SUPERLIFE
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KIWISAVER – A GENERAL GUIDE FOR EMPLOYERS

This guide summarises KiwiSaver from an employer's perspective and details the employer's obligations and provides answers to the questions employees will ask. It is based on the KiwiSaver provisions as they apply in June 2015

JUNE 2015

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1. OVERVIEW

1.1 KiwiSaver[1] started on 1 July 2007. A history of the KiwiSaver provisions is set out in Appendix C.

1.2 KiwiSaver is the brand for a voluntary taxpayer-subsidised, employee-focussed, personal retirement savings regime. It is however, not limited to employees. New Zealanders and other residents with permanent residence status, including the self-employed, beneficiaries, stay-home parents and children, can also join.

1.3 It affects every employer in New Zealand. Every employer must make payroll deductions, through the PAYE tax system, for any employee who is required to, or chooses to, save to a KiwiSaver scheme.

1.4 Under KiwiSaver, employees who join:

- must save a minimum of 3% of their total gross taxable pay, through the PAYE tax system.
- can, at their option, increase the minimum to 4% (or 8%), through the PAYE system and reduce it back to the minimum at anytime.
- can make additional voluntary savings direct to their KiwiSaver scheme provider. There are no rules on this other than what the provider may impose.
- choose which of the KiwiSaver schemes their money will be invested in, and can change schemes as they wish. Under the overall KiwiSaver brand, there are a range of private sector KiwiSaver schemes that New Zealanders can join.

1.5 Employers must subsidise an employee's savings if the employee is under their KiwiSaver Retirement Age. The current employer subsidy is 3%. Employers can pay a higher level of subsidy than the required minimum rate.

1.6 The employer subsidy is subject to ESCT[2]. This is the same as employer contributions to superannuation schemes generally. Since 1 April 2012 there have been no tax advantages for employer contributions to KiwiSaver, relative to other superannuation schemes.

1.7 Contributions accumulate with investment earnings and are generally locked-in for retirement. The account balance becomes payable from the New Zealand Superannuation age (currently age 65). A five year minimum membership period applies to those who join after age 60. Benefits are paid as lump sums.

1.8 KiwiSaver is built on the principle that all new employees are automatically enrolled and will have contributions deducted from their pay. This occurs alongside the PAYE tax

[1] The KiwiSaver Act 2006 establishing KiwiSaver came into force on 1 December 2006.

[2] "Employer Superannuation Contribution Tax"

system and contributions are forwarded (with PAYE tax and ESCT tax) to the IRD. The IRD then forwards contributions to the employee's chosen KiwiSaver scheme. An employer need not know which KiwiSaver scheme an employee is in.

1.9 The automatic enrolment applies to new employees (18 or older and under 65), who are not casual or short-term, who join an employer. This applies unless the employer has an alternative existing scheme for the new employee that exempts it from the auto-enrolment rules. Other employees (including existing employees) can join, but have to voluntarily "opt-in".

1.10 Employees who are auto-enrolled, but who do not want to stay members or cannot afford to save, can after 2 weeks (and before the end of 8 weeks), opt-out. Having joined (or having failed to opt-out) the minimum savings (3% of pay) must continue for at least the first 12 months' membership.

1.11 After 1 year, employees who are members and wish to stop saving temporarily, can go on a contributions holiday by telling the IRD. Prior to 1 year they have to apply to the IRD and can only do so on the grounds of financial hardship.

1.12 To encourage people to join and save (and if an employee auto-enrolled does not opt-out), the government subsidises a member's savings at $1 for each $2 saved by the member up to a maximum subsidy of $521.43 a year ($10 a week).

1.13 The government also provides a HomeStart Grant of up to $5,000, ($10,000 if it is to buy a newly built house).

1.14 To help employees, employers can:

- operate an alternative "exempt" scheme, so that new employees are not automatically enrolled (but can still voluntarily choose to join if they wish). This is not available to all employers.
- subsidise an employee's contributions above the statutory minimum.
- select a single KiwiSaver scheme (known as a "chosen scheme"), for employees who don't make their own choice of a KiwiSaver scheme. If the employer doesn't have a chosen scheme and the employee doesn't choose a scheme, the IRD randomly allocates the employee to one of the nine default KiwiSaver schemes (AMP, ANZ, ASB, BNZ, Fisher Funds, Grosvenor, KiwiBank, Mercer or Westpac).

2. ELIGIBILITY

Employees

2.1 When an employee first joins KiwiSaver they have to be under age 65. KiwiSaver applies to all employees who are New Zealand citizens or are entitled to be in New Zealand indefinitely and in each case currently, or ordinarily, lives in New Zealand. A civil servant working outside New Zealand can also join.

2.2 New Zealanders over age 65 cannot join, but can remain KiwiSaver members if they joined before age 65.

New employees

2.3 Auto-enrolment applies to all new eligible permanent employees, aged 18-64. This is regardless of their pay level or hours worked. Auto-enrolment applies except where the employer offers an alternative scheme for all new employees and has been granted "exempt" status.

2.4 A "Permanent employee" is an employee, other than a casual agricultural worker, who does not have their holiday pay built into their hourly rate and are employed on a contract that is for a period longer than 28 days, or that becomes longer than 28 days. In effect, anyone who stays on the PAYE schedule for more than 28 days is "permanent" unless they have their holiday pay built in to their hourly rate.

