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Pros and Cons of KiwiSaver scheme

KIWISAVER is set to begin on April 1 next year, when every employee starting a new job will be automatically enrolled.

KiwiSaver is not compulsory, with employees choosing to opt in. But because the contributions are paid through the PAYE system, it creates tax risks for the employer.

Contributions under KiwiSaver are locked into the scheme till the employee reaches the retirement age of 65 years. Exceptions include a one-off withdrawal to help buy a first home, financial hardship, death or permanent emigration.

So how good is KiwiSaver as a superannuation scheme? KiwiSaver rules are not locked down yet but it's a step in the right direction. However, as it is aimed at helping first-home buyers, it does not do enough. Approved schemes under KiwiSaver will probably be low-risk and not specific to the needs of the employee saving.

For an employer to opt out of KiwiSaver, they must apply to the government actuary and offer an alternative registered superannuation plan to their employees. Providing a registered superannuation plan is a viable option for employers, and a good one will have the following advantages: low or no establishment fees, a wide range of investments and a diverse range of rated investment managers.

What about the tax advantage of superannuation? In New Zealand this is called salary sacrifice, and the rules surrounding this are changing. The old rules encouraged people to save by reducing the marginal tax on the portion of the income they save through an approved superannuation scheme. The new rules tax the contributions to registered superannuation schemes at existing marginal tax rates for income less than \$60,000. Employees with income of more than \$60,000 a year are taxed at a flat rate of 33 per cent, providing a 6 per cent tax saving on retirement savings contributions if their employer makes the contribution on their behalf.

Salary sacrifice means the individual agrees to a reduction in salary for future work periods, and the employer agrees to contribute equivalent gross amounts to a registered super plan. This should be factored into your employee superannuation scheme.

So now that you want to put in place a superannuation scheme for your employees, what do you need to do? Keep in mind that good superannuation schemes have the flexibility to meet several requirements:

■ **Job mobility:** Increasing numbers of employees are changing jobs more often. A superannuation scheme

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should allow them to continue with the same retirement savings plan if they change employers.

■ **Investment strategy:** A superannuation scheme should let employees have individual investment choices and allow them to choose an investment strategy that suits their needs.

■ **Contributions:** Employees and employers should be able to make contributions to a super scheme.

■ **Business owners:** Employers should be able to be part of the super scheme and have their own plan.

Finally, take advice on what you are going to do. I suggest you speak to your accountant or a financial planner so that they can help you with the development of your super plan.

■ *Hamish Edwards is a chartered accountant and chief executive of Wellington-based business consulting firm Edwards Accounting. For more information on development services for small to medium-sized businesses, see www.thebizcentre.co.nz*