

Workplace Savings NZ Policy Principles

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Workplace Savings NZ

1. Policy Characteristics

Workplace Savings NZ will support policies impacting on retirement savings, effected through the workplace, that exhibit some or all of the following characteristics:

1.1. has an aim of, and assists in, providing retirement savings on a basis that is:

- sustainable;
- likely to produce an adequate level of income in retirement;
- widely accessible.

1.2. provides certainty and security through a regulatory regime that:

- is simple, clear and understandable;
- is efficient;
- ensures investors are supplied with relevant information so they can readily assess the risk, cost and appropriateness of investment opportunities.

1.3. increases the level of education available to all on investment and retirement issues.

These are the most important criteria against which Workplace Savings NZ will assess policy initiatives from government, its opposition parties, and industry.

2. Adequacy of Retirement Income

2.1. Adequacy Guidelines

Workplace Savings NZ recommends the adoption of national adequacy guidelines for a minimum income in retirement.

3. Structure of the Retirement Savings System

Workplace Savings NZ accepts that there is broad political and community support in New Zealand for a retirement income system (commonly referred to as the “three pillar” system) to achieve the adequacy target which involves:

- Pillar 1** provision of an adequate **public safety net** (New Zealand Superannuation) funded out of general revenue and the NZ Super Fund;
- Pillar 2** encouragement of **a minimum level of retirement savings contribution** (workplace savings schemes, including KiwiSaver) for those in the workforce; and
- Pillar 3** encouragement of **voluntary self-provision**, including savings in KiwiSaver and in other financial services products.

3.1. The aged pension

- 3.1.1. Workplace Savings NZ supports the current universal guaranteed minimum retirement income provided by government (NZ Super) to provide for protection against poverty.
- 3.1.2. Workplace Savings NZ recognises that for most, NZ Super will be an important part of their overall income in retirement.
- 3.1.3. Workplace Savings NZ believes that government involvement in the financing and provision of the safety net provision is essential.
- 3.1.4. Workplace Savings NZ supports debate, in respect of NZ Super, on:
 - the appropriate age of eligibility so as to ensure the sustainability and affordability of universal entitlement on an equitable basis;
 - the level of NZ Super as a % of NAWW, targeting and means and/or asset testing the benefit; and
 - encouraging voluntary deferment of receipt of the benefit by those still in the workforce in return for an enhanced benefit later; and
 - early access, to a reduced level of NZ Super, for those who have attained age 60 and who can no longer work (e.g. manual workers physically incapable). We caveat our support for early access in case such a change created a 'poverty trap' which could lead to an overall increase in social spending by government to support this group.

3.2. Compulsory Pillar 2 savings

Workplace Savings NZ supports the current governments soft compulsion initiative of auto-enrolling into KiwiSaver (on a notified future date) all those in the workforce not currently members of a KiwiSaver Scheme. .

Before proceeding with this exercise, we strongly encourage government to give consideration to lowering the hurdle to KiwiSaver acceptance by amending the law to enable workers captured by this one-off exercise to elect to reduce the required KiwiSaver contribution rates (member and Compulsory Employer Contribution) to 1.0%, with staged uplifts in contribution rates each year thereafter (on a specified date), until contribution rates align with the existing legislated rates.

We also advocate changing the KiwiSaver Act 2006 to provide the opportunity for non-residents to join KS, potentially voluntarily with no required employer contributions (but the option to negotiate) and certainly no Government contributions. We believe this would solve a lot of employment contract issues where super contributions cannot be paid due to not being able to join KiwiSaver.

3.3. Voluntary Pillar 3 savings

Workplace Savings believes voluntary retirement savings should be encouraged. However, that saving beyond the specified minimum KiwiSaver contribution rates should be a matter for individual decision, as should be the choice of retirement savings product.

We strongly encourage government to be even handed with legislation and regulation affecting availability, distribution, disclosure and compliance overhead faced by all forms of retirement savings (financial services) products.

We also encourage, as investor education becomes embedded, broader fund availability (both within KiwiSaver and in other publicly available financial services retirement savings products) options which offer investors complimentary diversity and control. One example of such diversity and choice is enabling the addition of an "unlocked" KS section over and above regulatory minimum contribution rates, rather than supporting the creation of separate products that come with new costs for all concerned.

3.4. Government Co-contributions

Workplace Savings supports the concept of a capped co-contribution by Government to individuals who elect to save in a KiwiSaver scheme. However, we will strongly encourage government to deliver equity by extending this co-contribution to all KiwiSaver members.

