to timing of payout, change of investment policies and the ever present theme, that the scheme may be subject to further government regulation. While these matters are an obvious concern to the investors they are also of interest to the general tax-payer considering the level of public money that will be used either as bonus inducements or in administration support to employers, providers, and the IRD. The cost of this scheme to the tax-payer is not inconsiderable.

There is also some concern as to how this KiwiSaver Amendment will affect the labour market. Our members who are small employers will be facing increased compliance costs. While it is true that there is some off-set allowed in the present Bill there is a feeling that in order to make this work there is likely to be less interest in the part-time or flexible employment which appeals to many women. This extra burden on employers may lead to more companies moving off-shore with a consequent loss of jobs.

We note that there is encouragement for people who are not in the workforce to also join the scheme. However, the minimum contribution of $500 may be too much for a solo parent, and in a median household where there is only one breadwinner there is unlikely to be sufficient discretionary income to meet the employment deduction and also make a contribution for a non-working member.

There is deep scepticism that the employer's contribution can usefully be considered as part of the employee's wages. To the extent that this does happen it would seem to be a return to last century when depressed wages were supplemented by indirect benefits.

We also note that even at 2% pa the rate of inflation will affect these long term savings so that sums which seem attractive today may be worth far less in 2050. Past experience has shown that investment returns may not be sufficient to exceed the rate of inflation together with the various administration fees which the providers will require.

In some of the publicity surrounding the scheme there has been encouragement for the view that KiwiSaver will provide a substantial pool of money for investment in the New Zealand economy. While our members have always had a preference for New Zealand investment and for ethical investment, if the funds are to be prudently invested and bring in the expected returns it seems unlikely that the New Zealand market by itself would have sufficient opportunities. Certainly the Investment Statements we have studied make it quite clear that investment will be spread and some of that will be off-shore. We have only to look at the management of the Cullen Fund to see that principle in action.
Looking further out we are particularly concerned that this emphasis on a personal account method of superannuation may be applied to other public benefits such as health and transport. These affect the whole of society, but retired people are particularly reliant on this provision of public good. We would be deeply concerned if personal superannuation also led to personal health care for instance.

For the present this scheme remains largely voluntary but elements of compulsion are appearing and we wonder if the ultimate intention is to make it compulsory? What started life as another option may be turning into a preferred option which could leave women severely disadvantaged.

The issues raised in this paper arise from our earlier consideration of the original KiwiSaver proposal and from later concerns which some members have presented. The piecemeal way in which this scheme has been introduced has made it impossible for NCWNZ to undertake our normal full consultation process but there has been considerable discussion and the policy directions which seem to be developing are too important to ignore.

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