

ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

Session 3

Preconditions for Industry Response

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SUMMARY PAPER

Regulating superannuation schemes as collective investment schemes

(A) **KiwiSaver Overview**

The Policy Rationale

- 1 KiwiSaver is the final product that has developed from the work of the Savings Product Working Group chaired by Peter Harris in 2004. The SPWG was charged with providing advice to the government on the detailed design and implementation issues to be resolved in delivering widely adopted, generic, work-based savings products. KiwiSaver is a savings vehicle that has been designed to ensure that people's retirement income is comparable to their pre-retirement income.
- 2 It is important to note that this is the underlying value of KiwiSaver. This initiative aims to change the savings behaviour of people who are not current savings enough for retirement. I must add a further caveat here – when I say that the initiative is aimed are not saving enough, I mean those people whose retirement income is not commensurate with their pre-retirement income. Some have suggested that this is neither the top 3 deciles (who are arguably already saving enough for their retirement) nor the bottom 3 deciles (who's pre-retirement income is likely to be comparable to their income on NZS). KS is aimed at those middle 4 deciles who are in a position to save and may not be saving for one reason or another.
- 3 It encourages savings by this demographic through a variety of different mechanisms, including automatic enrolment into KiwiSaver schemes, the provision of compulsory employer contributions and crown contributions (including the member tax credit, fee subsidy and the kicks start crown contribution) and the subsidisation for the purchase of a first home. In some sense, KiwiSaver is both carrot and stick, providing enough incentives for people to join a KiwiSaver scheme, and partly compelling their enrolment through automatic enrolment.
- 4 At its core, KiwiSaver encourages savings through KiwiSaver schemes. A KiwiSaver scheme is effectively a specialised form of a superannuation scheme. It is regulated as a superannuation scheme, and meets the legislative definitions of superannuation. There are, however, specialised features of these schemes that ensure that the objectives of encouraging savings and asset accumulation for retirement is given best effect to.

- 5 The central recommendation of the Savings Product Working Group was to use the PAYE system as a conduit for contributions to savings schemes. This requires savers to elect a savings code as part of their tax deduction code and Inland Revenue to collect the contributions as part of the PAYE system and pass them on to a scheme. Addressing the savings issue at the workplace has a number of advantages. This is where people earn income and deductions from salaries at source for savings are considered less “painful.” Workers gain confidence about a savings decision if others are also doing the same thing. In addition bulk discounts are available. As such, the Working Group considered this would be cost-efficient in terms of capturing economies of scale and effective in improving participation in savings plans by maintaining diversity of fund choice.
- 6 The Working Group recommended the automatic enrolment of new employees at the time they join an employer (with exemptions for small firms and firms with an existing scheme). Evidence from the United States suggests that automatic enrolment is a powerful way to increase participation in work-based savings schemes. The theory is that automatic enrolment increases participation in schemes by helping people overcome inertia, i.e. people say they want to save but do not get around to actually saving. KiwiSaver, operates on the premise that all new permanent employees are automatically enrolled on the first day of their new job. They are able to opt out later (between weeks 2-8) but will remain a member if they fail to do anything further.

How KiwiSaver Works

- 7 KiwiSaver is a voluntary, defined contribution work-based retirement savings initiative to help New Zealanders to get into the habit of saving regularly. Since 1 July 2007, those who start a new job are automatically enrolled, with the right to opt out.
- 8 Employee contributions at 4% or 8% (of gross salary or wages) are deducted on each pay day. Inland Revenue transfers the money to a KiwiSaver scheme.
- 9 From 1 April 2008, employers make a compulsory contribution to their employee's KiwiSaver scheme account or complying superannuation fund. This is set at 1% of gross salary or wages from 1 April 2008, rising to 4% in 2011.
- 10 KiwiSaver is intended to complement NZ Super, to provide for a better standard of living in retirement.
- 11 The government:
 - a contributes \$1,000 (tax-free) to each member's savings when they join for the first time;
 - b pays an annual member tax credit of up to \$1,042.86 to member accounts (for members who are 18 or over);
 - c pays a fee subsidy of \$20 into each member's account every six months;
 - d funds the first home deposit subsidy through Housing New Zealand (for people who meet certain criteria);
 - e pays a regular employer tax credit of up to \$20 a week per employee to help offset compulsory and voluntary employer contributions to KiwiSaver or to a complying fund;

- f exempts employer contributions to members' KiwiSaver accounts from specified superannuation contribution withholding tax (SSCWT) up to a maximum of 4% of the employee's gross pay; and
 - g pays a payroll subsidy of \$2 per employee per pay period to employers with up to five employees who use an approved payroll provider.
- 12 The design of the KiwiSaver initiative was an interagency project involving the Treasury, Inland Revenue, the Ministry of Economic Development and Housing New Zealand Corporation.
- 13 Organisations wanting to provide KiwiSaver schemes must meet specific criteria prior to the registration of the scheme. A KiwiSaver Provider must enter into a Service Provider Agreement with Inland Revenue before they can register a KiwiSaver scheme with the Government Actuary.
- 14 The Government has appointed six "default" KiwiSaver scheme providers for members who don't choose their own scheme. These default providers were selected using an open, competitive tender process managed by the Ministry of Economic Development.
- 15 There is no Crown guarantee of KiwiSaver schemes or investment products of KiwiSaver schemes. Every investment statement relating to a KiwiSaver scheme must contain a statement to that effect.
- 16 KiwiSaver schemes are governed by trust deeds and regulated like other superannuation schemes. Scheme providers must meet certain minimum ongoing requirements and disclose information to help people make an informed choice.