3.5. Working with Others

- We strongly support the role of the Retirement Commissioner and the work of the Commission for Financial Literacy & Retirement Income;
- We will willingly work with others, both inside and outside of government, to support and enhance the retirement savings environment.

4. Taxation

- 4.1. Workplace Savings NZ recognizes that governments may have public policy objectives for retirement savings that they consider require tax concessions. Any tax incentives should be easily understood and designed to encourage new savings, not diversion of current savings from products less tax favoured.
- 4.2. Workplace Savings NZ supports reforms of taxation of retirement savings that will reduce both complexity and compliance costs, and increase the fairness of arrangements. Our attitude to any tax reform proposal is dependent on the impact of such proposals on retirement savings and savings more generally:
 - 4.2.1. Workplace Savings NZ does not support provisions which impose undue compliance and administration costs on retirement savings fund providers, their members or participating employers.
 - 4.2.2. Workplace Savings NZ supports realistic timetables that would allow any affected managed investment schemes to adjust their accounting, administration, governance and investment practices if this were required by the new legislation and/or regulations.
 - 4.2.3. When changes are made to the taxation of retirement savings, Workplace Savings NZ supports taking into account the accrued rights and expectations of individuals by the use of transfer values and/or other transitional arrangements. However, while we recognise that 'grandfathering' of accrued rights and expectations satisfies some aspects of equity criteria, such methodologies often introduce other anomalies between individuals of the same and different generations, and have the potential to add complexity and confusion. For those reasons the use of grandfathering should be minimized, and then only if the negative factors are appropriately managed.

5. Post retirement Policy

5.1. Benefits

Workplace Savings NZ supports debate on whether or not encouragement should be given to the payment of retirement benefits as income streams, whether derived from locked-in savings or provided in the form of defined benefit annuities.

5.2. Income streams

Workplace Savings NZ supports simplified rules and equitable tax treatment for income streams in retirement which allow flexibility in product design to meet members' needs.

5.3. Flexible retirement

Workplace Savings NZ supports the introduction of rules relating to paying benefits and accepting contributions for older workers which reduce complexity, improve equity, and increase ease of application for administrators making the rules more applicable for the modern workforce. For example, by removing the prohibition preventing those over the age of eligibility for NZ Super from joining KiwiSaver and benefiting from a well regulated and cost effective investment option for all those in retirement.

6. Governance

- 6.1. Workplace Savings NZ supports the development and implementation of fund governance frameworks for the prudent management of the fund, including assets held in trust, in the interest of the members and their dependents.
- 6.2. Regulation should be efficient, and cost effective, and avoid any unnecessary duplication or overlap of functions between regulators.
- 6.3. Workplace Savings NZ believes that prudential supervision to ensure the safety of retirement savings should be based on a genuine assessment of risks and the adoption of an appropriate and measured response to problems identified. Addressing any problem requires the creation of appropriate and targeted guidance as well as the presence of a pro-active regulator prepared to take action when members' benefits are genuinely at risk, but not otherwise.
- 6.4. Where any licensing requirements or conditions are based on industry codes, such codes should ultimately be enforceable by the regulator.
- 6.5. Workplace Savings NZ supports the registration of trustees and the requirement to maintain practical risk management documentation.
- 6.6. Any regulatory requirements for trustees (e.g. licensing of independent trustees) should not materially undermine the current representative trustee composition of workplace retirement savings schemes.
- 6.7. Workplace Savings NZ believes the regulators must exercise their powers in a transparent and accountable fashion.

7. Consumer Protection

Workplace Savings NZ believes that, to sustain the credibility of the retirement savings industry, the guiding principle for disclosure requirements should target consumer protection. That is the consumer should readily understand what they are getting and what they are paying for it.

Workplace Savings NZ therefore supports:

- 7.1. Consistency, comparability and ease of understanding for the average consumer;

- 7.2. The objectives of disclosure material must be realistic, recognising consumers' willingness and ability to absorb information;
- 7.3. Workplace Savings NZ believes that the most important aspects of managed investment schemes investments to be disclosed are:
 - 7.3.1. The level of risk and the likely returns to be received;
 - 7.3.2. The costs involved.
- 7.4. Disclosure standards should include both point of sale and ongoing disclosure.

8. Electronic Commerce

- 8.1. Workplace Savings NZ supports the move towards electronic commerce with its inherent benefits for administration, compliance and costs.
- 8.2. We support any legislative and/or regulatory reforms that incorporate further enablers of e-Commerce across the retirement savings industry, and in particular for distribution of investor information, that ultimately benefits investors.

9. Custodians

- 9.1. Workplace Savings NZ considers that robust custodian arrangements are an essential component of the retirement savings system and supports direct regulation and licensing of custodial entities.

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