2.5 An employee automatically enrolled can choose to opt-out, but only in the period from day 14 (2 weeks) and before day 56 (8 weeks), inclusive, of employment. In some cases late opt-outs may be allowed by application to the IRD.

2.6 New employees, when auto-enrolled, have contributions deducted from their pay on their first pay day, even if they intend to opt-out as soon as they can (on day 14).

Other employees

2.7 Existing employees who are not KiwiSaver members, who are below age 65, and new employees below 18 (i.e. who are not subject to auto-enrolment), do not have to join, but can. Such employees age 18 or older can complete a contributions deduction notice (KS2) and give it to their employer, or apply direct to a KiwiSaver provider. Employees under age 18 have to apply direct to a KiwiSaver provider.

2.8 An employee who joins using an IRD KS2 form, should also complete a provider's membership form to avoid being allocated to a default provider.

2.9 An employee who chooses to join by opting in, does not then have the opt-out option.

2.10 Employees and non-employees who join under age 18 need one or both guardians to sign their membership form depending on their age and relationship status.

Non-employees including spouses and children

2.11 Non-employees can also join but must apply direct to a KiwiSaver provider. A "non-employee" includes the self-employed, non-working spouses, beneficiaries and children.

2.12 There may be advantages in employers making sure that their employees are aware of the rules for their children and spouses. While there are no immediate financial advantages of children joining as they do not qualify for the annual government subsidy until they are 18, the sooner they join the sooner they get through the qualification periods for contribution holidays and first home withdrawals.

2.13 There are special enrolment rules for children. Children under the age of 16 need both their guardians to sign the membership form. Children age 16 and 17 need one guardian to sign.

3. CONTRIBUTIONS

Employees

3.1 Employees who participate must save 3% (or 4% or 8% if they choose) of their total before-tax taxable pay. Total before-tax taxable pay includes allowances, bonuses, holiday pay, overtime etc. but does not include redundancy pay.

3.2 A new employee's contributions start on the first pay day after commencing employment if they are auto-enrolled, or the first convenient pay period after joining if they voluntarily opt-in.

3.3 Contributions continue until the earliest of:

- the day that they opt-out, for auto-enrolled employees;
- the start of a contributions holiday;
- the receipt of their full benefit on retirement.

3.4 If a new employee starts a second new job, under an alternative employer, the contributions are also payable in respect of that second job, unless the employee is on a contributions holiday.

Deductions

3.5 The employer must deduct the employee's contributions, as part of the PAYE system, and forward them to the IRD with the normal PAYE returns.

3.6 The IRD will forward them to each employee's KiwiSaver scheme provider. The employer does not need to know which provider an employee has chosen.

Contributions holiday

3.7 Employees who do not opt-out, must contribute for at least 1 year, except in the case of significant financial hardship.

3.8 An employee who has contributed for at least 1 year, can choose to stop contributions by advising the IRD. This is known as a "contributions holiday" - see paragraphs 7.20 to 7.26 for more details.

3.9 During the first 12 months, an employee can go on a contributions holiday only with the consent of the IRD, in cases of significant financial hardship.

Non-employees

3.10 Non-employees contribute at the level and at the times they agree with their KiwiSaver provider. There is no minimum or maximum except what the KiwiSaver provider applies. Therefore, the concepts of opting out and a contributions holiday are not relevant.

Employers

3.11 Employers must subsidise an employee's savings if the employee is 18 or older and under their KiwiSaver retirement age (currently age 65 subject to a minimum of 5 years' membership). The minimum rate is 3%.

3.12 An employer can voluntarily contribute at higher levels.

3.13 If an employee has not completed five years' KiwiSaver membership by age 65 and chooses to continue saving, the employer's contributions must also continue.

3.14 All employer contributions are subject to ESCT and only the net contribution goes to KiwiSaver.

"Existing schemes"

3.15 If an employer has a subsidised superannuation scheme that existed on 17 May 2007 and the employer contributions vests within no more than five years, it has an "existing scheme". An employer can offset the compulsory KiwiSaver contributions for employees who became members before 1 April 2008 or were eligible to become members before that date.

3.16 The existing scheme exemption does not apply for members who join on or after 1 April 2008 where they were not eligible on 31 March 2008. The vesting test is a period-by-period test.

4. GOVERNMENT INDUCEMENTS

4.1 Previously the government provided an initial $1,000 kick-start payment. This was removed in the May 2015 budget. The current government inducements are:

MTCs (member tax credits)

4.2 The government will subsidise a member's contributions. This is known as a MTC "member tax credit") and is tax free. The MTC is currently $1 for $2 saved, up to $521.43 a year.

4.3 The MTC is paid at the end of each year. A "year" for this purpose is 1 July to 30 June. In the first and last years, a proportionate amount is paid based on the number of days the member has contributed during that year.

HomeStart grant

4.4 A housing assistance scheme, providing up to $10,000 to help "low and middle-income earners" to buy their first home, is also available. This is managed outside the KiwiSaver Act. There are household income and value of house rules.

