

KiwiSaver changes

From 1 April 2012, employer contributions to KiwiSaver become taxable under the ESCT regime. This is the same basis as employer contributions to superannuation schemes. There is therefore an advantage for an employer to give an employee a choice where the employer KiwiSaver subsidy is paid.

It makes sense for most employees to be in KiwiSaver and to save \$1,043 a year (about \$87 a month or \$20 a week) to get the annual government paid MTC (member tax credit). Saving at or above this level captures the maximum government MTC.

The current 2% minimum contribution is above \$1,043 for employees earning \$52,143 or more. When the minimum rate increases to 3% from 1 April 2013, the annual earnings threshold reduces to \$34,762. Most employees earn above this. Therefore, for most employees, it will not be optimal to contribute to KiwiSaver through the PAYE system, unless this is the only way they will receive an employer subsidy. Savings to KiwiSaver for many employees does not have to be by payroll deduction.

A flexible employer solution

If an employer wished to help an employee save for their future, capture the most out of KiwiSaver and maintain as much flexibility as possible, they would think along the following lines:

- Appoint SuperLife as the employer's chosen KiwiSaver provider.
- Encourage all employees to consider KiwiSaver for at least part of their retirement savings. Most employees should be in KiwiSaver.
- Agree to contribute 3% (less tax) for an employee who also saves 3%. Employees (and employers) could choose to save more than the minimum, but need not.
- Give employees a choice of KiwiSaver-only, or SuperLife that includes both superannuation & KiwiSaver. The choice will be:
 1. Contribute the minimum to KiwiSaver and have the employer's 3% (less tax) paid to KiwiSaver.
 - or
 2. Go on a contributions holiday to KiwiSaver and have the employer's 3% (less tax) paid to the employer's SuperLife superannuation scheme. This will only be available to employees that have been in KiwiSaver for more than one year;
- Facilitate employees to contribute \$1,043 on a voluntary basis to KiwiSaver e.g. transfer it from their employer's SuperLife superannuation scheme savings. This lets them pick up the maximum \$521 MTC government payment each year.
- Set the rules of the employer arrangements under the employer's SuperLife's superannuation scheme, so employees can withdraw money to buy their first home as if it was KiwiSaver.

The suggested solution has the same employer contribution as KiwiSaver, but maximises the flexibility for an employee while capturing the maximum government MTC payments. It also has benefits of:

- The employee's and the employer's savings are invested more efficiently as they go from the employer to SuperLife direct, and not via the IRD and caught up with PAYE. It avoids some of the current employee confusion and reconciliation issues.
- The employee is in a better position to retire early, if that is what they plan to do.
- Lets employees manage their KiwiSaver and retirement savings as one, and as part of their overall superannuation, insurance and investment arrangements.
- Gives the employer a point of difference for recruitment and retention.
- Allows other enhancements, like life insurance and medical insurance, to be added either as an employee benefit or as an option the employees take up.

About SuperLife

SuperLife Limited promotes a registered superannuation scheme and a KiwiSaver scheme under the brand of "SuperLife". Each has identical investment options and are administered side-by-side. The combined arrangements let members invest their retirement savings together, or separately. SuperLife Limited imposes no rules other than those decided by an employer in respect of the employer's arrangements, or by the government in respect of KiwiSaver. This maximises flexibility and lets an individual tailor their arrangements to their needs.

SuperLife has the advantage of low fees, flexibility, frequent communication and a structure that provides for security and reduces risk. SuperLife is the savings vehicle of choice for many of New Zealand's employers.

To find out more about SuperLife, ask for a copy of the SuperLife profile.