THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Retirement Policy and Research Centre

Submission to:
The Ministry of Business Innovation & Employment
on:
Financial Markets Conduct Regulations – Discussion Paper, 12 December 2012

- the 'problem' with 'superannuation schemes'

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Background to this submission

The Ministry of Business Innovation & Employment ('Ministry') is seeking submissions on a Discussion Document of December 2012 ('Discussion Document') that asks, in essence, what rules should apply to 'regulated financial products'.

The *Financial Markets Conduct Regulations – Discussion Paper* ('Discussion Paper') is a 243 page document published in December 2012. Submissions must be made by 28 February.

As a preliminary point, this is an inadequate time for submissions on matters of such complexity, especially given the intervention of the Christmas and summer holiday seasons. It also requires this submission to focus on a single issue.

We are concerned that the proposals in *Chapter 4 – Governance* so seriously misunderstand and misrepresent the position of 'superannuation schemes' both here and overseas that we devote this submission to addressing Chapter 4's fundamental misconceptions.

We cannot emphasise strongly enough the need for the Ministry to re-consider and revise its proposals to regulate superannuation schemes in the manner outlined in the Discussion Document.

The RPRC

The Retirement Policy and Research Centre (RPRC) of the University of Auckland is an academically focused centre specialising in the economic issues of demographic change including public and private provision of retirement income (New Zealand Superannuation, and e.g. KiwiSaver, respectively), and both the accumulation and decumulation phases of retirement provision.

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Michael Littlewood
For the Retirement Policy and Research Centre

1. Introduction

1.1 To promote transparency and to protect consumers, all 'pooled funds'[1] should be subject to similar principles-based, fundamental rules regarding:

- disclosure;
- record keeping;
- governance and
- licensing.

1.2 New Zealand's regulatory environment with respect to the treatment of pooled funds has been inconsistent if not haphazard. We therefore welcome changes that introduce consistent regulatory treatment across essentially similar financial services. However, we note that the Financial Markets Conduct Bill (the 'Bill'), and the Discussion Paper propose breaking that principle with respect to 'superannuation schemes'.

1.3 For convenience of reference, we shall confine our detailed comments to the Discussion Paper. The changes we suggest there will require changes in the Bill.

2. Discussion Document – a fundamental misconception

2.1 The Discussion Paper reflects the Bill's intention to "…make the rules around superannuation schemes more robust" (Discussion Paper, Chapter 4 para 20). In summary, the justifications for that seem to be:

- the name 'superannuation' is or should be about 'retirement';
- other countries have more stringent requirements than New Zealand for 'qualified' retirement saving schemes.

2.2 We suggest that the justifications for the particular treatment of superannuation schemes proposed by the Discussion Document are fundamentally flawed. They also misrepresent New Zealand's history with specific regard to the tax treatment of registered superannuation schemes.

2.3 We attach as Appendix 1 the RPRC's 2008 *PensionBriefing: A condensed history of public and private provision for retirement income in New Zealand - 1975-2008*. We shall refer to that history in this submission.

3. 'Superannuation' is not just about 'retirement'

3.1 There is one school of thought that considers 'retirement savings' as the setting aside of assets for the time in New Zealanders' lives when they are no longer working for a living. To ensure those assets are available during retirement, the 'saver' must be denied access to those savings until they reach, say, age 65. Owners of those savings should not make their own decisions about when and how their savings should be spent. Instead, the government should make those decisions for savers; or at least, restrict the scope of the choices available to savers. Those principles have found their way into the Discussion Document.

3.2 In fact, 'superannuation schemes' have always given early access to benefits, including in New Zealand when there were significant tax benefits granted before 1987. The only

[1] [1] We prefer 'pooled funds' as the generic description rather than 'managed funds'. It is the pooling of money from many investors that is the defining charateristic rather than its 'management'. We should expect all money to be 'managed' so a 'managed fund' is an unhelpful description.

restriction applied to 'pension schemes' and then only when an employee left service after age 50. Even there, up to 25% of the benefit could be exchanged for a tax-free lump sum.