5. BENEFITS

Benefits payable

5.1 The KiwiSaver provider can pay benefits, on the employee's request, from the age of eligibility for NZ Super (currently age 65). The employee need not retire to receive the benefit.

5.2 A minimum of 5 years' membership (not contributions) is required. This affects employees currently joining over age 60.

5.3 Benefits are payable earlier:

- for first home housing assistance, or
- on significant financial hardship grounds, or
- on serious ill health, or
- following permanent emigration, or
- on death.

5.4 In the case of permanent emigration to Australia, benefits are only available by way of a transfer to an Australian scheme.

5.5 Benefits are not payable on changing employers.

5.6 Benefits are payable as lump sums and do not affect the person's NZ Super. Providers can offer additional options but must pay the benefit as a lump sum if the person chooses.

Death

5.7 On death, the benefit must be paid to the deceased member's estate.

5.8 Where the person dies intestate and has less than $15,000 in their KiwiSaver Account the benefit can be paid direct to one of a defined list of family members. Employees should however be encouraged to have a Will.

6. PROVIDERS

6.1 There is a range of private sector KiwiSaver scheme providers. Each offers a range of investment options. Some impose additional rules.

6.2 For a scheme to be a "KiwiSaver scheme", it must be a registered under the KiwiSaver Act 2006.

6.3 KiwiSaver members can choose any KiwiSaver scheme as their scheme and the provider of that scheme becomes their provider. They can change their provider and therefore their scheme as they decide. The IRD forwards their contributions to their "current" provider.

6.4 Of the different KiwiSaver schemes, an employer can (but does not have to) select a default scheme for its employees. Such a scheme is known as a **"chosen"** scheme. This becomes the default scheme for the employer's employees where the employee does not choose their own scheme.

6.5 An employee does not have to join the employer's chosen scheme. An employer can change its chosen scheme when it wishes and can also if it wishes, "compulsorily" transfer its employees from the old chosen scheme to the new chosen scheme.

6.6 A limited group of schemes were appointed by the government to be **"default"** schemes. Default schemes are the schemes for employees who do not choose a scheme and where the employer does not have a chosen scheme. The IRD will randomly select a default scheme from the list for any individual employee. The nine default providers are AMP, ANZ, ASB, BNZ, Fisher Funds, Grosvenor, KiwiBank, Mercer and Westpac.

6.7 Appendix B sets out a discussion on the default providers.

7. AN EMPLOYER'S COMPLIANCE OBLIGATIONS

7.1 An employer's compliance obligations include:

- auto-enrolling eligible new employees, unless it has a exempt scheme;
- processing opt-out notices;
- processing contributions holiday notices;
- processing contribution deduction notices;
- paying the compulsory employer contributions;
- deducting and forwarding contributions to the IRD, and
- accounting to the IRD for ESCT.

Enrolment of new employees

7.2 When a new employee starts work, and they are not already a KiwiSaver member, with a few exceptions, an employer is required to automatically enrol them and advise the IRD.

7.3 If employees fit **all** of the following criteria and the employer does not have an exempt scheme, the employer must enrol them:

- they are not currently KiwiSaver members;
- they are under age 65,
- they are age 18 or older,
- they have the right to work indefinitely in New Zealand;
- they are employed to work for a period that is 28 days or longer (this is known as a "permanent" employee).

7.4 If they fit the criteria, except that they are employed to work for a period 28 days or fewer (they are therefore "temporary" at the outset). If their contract is extended (formally or by default) beyond 28 days, they have to be enrolled on day 29.

7.5 The enrolment rules apply equally to full-time, part-time and casual workers. There is no requirement for minimum pay, minimum hours or regular hours. The only exemptions are election day workers, domestic workers and casual agricultural workers, employees where holiday pay is built into the normal hourly rate or where the employer operates an alternative "**exempt**" scheme.

7.6 If the employee is subject to the automatic enrolment requirements, the employer must:

- give the employee the IRD information pack.
- collect from the employee his/her name, address and IRD number.
- advise the IRD, when it next makes a PAYE return, that the employee has joined.

- start to deduct the minimum contribution from the employee's gross taxable pay from the first pay day.
- send to the IRD the deducted contributions with the PAYE schedules.

7.7 The responsibility for ensuring that the employer has enough IRD packs falls on the employer. They are available from the IRD.

Opt-out

7.8 An automatically enrolled employee can opt-out during the period from the end of 2 weeks' work (i.e. day 14 of employment) to the end of 8 weeks' work (i.e. day 56 of employment). In certain circumstances, late opt-outs (by special application to the IRD) are permitted.

7.9 To opt-out, employees must complete an IRD opt-out notice form. They can give the form to the IRD or their employer. This is the employee's decision. **Employers need to have a process that specifies who the employee must give the form to, if it is given to the employer, and what that person must do with it.**

7.10 On receipt of a valid opt-out form directly from the employee, the employer must:

- check that it falls within the six weeks period from the end of week 2 to the end of week 8;
- stop deducting the minimum contribution;
- advise the IRD;
- refund to the employee any contributions already deducted but not yet paid to the IRD. Any contributions already sent to the IRD will be refunded direct to the employee by the IRD.