(B) **Collective Investment Schemes (CIS)**

- 17 Investment in Collective Investment Schemes (CIS) contributes to the economy by facilitating household wealth accumulation and risk management (through the ability to mitigate and pool risk), while at the same time providing a mechanism for investment which encourages business innovation and growth.
- 18 Different CISs are currently regulated under a number of different pieces of legislation, creating inconsistent and complex obligations and the potential for regulatory arbitrage.
- 19 A consistent regulatory framework for the governance and supervision of all Collective Investment Schemes is proposed and is likely to apply to:
- all KiwiSaver schemes
 - superannuation schemes (*except existing employer stand-alone and defined benefit superannuation schemes, to reflect concerns that the imposition of new governance structures on these schemes would facilitate scheme wind-up*); and
 - unit trusts
- 20 Under the proposed framework, every CIS offered will be required to have an issuer and an independent CIS trustee. The CIS trustee will be the first-level supervisor of the scheme and the Securities Commission will have oversight of the CIS trustee.

- 21 It is also proposed that the Securities Commission, as regulator, approve and licence CIS issuers and CIS trustees, in accordance with “fit and proper” entry criteria. Both issuer and trustee must be registered as a Financial Service Provider, satisfying negative assurance criteria.
- 22 Requirements for regulatory controls to be included in all CIS trust deeds are also proposed:
- A procedure for amendments to trust deeds;
 - A procedure for transfers of members to other schemes in limited circumstances;
 - Assignment of interests or units in a scheme; and
 - Benefits in schemes linked to employment status.
- 23 The objective of our proposed regulatory reform is to establish a minimum set of rights for investors in CISs and obligations by CIS trustees in relation to the operation of CIS schemes.
- 24 The proposals seek to balance the objective of adequate investor protection with the desire to maintain flexibility for schemes to operate on an efficient commercial basis.
- 25 In applying the CIS framework to superannuation schemes, the proposals endeavour to reflect the common features between superannuation schemes (including KiwiSaver schemes) and other CISs.
- 26 Policy decisions will be sought from Cabinet in June 2008 on CISs. A Securities (Collective Investment Schemes & Securities Offerings) Amendment Bill is expected to result from this work, with an expected introduction date in early 2009 and enactment date by the end of 2009.

(C) **Financial Literacy**

I intend to also comment on the work that NZ is doing on Financial Literacy.

- 27 The Retirement Commission is taking the lead in spearheading a National Strategy for Financial Literacy which was launched on 9 November 2007.
- 28 The strategy aims to achieve a financially literate population where New Zealanders are financially well-educated and can make informed financial decisions throughout their lives.
- 29 New Zealand is one of the first countries to develop a national strategy for financial literacy. The Retirement Commission has led its development with the input of many individuals and organisations across the public, private and voluntary sectors.
- 30 The strategy aims to set a strategic direction, link providers of financial education and information, identify any gaps in coverage and avoid duplication.
- 31 The final strategy will be released by March 2008.

- 32 Prior to this, the Retirement Commission has also been actively involved in financial literacy initiatives. In 2001 the Retirement Commission decided to shift the focus of its public education programme from financial planning for retirement to financial skills for life. The result of this change was a public education programme called Sorted.
- 33 The Sorted programme is based around a website called www.sorted.org.nz. Since its establishment in October 2001, Sorted has had over 3.4 million unique visitors with well over 8 million calculations being made on its online calculators.
- 34 Sorted's content and tools are syndicated through a range of New Zealand's most popular websites and portals including Trademe.co.nz, Scoop.co.nz, FindA.co.nz, STUFF.co.nz, YahooXtra.co.nz, NZCity.co.nz and NZflatmates.co.nz.
- 35 Over the years Sorted has won a number of communications excellence awards. The most recent has been a Bronze Advertising Effectiveness Award (EFFIE) for Sustained Success, at the 2006 CAANZ (Communications Agencies Association NZ). In 2004 and again in 2007 Sorted won 'Best New Zealand Finance Site' at the NetGuide Web Awards. Sorted is also rated by State Services Commission assessors 'e-Gov Watch' as the most usable and accessible website within the Government sector.
- 36 The Securities Commission has established a campaign to improve financial literacy by launching a website last year (www.looklearninvest.org.nz) that aims to enable investors to choose investments that suit their needs and meet their goals and be aware of the risk-return relationship when investing.

KiwiSaver at a Glance

The Policy

- KiwiSaver is part of a package of Government initiatives designed to increase the level of savings by New Zealand households and support New Zealanders in retirement.
- It aims to do this by encouraging a change in the savings behaviour of individuals.
- KiwiSaver focuses on encouraging saving through the workplace, which allows for deductions at source, benefits from economies of scale, and provides an avenue to reach a high proportion of the population who are able to save.
- KiwiSaver takes advantage of these benefits and introduces an opt out regime, whereby all new employees are automatically enrolled in a scheme.

How it works

- Voluntary, Opt In
- Defined Contribution
- 4% or 8% of salary or wages
- Compulsory Employer contributions rising to 4% in 2011
- Government Contributions
- Default Providers for auto enrolment
- Regulated as superannuation schemes

Collective Investment Schemes

- Single Regulatory Environment for similar products
- Currently policy in development
- Objective is to establish a minimum set of rights for investors in CISs and obligations by CIS trustees in relation to the operation of CIS schemes.
- Legislation expected to be introduced in 2009

Financial Literacy

- Led by the Retirement Commission
- Campaign focussed on Sorted.org.nz
- National financial education strategy to be released March 2008