3.3 Since 1989, the only regulatory acknowledgement of superannuation's particular position has been that all benefits accruing under schemes registered under the Superannuation Schemes Act 1989 should be 'principally' for the purposes of 'retirement'. Section 2A(1) of the Superannuation Schemes Act 1989 states:

> "(1)In this Act, unless the context otherwise requires, superannuation scheme or scheme—
>
> (a)means—
>
> (i)any trust established by its trust deed principally for the purpose of providing retirement benefits to beneficiaries who are natural persons or paying benefits to persons who are the trustees of a registered superannuation scheme or a KiwiSaver scheme; or
>
> (ii)any arrangement constituted under an Act of the Parliament of New Zealand, other than the Social Security Act 1964, principally for the purpose of providing retirement benefits to natural persons; but
>
> (b)does not include any scheme that is registered as a KiwiSaver scheme."

However, there was never any regulatory clarity about what either "principally" or "retirement" meant. Arguably all long-term savings, even including buying and paying off the saver's home, are 'principally' for retirement regardless of the particular use to which they are put in the meantime. We suggest that this lack of clarity did not matter, as explained next.

3.4 As the 'condensed history' in Appendix A describes, the 17 December 1987 *Government Economic Statement* used bank accounts as the model and justification for the changes to the tax and benefit treatment of superannuation schemes. The government ceased to have a particular regulatory stake in the financial assets of superannuation schemes when the conversion to the 'neutral' TTE tax regime was completed on 1 April 1990, a change that placed superannuation schemes on to the same tax and benefit footing as bank accounts.

3.5 To illustrate the point, using bank accounts:

- **amounts contributed** by savers to a bank account are made from after-tax income;
- **interest credited** to the saver's account are taxable income in the saver's hands despite the fact that the income has actually been earned by the bank;
- **amounts withdrawn** from the savings account are tax-paid capital and the saver is free to decide whether and when to take money out and what to spend that money on.

3.6 There would be an uproar if the government proposed to make 'savings accounts' inaccessible until a retirement age. In summary, that is what the Discussion Documents proposes for superannuation schemes.

3.7 The move from the previous, largely EET tax regime to TTE emphasised a major philosophical change: the government would no longer use the income tax treatment of savings to prefer one particular form of saving over another. It would also not send any regulatory 'message' that restricted access to or the use of savings. The government accepted that individuals should be making those decisions themselves[2].

3.8 New Zealand's benefit and tax treatment of formal retirement savings schemes was unique in 1990 and remains so.

3.9 All developed countries except New Zealand maintain tax incentives for formal retirement savings schemes, almost all of them under the full EET regime. The Discussion Document's references to other countries' preservation arrangements[3] is misplaced.

3.10 Other countries' experiences are irrelevant to any discussion about New Zealand's regulatory regime, in particular because every other developed countries' arrangements resemble an EET tax regime. Under this:

- **contributions** by individuals and their employers are deductible for tax purposes – in the case of employers' contributions they are also not taxed as a 'benefit in kind' in the employees' hands;
- **investment income** on accumulating savings is either not taxed at all or else taxed on a favourable basis (at a lower marginal rate than would apply to the individual saver);
- **the benefits** are largely taxable income.

3.11 Under an EET regime, the government effectively regards retirement saving as an activity that deserves significant subsidies through the tax system, but the 'price' of such concessions is that the money must be applied to the purpose for which it was set aside – income in retirement. The overall environment, even under a pure EET regime (most are 'impure' because of tax leakage), is very concessionary. Governments can partially justify that on the basis that, overall, its exposure to retirement income support through tax transfers might be lower in the presence of EET savings than otherwise. However, unless the government recovers at least some income tax through preservation requirements and benefit restrictions, EET would be impossible to justify.

3.12 Paragraphs 30 to 36 of the Discussion Document that look at the requirements of Canada and Australia in this regard are therefore irrelevant to New Zealand's needs. The tax and regulatory environments in both countries are completely different to New Zealand's and do not, as the Discussion Document states, "provide useful guidance".

3.13 We strongly oppose the proposal to change New Zealand's regulatory requirements with respect to preservation of 'superannuation' benefits by restricting a saver's access to their money when the vehicle is called a 'superannuation scheme'. The Discussion Document does not provide justification for such a regulatory intrusion on members' entitlements. There is indeed no such justification in the absence of tax incentives on the savings or unless saving for retirement becomes compulsory.

3.14 We find that the Discussion Document fails its own objective of 'consistent regulatory treatment across similar types of arrangements' by proposing restrictive provisions for superannuation schemes when there are no fundamental differences to the way superannuation schemes are governed as pooled funds.