7.11 If the employee sends the opt-out form to the IRD, the IRD will advise the employer that the employee has opted-out. The employer then needs to stop deducting contributions and refund any contributions already deducted but not yet paid to the IRD.

7.12 The IRD returns to the employer any contributions made by the employer.

7.13 It should be noted that, even if an employee opted-out under a previous employer or under another current employment, if they are not KiwiSaver members when they join a new employer, they will need to opt-out again.

Other employees, not subject to automatic enrolment, can join

7.14 If employees are not subject to the automatic enrolment provisions (such as existing employees), they can still join KiwiSaver. They can either contact a KiwiSaver provider or, if over age 18, give their employer a contribution deduction notice (KS2). In the first case, the employer will be advised by the IRD that the employee has joined. In each case, the employer has to comply with the KiwiSaver contribution requirements.

Contribution requirements

7.15 All KiwiSaver members, who are not on a contributions holiday, are required to save 3% of their gross taxable pay. This is the default savings rate. Gross taxable pay includes overtime, bonuses, leave payments, holiday pay, etc. but does not include redundancy pay.

7.16 The 3% savings are deducted from the employee's salary/wages each pay day and forwarded to the IRD with the next PAYE schedule. The 3% is based on the gross amount and is deducted after PAYE tax is calculated. In other words, the 3% is not tax deductible to the employee. This means that 3% of gross pay will be more than 3% of net pay.

7.17 Employers are required to subsidise its employees' savings at 3% of gross taxable pay.

4% or 8% savings rates

7.18 Employees can choose to save at 4% or 8% of gross taxable pay as an alternative to the standard minimum rate. In practice few employees will choose to pay more than they need to pay to secure the maximum member tax credit. However, many employees who, prior to 1 April 2009, paid the then minimum rate of 4%, have retained that level.

7.19 Employees that may save at higher rates include those who are on low incomes and wish to maximise the government paid MTCs, employees who are saving for a first home and older employees who want to maximise their savings and want the convenience of payroll deductions and are happy with the lock in arrangements.

"Contributions holiday"

7.20 Contributions, once started, cannot stop for the first 12 months even if the employee wants to, except in some cases of significant financial hardship. The 12 months of contributions paid can be with more than one employer.

7.21 Employees who have not opted-out, and have contributed to KiwiSaver for at least 12 months (with one or more employers) can choose to go on a "contributions holiday". Under a contributions holiday, they choose to stop contributing for a period of between 3 months and 5 years.

7.22 Before the holiday ends, they can renew their contributions holiday for a further period up to 5 years at a time. Contribution holidays can be continually renewed until they fully withdraw from KiwiSaver, on or after age 65.

7.23 While on a contributions holiday, an employee can resume contributions by giving an employer a contribution deduction notice (KS2). This can't be given in the first 3 months of the contributions holiday, unless the employer agrees.

7.24 If employees want to go on a contributions holiday, they must advise the IRD who will advise the employer. Employers must act on the notice as soon as practicable. **Employees cannot ask employers to stop their savings. They can only tell the IRD.**

7.25 Some employees, when they first join a new employer, will be members of KiwiSaver but already on a contributions holiday. In this case, they must give their new employer the IRD's contributions holiday notice. If they do not give their new employer that IRD notice form, the employer is required to deduct the minimum employee savings until it receives the notice.

7.26 There will be merit in employers having a simple 1 page guide "how do I go on a contributions holiday?" even if all it says is phone the IRD and give the IRD's 0800 number.

Age 65

7.27 When employees reach the age of eligibility for New Zealand Superannuation (currently age 65), they can withdraw their savings from KiwiSaver if they have been a member for at least 5 years. If not, they have to wait until at least the end of the 5 years.

7.28 When a member withdraws from KiwiSaver, the member's KiwiSaver provider will advise the IRD which will advise the employer. Until the employer is advised, it must continue to deduct savings even if the member is over age 65 (unless they are on a contributions holiday).

7.29 Until members withdraw fully from KiwiSaver, they must still save and employers must deduct the savings and forward the savings to the IRD (unless they are on a contributions holiday).

7.30 Employees who have not completed their 12 months' contribution period by age 65, must continue to contribute for at least the 12 months.

"Exempt" schemes

7.31 Some employers originally chose to have an alternative scheme(s) that gave it "exempt status". The advantage of an exempt status is that the automatic enrolment provisions do not apply. The ability to apply for exempt status ended in 2009 with the exception of employers with existing schemes.

7.32 Employees of employers with exempt status can still choose to join KiwiSaver if they wish and the employer must deduct contributions etc. Having an exempt status converts KiwiSaver from an opt-out regime to an opt-in.

8. PAYROLL ISSUES

8.1 Payroll officers may become involved in more than just deducting savings from an employee's pay and forwarding them to the IRD. In many cases, it will fall on the payroll officer to fulfil the employer's obligations (see section 7). They will become involved in the enrolment process, responding to employees' questions about the deduction of savings and in the interface between the employer and the IRD.

8.2 Details of the employer's obligations fall under the areas of:

- Automatic enrolment
- Deduction of contributions
- Payment of employer contributions.
- Interface with the IRD.

Automatic enrolment

8.3 Because of automatic enrolment, the first obligation relates to determining whether a new employee must be enrolled. If they are required to be enrolled, the enrolment process must be followed (refer paragraph 7.6).

