



KiwiSaver: What is it all about?

KiwiSaver is intended to promote long-term retirement savings amongst New Zealanders. It is not intended to replace existing private superannuation arrangements but to provide a cost effective vehicle for all New Zealanders to be able to save by way of direct deduction from their salary or wages.

What is KiwiSaver?

KiwiSaver took effect on 1 July 2007 and primarily applies to employees who are paid through the PAYE system.

Unless their superannuation scheme has been exempted from the automatic enrolment process, employers must provide those who start a new job with the opportunity to join KiwiSaver.

They will then have to make deductions from their salary and wages and pay these to the IRD. The IRD then pass these on to the appropriate KiwiSaver provider.

Employees under the age of 18 or over the age of qualification for NZ Superannuation (currently 65) are excluded from automatic enrolment.

There are also exemptions for casual agricultural workers and workers employed for less than 4 weeks.

What should employers do?

Employers can choose to do one or more of the following:

- Where an existing workplace superannuation arrangement is in place, they may seek an exemption from the automatic KiwiSaver enrolment provisions, so that employees will only have to be offered their existing KiwiSaver approved superannuation scheme (exempt scheme).
- Convert their existing scheme to obtain the exemption. This may require the consent of all members, or permission from the Government Actuary.
- Select a KiwiSaver provider for their employees. This may include setting up a specific scheme for your employees.
- Leave it to the IRD to select a KiwiSaver provider for their employees from a list of six default providers.
- Run their existing scheme as well as set up and offer a KiwiSaver scheme.

Who is eligible to join KiwiSaver?

KiwiSaver is open to all New Zealand citizens and people entitled to be in New Zealand indefinitely, aged up to 65. They must also be living or normally living in New Zealand. This includes minors, people whom are unemployed or receiving a benefit, and part-time and self-employed workers.

If the saver is self-employed, unemployed or receiving a benefit, payments should be made directly to Inland Revenue or your KiwiSaver provider.

What incentives are there to join?

The Government will also provide the following incentives to members of KiwiSaver:

- A \$1000 “kick-start” contribution for each member when they first join.
- A fee subsidy of \$40 per year, payable to the KiwiSaver scheme provider.
- All member contributions to KiwiSaver (and complying superannuation funds) will be matched by a tax credit of up to \$20 per week (\$1,042.86 per year) that will be paid directly into their KiwiSaver account (or complying superannuation fund).

What are the tax incentives?

Mostly all KiwiSaver funds are PIEs, which means the returns on the investments will be taxed at a lower than normal rate.

From 1 April 2008, the highest tax rate for any investor in a PIE is 30%. For someone in the 39% tax bracket, that's a saving of \$90 for every \$1000 of investment income. For someone in the 33% tax bracket, it's a saving of \$30 for every \$1000 of investment income. This will amount to a fair bit if your KiwiSaver income builds up over the years.

Lower-income investors will in most cases be taxed at 19.5% on their PIE income. This is a tax break for those with income of \$9500 to \$38000 who would normally pay 21% tax on every dollar of income.

How does KiwiSaver work?

KiwiSaver was implemented in two parts, with the original scheme effective from 1 July 2007 and the new rules, as per outlined in the 2007 Budget, which came into effect from 1 April 2008.

The KiwiSaver key points are:

- Employees are automatically enrolled on starting a new job and deductions start immediately.

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- Employees can opt out between two and eight weeks after starting a new job and deductions will be returned with interest.
 - Employers can continue to offer their existing superannuation scheme to employees. If the employee fails to opt out of *KiwiSaver* within the two to eight week window, they will have to continue with *KiwiSaver* for a minimum period of 12 months and their contributions are locked in.
 - In a *KiwiSaver* scheme, any employer contributions will be exempt from tax, provided they are matched by employee contributions.
 - Employee contributions are calculated on pre-tax income and will be taken from after-tax income.
 - Members are able to withdraw both their own and their employer's contributions, subject to certain rules, as a deposit on their first home.
 - Members may elect to take a contribution holiday after one year (earlier subject to IRD consent) and this can be extended indefinitely. Contributions can be made during a contributions holiday, as long as the provider allows this. You won't receive any compulsory employer contributions but you will still receive the tax credit.
 - Self-employed persons will be able to join *KiwiSaver* by contracting directly with a scheme provider and making contributions. These payments can be of any amount subject to a provider's agreement and will be eligible for the member tax credit.
 - All contributions are locked in until the minimum age of retirement, currently 65, or for 5 years from joining, which ever is later.
 - You may also access your funds in the case of financial hardship, serious illness, permanent emigration, or for first home purchase subject to certain conditions.
 - In the event members emigrate, the Governments tax credit of up to \$20 per week will be clawed back.
- Employees may elect to deduct 4% or 8% of their salary every payday (based on their gross income and subject to any contribution holiday).
- Up until March 2010, if both employers and employees agree, 4% contributions can be made up of 2% from your salary and 2% matched by your employer. From April 2010, both will need to contribute 3%, rising to 4% from April 2011 onwards.