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[2] KiwiSaver is an exception to this general rule – more on that below.

[3] 'Preservation requirements' is a technical term that refers to a scheme's rules as to when benefits become accessible. If there are none (common in New Zealand, except for KiwiSaver), benefits are accessible immediately. Other countries have complex preservation requirements.

4. Specific issues raised in the Discussion Document

4.1 As stated in paragraph 1.1 above, we support the principles-based consistency of requirements across pooled funds and that is the basis for many of the Discussion Document's overall recommendations. Paragraph 3 of this submission suggests that the government has no regulatory justification to intervene in the design and application of specific benefit arrangements in schemes that are called 'superannuation schemes'. This paragraph 4 deals with several statements in Chapter 4 of the Discussion Document with which we take specific issue.

4.2 Different types of scheme: We suggest there is no need for particular rules for 'superannuation schemes', and there is no benefit in distinguishing between "prescribed workplace schemes", "restricted employer-related schemes", or "closed 'principal purpose' schemes" (paragraph 13). Paragraph 16 seems to suggest that there will need to be different regulatory targets depending on the "particular risks or characteristics of the scheme". This complexity will disappear if all 'superannuation schemes' are treated similarly. We recommend that the principle objective should be to treat all 'superannuation schemes' similarly.

4.3 "Tax avoidance purposes": Paragraph 20 observes that "there are few or no incentives in New Zealand to divert funds to retirement schemes for *tax avoidance purposes*" (our emphasis). The Discussion Document's authors misunderstand the reason for the exempt status of schemes under the EET regime (they are explained above). However, the language is, we suggest, revealing. It has nothing directly to do with "tax avoidance" but is, rather, a natural consequence of the EET regime that applies in nearly all countries but New Zealand. Savers in EET jurisdictions make rational decisions on their retirement saving objectives: the cost of achieving a particular target income is simply cheaper (less needs to be saved each year) in an EET environment than through using a TTE vehicle. That is not 'tax avoidance'.

4.4 "New Zealand is out of step": Paragraph 20 then states:

> "However, it has become increasingly evident that New Zealand is out of step with the tests applying to superannuation in other jurisdictions."

As discussed above, New Zealand is "out of step" as a natural consequence of our TTE regime that has been in place for nearly 23 years. No other country has a TTE regime and New Zealand is arguably "out of step" in that regard as well. The two sides of that particular coin provide no justification for the development of preservation requirements for superannuation schemes in New Zealand.

4.5 "Sole retirement purpose test": On the basis of a simplistic examination of New Zealand's history, the Discussion Document suggests that "…the category of superannuation schemes [be] reserved for those schemes that meet a sole retirement purpose test." The Discussion Document goes on to conclude that:

> "…the primary objective is to promote superannuation schemes as schemes that have retirement benefits as their sole purpose and lock-in funds for retirement." (paragraph 22)

Our question is: why? What has changed since 1990 when the implementation of the TTE regime was finally completed?

4.6 The "concessions". The Discussion Document then suggests:

> "Because of the concessions, not all superannuation schemes will be regulated to the same standard." (paragraph 23)

The question is: what concessions? If the Ministry proposes to regulate occupational schemes on a different basis, why might those be seen as "concessions"? Until we know the detail, we cannot understand the implications of paragraph 23. We recommend that all superannuation schemesbe similarly treated.

4.7 QROPS status: The Discussion Document's authors' explanation of the United Kingdom's arrangements for 'Qualifying Recognised Overseas Pension Schemes' is incomplete in some respects and wrong in others.

However, we fail to understand why the regulation of New Zealand-resident superannuation schemes should be directly or even indirectly affected by the UK-domestic issues that affect QROPS. That is surely a matter between the UK's revenue authorities and the administrators of the New Zealand-based QROPS, rather than a concern for New Zealand regulators.

The same point applies to all other countries' requirements: they are irrelevant to New Zealand's requirements in our TTE environment.

4.8 "Legimate retirement savings scheme": The Discussion Document suggests that the establishment of "locked-in superannuation schemes" is to:

> "…facilitate overseas recognition of this type of scheme as a *legitimate retirement savings scheme*." (paragraph 25; our emphasis)

We object to the language used in the highlighted expression. Is not a bank account, for example, a "legitimate retirement savings scheme"? If there were tax breaks for "retirement saving schemes" then we could understand why the regulators would want to know which were "legitimate" and which were not but that is not the present case. The Discussion Document has made no case for a change to the current position.