Contribution issues

8.4 It will be up to the payroll officer to calculate contributions and pay them to the IRD.

8.5 The standard contribution rules to KiwiSaver are either:

- 3% of total gross taxable pay - this is the default rate; or
- 4% of total gross taxable pay, if the employee chooses this higher rate; or
- 8% of total gross taxable pay, if the employee chooses this higher rate.

8.6 In addition, the employee may choose, if the employer lets them, to make additional voluntary employee KiwiSaver savings by payroll deduction. These are paid to the KiwiSaver scheme direct. Few employers will allow this.

Gross taxable pay

8.7 Employee savings are based on total gross taxable income. This includes all overtime, bonuses, taxable allowances and taxable payments made on leaving employment other than redundancy pay. This will often vary from one pay period to another. Issues will also arise on the payment of taxable allowances.

8.8 Payroll systems will need to be set up to ensure that they can calculate total gross taxable pay correctly and apply the correct contribution calculation. This will mean being able to clearly distinguish between all forms of taxable income and non-taxable income. The main problem area will be special lump sum payments like bonuses, taxable business expenses and holiday pay.

Switching between rates

8.9 The second issue relates to the 3%/4%/8% rates and the ability of the employee to switch between. Employees can change whenever they wish, provided that the new rate applies for at least 3 months (unless the employer agrees otherwise).

8.10 We would not expect many employees to contribute at 4% or 8%, as the extra savings are locked up until age 65, but they can. A process will be required to handle the changes. Most employees, if they want to save extra, would prefer to save them under a non-KiwiSaver scheme as, subject to any rules of the employer, they need not be locked up until retirement age.

8.11 Payrolls will need to have processes in place to handle the forms for changes to the savings rates.

Contributions from first pay day

8.12 Under the KiwiSaver rules, the savings in respect of a new employee apply from the first pay day.

8.13 The current default employee rate is 3%. Savings at the 3% rate will need to be deducted from the first pay day. In many cases, this will be before the employee can opt-out and before they have read the IRD information pack given to them when they joined. Employers should ensure that pay slips clearly show the KiwiSaver contributions.

Contributions to IRD

8.14 KiwiSaver savings are forwarded to the IRD each month along with the standard PAYE forms. For large employers, this is on the 5^{th} and the 20^{th} of the month. For other employers, it is on the 20^{th} of the month.

8.15 The KiwiSaver contributions have to be shown separately on the PAYE form by employee. Payroll systems need to report separately the employees' KiwiSaver contributions.

8.16 In many cases the IRD will not forward them on to the provider straight away. They always hold on to them in the first 3 months and then when the IRD has trouble reconciling them. The payroll officer will get queries about reconciliation from the employee who doesn't see the contributions deducted from their pay appear in their KiwiSaver Account.

8.17 A contributions holiday period must be for a minimum of 3 months, unless the employer accepts a shorter period, and for a maximum of 5 years at a time. A contributions holiday can be renewed before it expires. Employees may go on a contributions holiday to avoid paying the contributions on a lump sum payment like a bonus. The contributions holiday will apply to all pay, not just the bonus.

Contribution deduction notices

8.18 An employee who is under age 65 and who is not a KiwiSaver member can choose to join KiwiSaver. One way is by giving the employer a contribution deduction notice (KS2). The employer needs a process to handle the notices received.

Employer contributions

8.19 Employers are required to contribute. The employer contributions are subject to ESCT. ESCT is a complex tax and operates differently to PAYE. Details are in SuperLife's publication "calculating an employee's ESCT rate".

Interface with IRD

8.20 Payrolls will need to deal with the IRD mainly in the following areas:

- Advising the IRD when a new employee joins who is subject to the automatic enrolment process. These details are sent to the IRD with the next PAYE monthly schedule.
- Advising the IRD when an employee has opted out by notifying the employer direct.
- Processing opt-out advices received from the IRD where the employee had advised the IRD, rather than the employer.
- Forwarding to the IRD the KiwiSaver contributions deducted. These are sent with each PAYE monthly return together with the employer contributions and the ESCT.
- Processing contribution deduction notices received from employees who are not KiwiSaver members. These may also come via the IRD.
- Processing contributions holiday notices received from the IRD in respect of an employee.
- Responding to queries on short-payments, over-payments etc.

9. KIWISAVER HOMESTART GRANT

9.1 One feature of KiwiSaver is the HomeStart Grant.

9.2 It is important to recognise that the grant is not part of the KiwiSaver Act 2006. The Act refers to the ability to withdraw amounts from KiwiSaver for the purchase of a first home, but not to the payment of the government grant or the conditions on which that payment will be made. Instead, it will be governed by regulations administered by the Housing New Zealand Corporation (HNZC). We can therefore expect the rules to change from time to time, depending on the government's social policy agenda.