From 1 April 2008, all employees contributing to *KiwiSaver* (and complying superannuation funds) will also be entitled to a compulsory matching employer contribution. This will be introduced over a period of years as shown below:

From	Employer contribution (% of gross salary/wages)
1 April 2008	1
1 April 2009	2
1 April 2010	3
1 April 2011	4

Combined with the employees minimum contribution of 4% this will equate to a total contribution of:

From	Total employee & employer contributions (% of gross salary/wages)
1 April 2008	5
1 April 2009	6
1 April 2010	7
1 April 2011	8

The Government will provide employers with a tax credit that reimburses their contributions at a rate of 100%, up to \$20 per week (\$1,042.86 per year) per employee from 1 April 2008.

Other benefits that are included in *KiwiSaver* include:

A maximum of \$5000 first home deposit subsidy, calculated at \$1000 per year for a maximum of 5 years, subject to a minimum of three years of contributions having been made. Eligibility for the subsidy is determined by the individual's income and house price caps.

After one year of being enrolled in a *KiwiSaver* scheme, individuals will

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have the ability to divert half of their *KiwiSaver* contributions towards mortgage repayments on their principal place of residence. These contributions will not be eligible for the member tax credit.

Should I Join?

When deciding on whether to participate in *KiwiSaver*, New Zealand Financial Planning recommends employees consider the following:

- How much will your retirement lifestyle cost?
- At what age do you wish to cease full-time paid employment?
- Will the inability to access the funds invested in *KiwiSaver* before your 'age of retirement' affect you?
- Which investment provider and asset allocation is appropriate for you?
- Can you afford the 4 per cent minimum contribution?

How do I join?

Once you opt-in to *KiwiSaver*, you legally can't opt-out.

➤ *New employee*

If you have just started a new job with a new employer and you meet the eligibility criteria, you will automatically be enrolled in *KiwiSaver* – unless your employer offers you their approved alternative superannuation scheme. Your employer is responsible for deciding whether automatic enrolment applies to you.

When you are automatically enrolled, your employer will deduct a 4% contribution from your first pay. If you wish to contribute 8%, you will need to inform your employer and fill out a KS 2 deduction form.

➤ *Casual or temporary worker*

If you start a new job as a temporary employee or a casual agricultural worker, you may be automatically enrolled if your employment is longer than 28 days for temporary employees, or three months for casual agricultural workers. Your employer is responsible for deciding if automatic enrolment applies to you. If you're not automatically enrolled you can still join *KiwiSaver* by opting in.

➤ *Already in a job*

If you're already in a job, are eligible, and want to join *KiwiSaver*, you can opt-in. If you're 18 or over, you can do this by completing the *KiwiSaver* deduction form (KS 2) in the enrolment pack and giving it to your employer. *KiwiSaver* deductions will start from the next pay your employer calculates and Inland Revenue will allocate you to a scheme. Alternatively, if you know which *KiwiSaver* scheme you'd like to join or you're under 18, you should opt-in by contacting the scheme provider and applying directly. They'll give your details to Inland Revenue who will tell your employer to start deducting contributions from your pay.

➤ *Self-employed*

If you're self-employed, you'll need to choose a scheme provider and apply directly. You and your provider will need to decide how much you'll contribute.

➤ *Not working or under 18*

If you're not working, a beneficiary or under 18, you can still join *KiwiSaver* but you'll need to contact a *KiwiSaver* scheme

provider and apply directly. If you're already enrolled in a *KiwiSaver* scheme but are changing jobs, you can use the *KiwiSaver* deduction form so your new employer can continue to pay your contributions to your chosen scheme. Your employer will send your information to Inland Revenue.

For further information, contact your New Zealand Financial Planning adviser.

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Q & As

I've been auto-enrolled. How do I opt-out?

You can opt-out of *KiwiSaver* between weeks two and eight of starting a job with a new employer. To opt-out, you will need to complete the opt-out form in the back of the *KiwiSaver* new employee pack your employer should have given you.

I've opted in. How do I opt-out?

You are not legally able to opt-out. If you are having financial difficulties, you can speak to IRD about going on a contributions holiday.

I've been auto-enrolled and want to choose other investment portfolios.

After signing up to *KiwiSaver*, the provider will send you a welcome pack which includes details of your investment breakdown and a form to confirm your details and investment strategy.

I think I've been enrolled by mistake.

You need to talk to your employer and Inland Revenue.

I have more than one job. Do I need to join *KiwiSaver* through each employer? Will each employer make deductions?

You can join *KiwiSaver* through one employer. You can decide if you want one employer to make contributions or you can save faster by asking all your employers to make contributions.

My child is only one year old. Can we start a scheme for them?