4.9 "…if there are tax incentives": Paragraph 25 suggests the possibility of tax breaks for "legitimate" schemes:

> "Over time, these schemes may become more attractive, particularly if there are tax incentives or other formal recognition of the benefits of retirement savings."

What tax incentives or other "formal recognition of the benefits of retirement savings" are proposed? If those ever came to pass, then would be the appropriate time to consider specific regulatory constraints. This vague, future change cannot possibly be seen as a justification today for "locked-in superannuation schemes".

4.10 "Purpose of these schemes": Paragraph 37 suggests:

> "37 Locked-in schemes are open to both New Zealand and non-New Zealand residents. In order to meet best international practice and ensure that these schemes will be legitimately used for retirement purposes, there needs to be robust conditions for withdrawal. The purpose of these schemes should be to provide income in retirement for members."

There are three crucial questions that are not answered in this scene-setting paragraph:

a) What is "best international practice" for the regulation of pooled saving vehicles in a TTE environment? The Discussion Document does not explain this.
b) What is gained from this narrow interpretation of savings "legitimately used for retirement purposes"? Why might the regulator's view on that be 'better' than the owner of that asset – the saver?
c) Why is the sole purpose of these schemes reduced to "provide income in retirement for members"? What is wrong with a retirement savings scheme of any kind being used to repay debt, buy a business or even buy a new car? What

business is it of the regulators that retirement savings might be put to good use, other than retirement income, by the saver?

4.11 The intricate access rules: Paragraphs 37 to 50 then attempt to describe what the benefit rules might be for "legitimate retirement savings schemes". We oppose these rules as they are founded on the premise that benefits need to be locked in. The Discussion Document has made no case for this.

5. KiwiSaver

5.1 KiwiSaver schemes are pooled funds; also, presumably "legitimate retirement savings schemes" even though they do not require benefits to be provided as "income in retirement for members". They are, however, "locked-in superannuation schemes" and so presumably enjoy the regulatory support of the Discussion Document's authors.

5.2 When KiwiSaver was introduced on 1 July 2007, there were significant tax breaks for members. These have been reduced and now comprise just:

- the $1,000 kick-start;
- an annual subsidy of up to $521.43 as long as the member has contributed at least $1,043 a year.

5.3 On its introduction, the government could argue, as with overseas EET schemes, that it was entitled to lay down extensive preservation and benefit rules because of the tax incentives involved. That argument could still apply to everyone who joined when all the concessions applied. However, the case for that will weaken for existing members over time. That argument is already weaker today for new members. Nevertheless, KiwiSaver can be seen as an exception to the general objections we have to the Discussion Document's proposals.

6. In conclusion

6.1 We suggest that the discussion and recommendations relating to "superannuation schemes", "locked-in superannuation schemes" and "legitimate retirement savings schemes" are fundamentally flawed.

6.2 We strongly urge the Ministry to reject the proposals to regulate superannuation schemes in the manner outlined in the Discussion Document.

Appendix

pensionbriefing

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

A briefing paper from the retirement policy and research centre

A condensed history of public and private provision for retirement income in New Zealand - 1975-2008

RPRC *PensionBriefing* 05/2008

This *PensionBriefing* gives a short history of the changes to the regulatory environments for both public and private retirement income provision in New Zealand in the last 33 years.

In summary

Since 1975, the regulatory environment for both public provision (now New Zealand Superannuation) and private provision (now including KiwiSaver) has been changed regularly, and sometimes significantly, as governments have come and gone.

Change can be expensive and disruptive to the plans that New Zealanders make for their retirement income. It is important to be aware of New Zealand's history when trying to understand the current tax and regulatory environment as well as how New Zealanders have reacted to that change.

Attached is a short summary of the main events in the superannuation timeline since 1975.

Four main periods

New Zealand's history with respect to the provision of public and private provision for retirement can be divided into four main periods:

1. **Before 1975**

   From 1940 to 1974 the structure of state pensions - the Tier 1 age pension (means-tested from age 60) and universal superannuation (taxable from age 65) remained largely intact while the level of benefits gradually increased. 1974 marked the passing of the legislation that introduced the compulsory Tier 2 New Zealand Superannuation Scheme in 1975.