9.3 On the basis of the information published on the HNZC web site (www.hnzc.co.nz), the following will apply to members seeking the subsidy:

- The member must have been saving with KiwiSaver for at least three years.
- The member's total household income has to be below an "income cap". The income cap will be $80,000 a year for one person and $120,000 if two or more.
- The grant is to help buy the **first** home. However, some who are "starting again" may also qualify.
- The grant is up to $1,000 for each year the member has saved with KiwiSaver, to a maximum of $5,000 (after 5 years).
- Couples who both meet the criteria, can each apply for a potential total subsidy of $10,000.
- Where the first home is a newly built house, the grant is $2,000 for each year up to $10,000 after 5 years ($20,000 for a couple).

Other points

9.4 The maximum value allowable for a house will vary geographically from $550,000 in Auckland, $450,000 for Christchurch City, Hamilton City, Hutt City, Kapiti Coast, Porirua City, Queenstown Lakes District, Selwyn District, Tasman/Nelson, Tauranga City, Thames/Coromandel, Upper Hutt, Waimakariri, Western Bay of Plenty and Wellington City and $350,000 for the rest of New Zealand.

9.5 The house must be the principal residence, i.e. not a bach or investment property.

9.6 Separate to the HomeStart grant is the right to withdraw the balance in a member's KiwiSaver Account except $1,000 to help with the purchase of the first home. This aspect is covered by the KiwiSaver Act 2006 and is based on membership of KiwiSaver and not saving to KiwiSaver.

A. WHAT WILL EMPLOYERS DO?

A.1 In late 2017, KiwiSaver will have been in existence for 10 years. In such an environment, what would a new employer to the market do, in the area of superannuation and employee benefits? In 2017, most employees who want to be in KiwiSaver will be in KiwiSaver. Currently (May 2015) over 2.3 million people are in KiwiSaver.

A.2 As with all such decisions, the answer depends in part on the size of the employer (i.e. compliance costs, practicalities, wider implications etc.), its competitive position and on its business/remuneration strategy. There will therefore not be a single approach, but a range of approaches around a series of common themes.

A.3 Putting size and competitive issues to one side, the key driver depends on whether the employer has a total remuneration philosophy or a "pay + benefits" philosophy, and on whether the employer wants to take a compliance-only approach, or use KiwiSaver as an opportunity to manage its employees from a recruitment and retention point of view.

Common themes

A.4 The approaches suggested below for each type of employer is basically similar. Each involves putting in place a separate flexible voluntary superannuation (savings and insurance) arrangement, alongside a KiwiSaver scheme.

A.5 The key difference relates to the presence of an employer subsidy for superannuation benefits, which falls outside automatic remuneration under a pay + benefits approach. In other words, if an employee joins the superannuation plan, the total remuneration is higher by comparison with an employee who does not join. This is the same fundamental difference between the two types of employers as at present. In the future, however the KiwiSaver rules will influence the employer subsidy level and where it is likely to be directed to.

A.6 The separate, additional, voluntary, flexible arrangements recognise that many employees have different needs and the employer can, under such arrangements, save the employee money through group purchasing power and to give them the convenience of payroll deductions.

A.7 There will also be many employers who will adopt a strictly compliance only approach and will not look to have wider employee benefit arrangements.

Total remuneration philosophy

A.8 "Total remuneration" sees the employer fix a total amount of pay and then leave it to the employee to decide the split between direct pay and benefits, like superannuation.

A.9 If an employer has a total remuneration philosophy, a logical approach would be:

- **KiwiSaver**
  Appoint a chosen KiwiSaver scheme to help employees who want to join KiwiSaver, to join.

  Introduce a "superannuation component" to the employee's total remuneration. This is paid in cash if the employee doesn't join KiwiSaver or saved in the non-KiwiSaver scheme.

- **Other savings & insurances**
  Install a payroll deduction facility so that employees can save and take out insurances (life, insurance protection and medical) to meet their individual needs.

  The voluntary payroll deduction for these benefits should go to an accessible master trust and can in some cases be by salary sacrifice, although the tax advantages of salary sacrifice are now limited.

A.10 Under the above structure, an employee will go on a contributions holiday from KiwiSaver and save in the non-KiwiSaver scheme, the amount they wish to save for their retirement. Each year, they will transfer $1,043 from the non-KiwiSaver scheme to KiwiSaver to capture the maximum member tax credit.

A.11 The suggested approach delivers real benefits to the employee, at no direct cost to the employer and takes advantage of the KiwiSaver and the government subsidy. It also simplifies administration and ensures that the employer has to deal with only one external service provider to deliver a flexible, savings and insurance employee benefits solution.

Pay + benefits philosophy

A.12 An employer with a pay + benefits philosophy thinks it is important to encourage employees to join superannuation or have as a minimum, some savings and insurance benefits. So it subsidises employee savings and insurance programmes, but only if they join.

A.13 For an employer that has a pay + benefits philosophy, a logical approach would be:

- **KiwiSaver**
  Appoint a chosen KiwiSaver scheme to ensure that employees are not randomly allocated to a government-selected, default provider.

- **Other savings & insurances**
  Put in place a payroll deduction facility so that employees can save more than the minimum and can take out insurances (life, income protection and medical) to meet their needs. The voluntary payroll deduction for these benefits should go to an accessible master trust. For some employers it will be appropriate to let employees to have both their minimum KiwiSaver contributions, the employer's contribution, paid to a non-KiwiSaver scheme and benefit by the flexibility such a scheme offers recognising, in such cases, that these savings will be accessible before age 65 and the employee can transfer $1,043 each year to KiwiSaver as a voluntary contribution.

