Soft mandatory systems

National 'soft mandatory' savings schemes have been proposed for New Zealand (the Kiwisaver) and the United Kingdom (the National Pension Savings Scheme or NPSS). Below are brief summaries of these schemes:

New Zealand

The KiwiSaver is anticipated to start on 1 April 2007.

KiwiSaver at-a-glance

- KiwiSaver is a voluntary, work-based savings scheme. Its aim is to encourage well informed savings habits and asset accumulation to improve New Zealanders' financial wellbeing, particularly for retirement.
- Inland Revenue will administer the scheme using the existing PAYE (pay as you earn) tax system. Inland Revenue will forward members' contributions to their allocated or registered KiwiSaver scheme provider for investment.

How the scheme will work

For new employees

- New employees aged 18 to 65 will be automatically enrolled into KiwiSaver when they start a new job.
- They will have six weeks to decide whether to "opt-out" and must advise Inland Revenue of their decision by completing an opt-out form.

For employees under 18, current employees, the self-employed and non-employees:

- Scheme enrolment is not automatic for employees under 18, for current employees, the self-employed, non-employees and ACC recipients, election day workers, casual agricultural workers and beneficiaries.
- However, they will be able to choose to join a KiwiSaver scheme but need to make voluntary contributions directly to Inland Revenue or the KiwiSaver scheme provider.

Contributions

- Employees' regular contributions will:

- start from the next pay day after 11 weeks with an employer if automatically enrolled
  - be deducted from wages at a rate of 4 % of gross salary or wages , unless the employee opts for the higher rate of 8 %, and
  - be held by Inland Revenue for an initial 3 months period during which the employee can seek financial advice and select a KiwiSaver scheme provider.

- One - off lump sum contributions can also be made.

- Members will be able to select their own KiwiSaver scheme provider and investment funds. They can change KiwiSaver scheme providers, but can only have one KiwiSaver scheme provider at any time.

- Those new employees who do not specify a KiwiSaver scheme provider will be randomly allocated to a default KiwiSaver scheme provider by Inland Revenue.

- There are no minimum or maximum income thresholds.

- Member's contributions will be locked-in until the age of eligibility for New Zealand Superannuation (currently age 65) or five years after the first contribution, whichever is later, with the following exceptions:
  - a one-time withdrawal to assist with the purchase of a first home after at least 3 years membership of KiwiSaver;
  - serious financial hardship;
  - if the person ceases to become a KiwiSaver member (i.e. permanent emigration or upon death of the member).

Contributions holidays

- Members can stop contributions for up to five years at a time by applying for a "contributions holiday".

- They must be in a KiwiSaver scheme for 12 months before applying for a contributions holiday.

- Contributions resume at the end of the five years unless the member applies for a further "contributions holiday".

- Members will be able to apply for a contribution holiday in the initial 12 month period on the grounds of serious financial hardship.

Employers

- Employers will have responsibility for:
  - distributing an information pack, provided by Inland Revenue, to their employees outlining how KiwiSaver works and where to get advice; and
  - deducting employees' contributions and forwarding them to Inland Revenue along with PAYE.
- Employers will not be required to choose a KiwiSaver scheme provider for their employees to join but they may do so if they wish.
- Employers may make employer contributions to their employees' accounts, with some flexibility over the terms and conditions of those payments.

Payroll subsidy

- The proposed subsidy to payroll agents is designed to meet PAYE-related compliance costs which will help reduce costs for small employers who take up the subsidy.
- It is voluntary and available for employers with up to five employees.

Government contribution

- The Government will make:
  - $1,000 “KickStart” contribution at first joining;
  - a contribution to members' fees- flat dollar amount per member per annum, paid into each member's account(amount to be determined).
  - after 3 years of saving, a one-off first home deposit subsidy of $1,000 per year of membership in the scheme, up to a maximum of $5,000 for 5 years.(e.g. $3,000 from 2010).

Notes:

The fee subsidy can be withdrawn for a first home deposit, along with contributions, but the Government's $1,000 "KickStart" contribution must remain locked in until age 65.

A member can combine with their partner’s first home deposit subsidy e.g. $6,000 after three years up to $10,000 after five years)

Existing Work Based Superannuation Schemes

- Existing registered superannuation schemes will be able to continue operating independently of KiwiSaver, convert to a KiwiSaver scheme or establish a KiwiSaver scheme with their existing scheme under their existing trust deed.

- Members of other schemes may choose to open a KiwiSaver account, instead of or as well as, their existing scheme.

- Employers with a suitable work-based registered superannuation scheme will be able to apply to the Government Actuary for an exemption from the automatic enrolment provisions if it meets the following criteria:

    - Open to all new permanent (including part-time) employees.

    - Portable (members can transfer balances to other schemes upon leaving the employer).

    - The minimum employee contribution combined with the maximum employer contribution is at least 4% of gross salary.

    - Employer contributions vest in the employee within 5 years of the employee becoming a member of the scheme.

NB An exempt scheme only qualifies for the home deposit subsidy for first home purchase.

United Kingdom

The UK Government's White Paper on pension reform – "Security in Retirement: Towards a New Pensions System" – was published in May 2006. The White Paper, building on recommendations made by the Pensions Commission, proposed the introduction, in 2012, of a new system of low-cost personal accounts to encourage retirement saving. People will be automatically enrolled into either their employer's scheme or a new personal account, but with the freedom to opt out. Employers will make minimum matching contributions. In tandem with this, the UK proposes to uprate the guarantee element of Pension Credit and the basic State Pension in line with earnings rather than prices. In addition, the State Pension age will be raised in line with longevity.

It is proposed that employees will contribute 4 per cent of a band of earnings of between around £5,000 and £33,000 a year. Employers will make minimum matching contributions of 3 per cent on the same band of earnings. In addition, a further 1 per cent will be contributed in the form of normal tax relief. It is intended

that employers' contributions will be phased in over three years, at the rate of 1 per cent a year.

Employees will be automatically enrolled into either the new personal accounts scheme or their own employer's occupational scheme (providing it meets a minimum standard). Employees will be permitted to opt out of the scheme and non-employees, including the self-employed and people out of work, will be able to opt into the scheme.

The personal accounts will be operated on a defined contribution basis, and individuals will have appropriate levels of choice in how to invest their funds. In addition, the accounts will be portable between employers, periods of employment, and economic inactivity.

Subject to further consultation, the UK Government is proposing two options for administration of the accounts:

i) The Pensions Commission approach – competition for contracts. Under this option, all personal accounts would be provided by a single organisation with the day-to-day running of the scheme outsourced to a number of pension administrators. Everyone would deal with the NPSS (National Pensions Savings Scheme) and would receive consistent service standards and outcomes. Individuals would be able to make decisions about whether to opt out of the scheme, whether to contribute above the minimum and their preferred approach to investment.

ii) Alternative approach – competition through branded providers. Under this option, rather than a single organisation, a number of pension providers would offer personal accounts. People would be permitted to choose their provider, or else be allocated one.