2. **1975 to 1987-90**

   In 1976, following the 1975 election, the Tier 2 New Zealand Superannuation Scheme was disbanded and in 1977 the universal Tier 1 "National Superannuation" for all from age 60 was introduced. The environment for both public and private provision for retirement was highly politicised. Among changes, a surcharge on National Superannuation was introduced in 1984 and tax incentives for private provision were removed between 1987-1990.

3. **1990 to 2007**

   An acrimonious political attempt to change National Superannuation into a welfare benefit in 1991 (and a move in the state pension age out to 65) created instability. The 1992 Task Force on Private Provision for Retirement led to the 1993 Accord that helped to restore stability at least until 1996. The gradual loss of the Accord resulted in further politicisation of retirement income provision, but throughout this period the provision of a basic Tier 1 state pension for all was retained with voluntary, unsubsidised saving.

4. **After 2007**

The introduction of KiwiSaver in 2007 marked a large shift in public policy on private provision. As well as the contribution requirements from both the members who choose to join and their employers, there are significant tax-funded subsidies. KiwiSaver has introduced a new period of uncertainty in the public/private retirement income environment. The new government elected in November 2008 has promised further changes to KiwiSaver.

Drawing conclusions from the history

New Zealand has had a generally unsatisfactory history of changes in the retirement income environment. In fact, over the roughly 30 year period covered by this *PensionBriefing*, New Zealand has probably experienced more changes or proposed changes to both public and private provision than any other developed country. In this area of public policy, New Zealand does not have a proud record.

The following lessons may be drawn from the history of the last 30 or so years:

(a) Changes to both public and private provision without appropriate analysis, and supporting evidence are unlikely to be durable. Consideration also needs to be given to the relationship between public and private provision when changes are made to either.

(b) It is unsatisfactory when policy is driven by political considerations rather than the needs of savers and pensioners (or taxpayers).

(c) When changes are made with comparatively short implementation periods, uncertainty is created for individuals who are making very long-term decisions about their retirement income needs. Changes with relatively short implementation periods also impose unnecessary costs on the administrators of both public and private retirement income schemes.

With the election of a new government in November 2008, there will be yet more changes – this time to KiwiSaver, even though that has been in place for only 16 months and has already been changed significantly from the original legislation in 2006. It also appears there will be changes to the investment objectives of the New Zealand Superannuation Fund (that serves to partially pre-fund New Zealand Superannuation).

The lessons from New Zealand's past indicate that further changes should be approached with caution and full analysis to avoid repeating problems or creating new ones.

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Public and private provision for retirement -a condensed history 1975-2008[4]

There is a glossary of defined terms and acronyms at the end of this summary.

Year	Public provision	Private provision
To 1975	Two-step Tier 1 pension: - "Old Age" – ages 60-65 - "Universal age 65+. Implemented by Social Security Act 1938 – "Old Age" pension income-tested to age 65.	1. Pension schemes: EET. 2. Lump sum schemes: EEE Driven out of tax requirements in the Income Tax Act.
1975	Compulsory third layer added – the "New Zealand Superannuation Scheme". A Tier 2 benefit – related to employment.	Existing plans could be retained or converted to "alternative plans" – EET. Approved alternative plans could contract out of Tier 2 compulsory NZSS.
1976	NZSS abolished by National following the 1975 election.	Approved alternative plans abolished.
1977	National Superannuation introduced: 70% (gross to gross) of the National Average Earnings (NAE)to married couple from age 60; 42% for a single person – first of two steps.	
1978	National Superannuation (gross) now at full level 80% of gross NAE for a married couple (and 48% single).	
1979	National Superannuation reduced - pension formula changed to net 80% of the net NAE.	Human Rights Commission Act effective – outlawed age discrimination in employment benefits.
1980		1 April compliance date for Superannuation Schemes Act 1976 regulations and tax approval.
1982	McCaw report recommended that non-cash benefits provided by employers be taxed ("Fringe Benefit Tax").	Investment income: - lump sum schemes taxable from 5 August (ETE); saving provisions for existing "lump sum schemes" – "Class A" and "Class B" funds. - deductibility increased (pensions).
1983		1983 Superannuation Schemes Regulations announced – all schemes to be classified.
1984	Surcharge announced following election of Labour in 1984 - income test on National Superannuation.	1984 Budget announces tax review 1 April – all schemes classified as "lump sum" or "pension".
1985	Surcharge effective. Fringe Benefit Tax (FBT) introduced.	Reserve Bank ratios that controlled scheme's investments dropped – normal trustee/beneficiary rules now apply.
1986		1 April compliance date for 1983 Regulations
1987		Government Economic Statement issued and, effective from 17 December: - employee contributions not deductible; - employer contributions subject to Fringe Benefit Tax (FBT). Tax regime now TET[5] until 1 April 1988.
1988	Royal Commission on Social Policy; Government review announced.	Investment income taxable 1 April – now TTT. Consultative Document issued March. Brash Committee reports July.
1989	"Guaranteed Retirement Income" (GRI) and "Retirement Tax" announced – net GRI to be net 65-72.5% of NAE. Essentially, National Superannuation re-named with a "tagged" income tax.	FBT on employer's contributions replaced by withholding tax (SSCWT). Renegotiation for tax-induced benefit changes – effective by 1 April 1990.