Subsidise any basic insurances provided, consistent with the pay + benefits philosophy and the employer's business needs. This might include a standard life cover based on a formula and possibly medical/income protection insurance etc.

Let employees choose between the two schemes gives them assess to the advantages of flexibility and access to the benefits of the government's subsidies (tax credits and HomeStart grant).

A.14 We suggest that a combination of the above is the appropriate 2017 solution for a **new** employer with a pay + benefits philosophy. For an existing 2015 employer, the issue becomes one of transition - how do we move to the ultimate solution and over what time frame? The employer would probably wish to do this with least disruption, while protecting the current expectations of existing employees.

A.15 For existing employees, it probably means giving them a choice of moving to the new arrangements or keeping their current benefits. It may involve a partial choice in that they can choose how much of their current savings are diverted to KiwiSaver and how much are kept non-KiwiSaver.

Size considerations

A.16 The size of the employer-organisation is also a factor to be considered. Some smaller employers will not have the resources to administer salary sacrifice or the time or resources to select a chosen provider. Unless appropriate due diligence is undertaken, the employer takes on a risk in selecting one provider over another. Small employers are therefore more likely to adopt a "compliance-only" approach.

B. EMPLOYEE ALLOCATION TO PROVIDERS

B.1 If employees do not choose their own KiwiSaver provider, and their employer does not have a "chosen" KiwiSaver provider, the employees are randomly allocated to a "default" KiwiSaver provider. The random allocation is done by the IRD. Within the default provider, they then get initially allocated to the legislated default investment option. Having failed to choose a scheme, the randomly allocated employee is most likely to have not chosen an investment strategy.

B.2 Being randomly allocated to a default provider and then allocated to the default investment option, is probably not a sensible option, and is unlikely to be the optimal savings solution for most KiwiSaver member. Such savers are likely to end up with lower returns on average and will still experience negative returns from time to time. The lower average returns will quickly discount the value of the tax credits. Because the allocation of a KiwiSaver provider will be random and the decision not "owned" by the employee, there may also be a higher incidence of "lost" account holders.

B.3 From an employer's perspective, there are three solutions to this problem:

- **Do nothing**
  It is, after all, the employee's own doing by not making a decision. The employer could say it should not get involved and has no responsibility to ensure that an employee saves sensibly for retirement. Also, what is "sensibly"?

- **Select a chosen provider**
  This has the advantage that the provider, if well selected, will be competitive and the default investment option of the chosen provider can be better aligned to the average employee's needs. Also, a chosen provider does not stop employees selecting their own provider or own investment option, within the employer's chosen provider.

- **Educate employees and motivate them to take action**
  The best outcome from an employer's perspective will be achieved if employees consciously decide what is best for them. Many employees will need help with this decision. Facilitating education and getting the employees help to choose an investment option, should be one of the advantages obtained by the employer selecting a chosen provider. However, an employer can organise the availability of education separately. KiwiSaver does not need to be the reason.

B.4 Even the "do nothing" option will have implications for the employer. As a minimum, the employer will probably want to ensure that employees understand that, if they do not make a decision, their savings will end up in a default option.

B.5 The best option is likely to be where the employer selects a chosen provider and organises the chosen provider to help each employee make individual decisions.

B.6 Selecting a chosen provider that provides the full range of options, that manages manager risks and has low fees will not compromise the employer when the markets turn down. Being seen to help should produce HR returns that exceed the financial cost.

C. HISTORY

C.1 KiwiSaver started on 1 July 2007. The KiwiSaver Act 2006 establishing KiwiSaver came into force on 1 December 2006. Since its commencement, there has been a constant stream of changes.

Kick-start

C.2 Until 2pm on 21 May 2015, the government paid a tax-free $1,000 kick-start contribution to each person's KiwiSaver Account 3 months after they first joined. In the May 2015 budget this incentive was removed.

Employee savings

C.3 The initial standard minimum employee savings rate was 4% and this applied between 1 July 2007 and 31 March 2009. The alternative rate to the 4% was 8% through the PAYE system. The 4% standard minimum employee savings rate applied unless the employer offered the transitional "2%+2%" option where the employer paid 2% of the 4%.

C.4 From 1 April 2009 the minimum standard rate became 2% and employees could choose to increase it to 4% or 8%.

C.5 From 1 April 2013, the minimum employee rate increased from 2% to 3%.

Employer savings

C.6 From 1 July 2007, all employer contributions were voluntary. An employer's contributions up to 4%, that matched an employee's contributions, were paid tax-free.

C.7 From 1 April 2008, employers had to subsidise an employee's savings. The Employer subsidy started at a minimum of 1% and the minimum was to increase on 1 April each year by 1% until it was 4% (from 1 April 2011).

C.8 In December 2008, the 3% and 4% steps were removed and the 2% employer rate from 1 April 2009 became the ongoing minimum rate. Also, the tax free employer contribution was reduced from 4% to 2% from 1 April 2008.

C.9 Until 31 March 2009, there was also a transitional "2% + 2%" option that provided a different implementation regime for the contributions from both employers and employees over the period to 2011. This option effectively ceased on 31 March 2009 and was replaced by the default "2% + 2%" option.