Yes, they can join *KiwiSaver* even though they are not earning anything or a taxpayer. All you need is an IRD number and to be a New Zealand resident.

I'd like to change my contribution rate.

You need to talk to your employer about any changes you want to make to your contribution rate and fill out the appropriate form(s).

Can I change between 4% and 8% whenever I like and as often as I like?

KiwiSaver legislation says you can't change more frequently than every three months unless you get permission from your employer.

I heard that the 4% contribution is really 5% and the 8% is really 10%. What's the story?

Contributions are worked out based on your pay before tax but are deducted from your pay after tax. For example: if you earn \$750 before tax per week and make contributions of 4%, this equals \$30 each pay. Then if you get \$595 after tax, the \$30 actually equals 5% of your pay.

What happens when I change jobs? Can I still contribute to the same *KiwiSaver* scheme?

KiwiSaver schemes are portable and individual to you which means you can continue to contribute to the same scheme even if you change jobs.

I've got a *KiwiSaver* scheme but have just gone on ACC. What are my options?

If your employer is paying you ACC, contributions continue to be deducted from your pay by your employer. If your ACC payments are coming from ACC, then you can make ad hoc payments. Contributions will not be deducted from your ACC payments.

I'm on ACC. How can I join *KiwiSaver* and make contributions?

If ACC is making your payments, you should complete a KS2 form and give it to ACC. They will make deductions from your ACC payments at either 4% or 8%. You will also need to complete an enrolment form.

I've got a *KiwiSaver* scheme but I have just gone on maternity leave. What are my options?

If your employer is still paying you, contributions continue to be deducted from your pay at a rate of 4% or 8%. If you are receiving a benefit from the Government, you will not have deductions made from your benefit. Instead, you can contribute on an ad hoc basis.

There is also an option of a contributions holiday if you have been a member for no less than 12 months.

How do I apply for a contributions holiday?

You can apply to the Inland Revenue to go on a contributions holiday if you have been a *KiwiSaver* member for at least 12 months. Contribution holidays can last for a period of three months to five years.

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What is the criteria for making a withdrawal because:

➤ I am retiring?

You need to have reached the age of 65 and have been a *KiwiSaver* member for at least five years. You need to complete a form, available from your *KiwiSaver* provider.

➤ I am in financial hardship?

You need to satisfy the trustee that you are in genuine hardship. The *KiwiSaver* Act currently defines significant financial hardship as including:

- Your inability to meet minimum living expenses or mortgage repayments on your family home.
- The cost of modifying your home to meet special needs arising from your or a dependants disability.
- The cost of medical treatment or palliative care for you or a dependant.
- The cost of a funeral for a dependant.

You need to complete a form, available from your *KiwiSaver* provider.

➤ I or my dependant have fallen seriously ill?

You need to satisfy the trustee that you have a serious illness. This is defined in the *KiwiSaver* Act as 'an

injury, illness or disability that results in you being unable to work in a job where you have suitable experience, education or training, and that poses a serious and imminent risk of death.' You will need to complete a form, available from your *KiwiSaver* provider.

➤ I am permanent emigrating?

You will need to live overseas for at least one year and provide proof of departure, such as evidence of confirmed travel arrangements or a residency visa. You will need to complete a form, available from your *KiwiSaver* provider.

➤ I am transferring my money to an overseas provider because of permanent emigration?

You may be able to transfer all of the funds in your *KiwiSaver* scheme to a foreign superannuation scheme, depending on where it is. You will need to complete a form available from your *KiwiSaver* provider.

➤ I am buying my first home?

You must have been a *KiwiSaver* member for at least three years, not have made a first home withdrawal before and be purchasing your first principal home. You can withdraw all your accumulation less the government kick-start or any member tax-credits.

What is the criteria for mortgage diversion?

After 12 months of saving, some providers allow you to divert half of your contributions (excluding employer contributions) to your mortgage. The mortgage must be on your primary residence, ie where you live. You must have the agreement of your mortgage provider.

Can mortgage diversion be exercised more than once?

Yes, in some cases.

Can I transfer between providers?

Yes. You will need to contact a new provider and they will manage the transfer for you.

What if I have an existing superannuation scheme?

You are able to join *KiwiSaver* and still keep your existing superannuation scheme.

Will the compulsory matching employer contributions be in addition to the employer contributions I get with my existing superannuation scheme?

If your employer is contributing less than the required compulsory amount, then they will be required to increase their contributions. Otherwise, they are not required to additionally contribute.

Will I still get New Zealand Superannuation when I retire?

Yes, *KiwiSaver* does not replace New Zealand Superannuation.

What will happen if National wins the next election?

National has said in a newspaper article (NZ Herald, 18 March 2008) that they will be keeping *KiwiSaver* and some form of the Government subsidy if it wins the election. If there are any major changes to *KiwiSaver* at any time, and not just as a result of the election, savers will be contacted and informed of these changes.

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