[4] This is an extended and updated version of a table that appeared in *The Options*, a report of the Task Force on Private Provision for Retirement (the first "Todd Task Force"), August 1992.

[5] Tax treatment references in 1987, 1988 and 1990 apply to pension schemes only and ignore the commutation option that allowed up to 25% as a tax-free lump sum.

Year	Public provision	Private provision
1990	GRI implemented.	All pensions tax-free from 1 April – now TTE; for both pensions and lump sum benefits. New Life Office tax regime introduced. New regulatory regime ("registered superannuation schemes") starts 1 April.
1991	"Mother of all Budgets" following National's election in 1990: - "Claw back" by joint income test to replace "surcharge" from 1992; - State Pension Age to increase from 60 to 65.	First Todd Task Force on Private Provision for Retirement appointed in October: Interim Task Force report December 1991.
1992	State pension age starts increasing from 60 to 65. Legislation for "clawback" reversed and the surcharge tightened. GRI becomes "National Superannuation".	Permitted compulsory retirement ages increase. "Todd Task Force" includes public provision and reports: - "The Options" (August); - "The Way Forward" (December).
1993	The Accord (August) signed by National, Labour and Alliance. Retirement Income Act 1993: - State Tier 1 pension now called "New Zealand Superannuation". - "Accord" included in the Act. Superannuation not an election issue for first time in 18 years.	
1995	Office of the Retirement Commission established.	
1996	Accord starts unraveling - superannuation again an election issue.	
1997	Referendum (after first MMP coalition government between National and NZ First) on "Compulsory Retirement Saving Scheme" (92% to 8% defeat). Second "Todd Task Force" – the 1997 Periodic Report Group – reports on both public and private provision: - July (to inform Referendum debate); - December (final report). Surcharge rate reduced; income threshold raised	
1998	Surcharge abolished after 13 years. Super 2000 Taskforce appointed (December). "Floor" for NZS to reduce from 65% of NAE for a married couple to 60% through CPI only increases.	
2000	"Floor" for NZS restored to 65% following Labour's re-election. Super 2000 Taskforce disbanded (March). New Zealand Superannuation Bill introduced.	"Salary sacrifice" can save tax because of break between new top marginal tax rate (39%) and SSCWT rate of 33% - first tax break for private saving since 1990.
2001	New Zealand Superannuation and Retirement Income Act 2001 passed (October): - replaced the Retirement Income Act 1993 and moved provisions governing New Zealand Superannuation from Social Security Act; - established New Zealand Superannuation Fund.	
2002	State pension age now 65	