C.10 From 1 April 2012, all employer contributions became taxable under the ESCT rules.

C.11 From 1 April 2013, the minimum employer contribution became 3%.

Employer Tax Credit – pre 1 April 2009

C.12 Between 1 April 2008 and 31 March 2009, where an employer contributed, the government paid the employer an Employer Tax Credit of $1 for $1 up to $1,042.86 a year. This was paid through the PAYE tax system by deduction from the regular PAYE tax payments made by the employer. The actual calculations are based on the number of weeks in the PAYE period. This no longer applies.

C.13 The payment of the employer tax credit was only dependent on the employer contribution. It was not dependent on the employee saving.

Member tax credit (MTC)

C.14 Until 30 June 2011, the government subsidised a member's contribution if they were 18 or older at $1 for $1 up to $1,042.86 a year. From 1 July 2011, the subsidy was reduced to $1 for $2 and the maximum MTC reduced from $1,042.86 to $521.43.

Administration fee subsidy

C.15 Prior to 1 April 2009, the government met part of the annual administration costs of the providers. It paid a $40 a year subsidy in instalments of $20 every six months starting 3 months after the member first joined. The subsidy was paid irrespective of the level of the fees. The $40 a year fee subsidy stopped from 1 April 2009.

Mortgage diversion

C.16 Prior to 1 June 2009, where a member had completed at least 12 months' membership, a KiwiSaver scheme could let the member divert up to half of the member's personal contributions, to help pay off their mortgage. The maximum that could be diverted was 2% of the member's pay. There were rules around the type of mortgage and the mortgage had to be on the member's principle place of residence.

C.17 From 1 June 2009, this facility stopped for new people. Existing KiwiSavers who were already using it could continue. This change was part of the May 2009 budget.

Children under 18

C.18 Prior to September 2010 parents and grandparents could enrol their children/grandchildren.

C.19 From that date, to enrol a child under 16 both guardians must sign the form. To enrol a 16 or 17 year old one guardian and the child must sign, unless the child is in a relationship and has no guardian.

HomeStart Grant (previously "First home subsidy")

C.20 Prior to 1 October 2013, the first home subsidy income caps and house prices caps were:

Income caps

Individual	$100,000
Two	$100,000
Three or more	$140,000

House price caps

$400,000	Auckland, Wellington, Queenstown Lakes District, Christchurch
$300,000	Rest of New Zealand

C.21 From 1 October 2013, the income caps and house price caps became:

Income caps

Individual	$ 80,000
Two	$120,000
Three or more	$120,000

House price caps

$485,000	Auckland;
$425,000	Wellington and Queenstown Lakes District;
$400,000	Christchurch City and Selwyn District;
$350,000	Hamilton City, Hutt City (Lower Hutt), Kapiti Coast, Porirua City, Tasman/Nelson, Tauranga City, Thames/Coromandel, Waimakariri and Western Bay of Plenty;
$300,000	Rest of New Zealand.

C.22 From 1 April 2015, the first home subsidy was renamed the "HomeStart Grant" and the house price caps became:

Income caps

Individual	$ 80,000
Two	$120,000
Three or more	$120,000

House price caps

$550,000	Auckland;
$450,000	Christchurch City, Hamilton City, Hutt City, Kapiti Coast, Porirua City, Queenstown Lakes District, Selwyn District, Tasman/Nelson, Tauranga City, Thames/Coromandel, Upper Hutt, Waimakariri, Western Bay of Plenty and Wellington City;
$350,000	Rest of New Zealand.

C.23 From 1 April 2015, the level of the grant was increased from $1,000 for each year of savings to $2,000 for each year where the first home was a newly built house, and the maximum in these cases was increased from $5,000 to $10,000.

First home withdrawal

C.24 Until 1 April 2015, members who had been members for at least 3 years could choose to take out all their money but the government money (i.e. kick-start and MTCs). From 1 April 2015 they were also allowed to take out the MTCs.

C.25 From 2 pm on 21 May 2015 the rules were changed so that eligible members could take out all their KiwiSaver Account balance except $1,000.

C.26 From 1 June 2015, a member became entitled to take money out of their KiwiSaver Account prior to settlement. This was to help meet the deposit payable.

Default providers

C.27 Between 1 July 2007 and 1 July 2014, the default providers were:

AMP
ASB
AXA (bought by AMP)
Mercer
OnePath (owned by ANZ)

Tower (bought by Fisher Funds)

C.28 From 1 July 2014, the default providers became:

AMP	BNZ	KiwiBank
ANZ	Fisher Funds	Mercer
ASB	Grosvenor	Westpac

Permanent emigration

C.29 Prior to 1 July 2013, people permanently emigrating to Australia could make a withdrawal from KiwiSaver once they had been out of New Zealand for one year. The amount of the withdrawal was their KiwiSaver Account balance less the member tax credits. The member tax credits were paid back to the government.

C.30 From 1 July 2013, the cash withdrawal option disappeared and from that date, such members could leave their KiwiSaver Account where it was, or transfer it to their Australian superannuation scheme. For Australian transfers post 1 July 2013, the member tax credits were not paid back to the government.

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