2003	2003 Periodic Report Group meets and reports (December) - report is largely ignored. New Zealand Superannuation Fund starts investing (September).	
2004		Variable SSCWT rates start 1 April – opens up further tax-planning possibilities for salary sacrifice. Savings Product Working Group appointed (May) and recommends (September) a national, auto-enrolment, workplace scheme with modest "sweeteners".
2005	Floor for New Zealand Superannuation raised to 66% (married) – resulted from a side agreement under MMP between Labour and NZ First	
2006		KiwiSaver I announced in Budget (a Tier 3 scheme): - auto-enrolment + opt-out; - $1,000 "kick start" + $40 p.a. fee subsidy; - member can contribute 4% or 8%; - A world-first, national experiment to encourage New Zealanders to think about saving specifically for retirement. Adopts principles of "behavioural economics". - (December) employer contributions announced as tax-free to 4% of member's pay.
2007	Retirement Commissioner's 2007 Review of Retirement Income Policy (December)	Variable SSCWT rules tightened from 1 April to limit tax planning. KiwiSaver II announced in May Budget: - Member Tax Credit $1,043 a year; - Employer Tax Credit $1,043 a year; - Compulsory employer contributions at 1% from 2008 increasing to 4% by 2011. KiwiSaver II starts 1 July. Aside from employer contributions, tax treatment now $E^{+}TE$. For average earner, Member Tax Credit is worth more than a straight tax deduction at member's marginal tax rate. Employer contributions are a straight "E". PIE tax regime starts 1 October (effectively).
2008	In response to Retirement Commissioner's 2007 Review: - Government establishes "cross-agency working group" to report by May 2009; - Some other recommendations to be reviewed by officials.	SSCWT now "Employer Superannuation Contribution Tax" (ESCT). Compulsory KiwiSaver employer contributions start 1 April. New National-led government announced policy to reduce tax subsidies and scale of KiwiSaver II: - Minimum member contributions now 2%; - Employer's compulsory contribution limited to 2%; - ESCT-free employer contribution also limited to 2%; - $40 a year fee subsidy dropped.

Note: a glossary of defined terms and acronyms appears on pages x to yy.

Glossary

The following expressions have been used in the *History*:

CPI	Consumer's Price Index, the most commonly used inflation measure in New Zealand.
EET, TET, TTE etc.	The taxonomy of retirement saving treatment is summarised by three letters with some combination of "E" (exempt from tax or, in the case of contributions, fully deductible from other income and, therefore, from pre-tax earnings), "T" (fully taxable or, in the case of contributions, paid from after-tax earnings) or "t" (partially favoured under the tax regime). The first letter describes the way contributions are treated; the second letter the investment income in the savings plan and the third letter, the way benefits are taxed. The common international treatment of retirement saving is EET (**E**xempt contributions; **E**xempt investment income and **T**axable benefits). Benefits can be described as "tax neutral" under the normal income tax treatment if they are TTE. By contrast, EET can be seen as "neutral" by reference to an expenditure tax regime.
ESCT	Employer Superannuation Contribution Tax – a new name for SSCWT from 1 April 2008.
FBT	Fringe Benefit Tax – payable by an employer on non-cash benefits delivered to employees like insurance, low-interest loans etc.
GRI	Guaranteed Retirement Income – the state's Tier 1 pension – named so between 1990 and 1993. Now New Zealand Superannuation.
KiwiSaver	An auto-enrolment, opt-out, workplace Tier 3 savings scheme that started on 1 July 2007.
NAE	National Average Earnings – the annual New Zealand Superannuation pensions are calculated in relation to the after-tax national average, ordinary time weekly earnings and are adjusted in relation to the NAE each year. There is a floor of the annual movement in the CPI.
NZSS	The New Zealand Superannuation Scheme, a Tier 2 scheme that survived briefly (less than a year) in the mid 1970s.
New Zealand Superannuation	Or NZS – confusingly, this has nothing to do with the New Zealand Superannuation Scheme of the 1970s. It is the name of New Zealand's Tier 1 pension payable to all from age 65.
New Zealand Superannuation Fund	Or NZSF - a government-run 'sovereign wealth fund' set up in 2001 to partially pre-fund future payments of New Zealand Superannuation. Also sometimes called the 'Cullen Fund'.
SSCWT	Specified Superannuation Contribution Withholding Tax, payable by way of deduction from the employer's contributions to a Tier 3, workplace superannuation scheme. A proxy for the tax

due from employees on the value of the benefit delivered through superannuation. Became ESCT in 2008.

Surcharge The income test that applied to National Superannuation (now New Zealand Superannuation) between 1984 and 1998.

Tiers of pension *Tiers* explain the way that retirement benefit entitlements arise. Hence:

- **Tier 1:** the basic pension, payable by the state (New Zealand Superannuation).
- **Tier 2:** an earnings-related (either as to contributions, benefits or both)scheme with mandatory contributions by employees, employers or both – New Zealand briefly experimented with this in the mid-1970s.
- **Tier 3:** all other voluntary savings whether through the workplace or directly; whether through formal saving plans or by direct investment. KiwiSaver is in this group.