

# Small wedges split great logs

Finsia holds talks with the New Zealand government on New Zealand's retirement incomes policy.

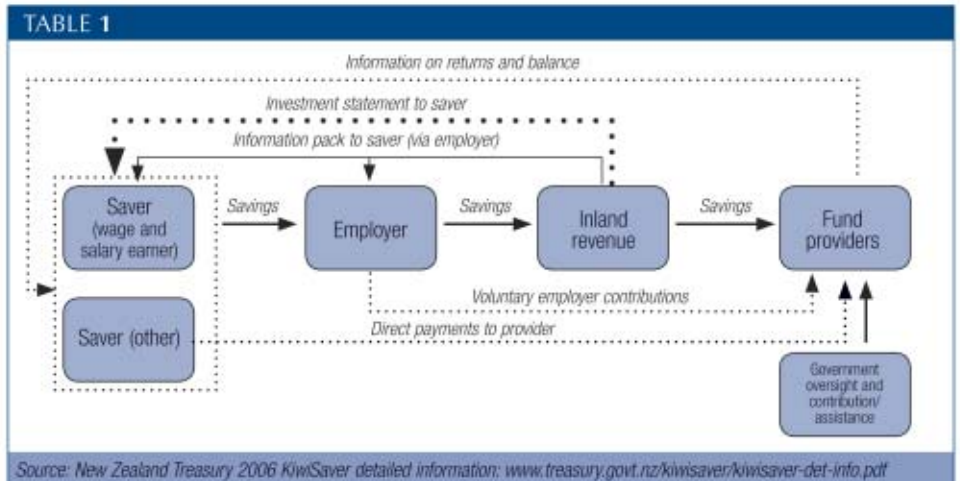
**S**mall wedges split great logs  
Maori proverb

This proverb is just one of many famous quotations published in the 2005 Annual Report of New Zealand's Retirement Commission and highlights the positive focus on financial literacy and retirement planning in New Zealand.

Finsia's first meeting with Ms Diana Crossan, Retirement Commissioner in Wellington in February was one of a host of meetings with government, including the office of the Hon Dr Michael Cullen, Minister for Finance and other key stakeholders regarding retirement incomes policy in NZ. The initial meetings proved productive in terms of consultation on NZ's wider retirement income framework, Finsia's 'Saving the Future: can the under-40s afford to grow old?' campaign and the NZ Government's proposed KiwiSaver Bill which was announced in the 2005 Budget.

The Government's KiwiSaver Bill had its first reading in parliament in March, and is part of a package of government initiatives designed to increase the level of savings by NZ households and support New Zealanders in retirement. In essence KiwiSaver is a government-sponsored, work-based savings scheme (Table 1). The voluntary scheme is for all employees, both full- and part-time, aged 18–65 years. In short, eligible employees can elect to put 4 or 8 per cent of their gross salary automatically into a savings fund (Table 2) with the government kick-starting each person's account with a contribution of \$1,000 (locked away until retirement).

In March the Minister for Finance stated that KiwiSaver, "is the best way ahead ... Workplace schemes have the advantage of reaching a broad section of the population and international research shows more will participate if enrolment in retirement schemes is



**TABLE 2**

**Example:**

The 4% or 8% contribution will be based on an employee's salary or wages before tax. This includes salary or wages and other employment-related taxable allowances such as sums receivable by way of bonus, commission, extra salary, gratuity, overtime or other remuneration of any kind.

<b>For example:</b>	
Employee annual income before tax (gross income):	\$30,000
PAYE*	
15% to \$9,500	\$1,425
21% from \$9,501 to \$30,000	\$4,305
KiwiSaver contribution	
4% of gross income	\$1,200
Total deductions	\$6,930
Net income received by employee (after tax and KiwiSaver contributions)	\$23,070
*Excludes ACC earner premium.	

Source: NZ Treasury 2006 KiwiSaver detailed information: [www.treasury.govt.nz/kiwisaver/kiwisaver-det-info.pdf](http://www.treasury.govt.nz/kiwisaver/kiwisaver-det-info.pdf)

automatic." Indeed, inertia created by "opt in" schemes has been reported internationally. According to the NZ Government the UK Pensions Commission is also considering KiwiSaver in relation to the British pension system. The Minister for Finance has estimated that by 2012–2013, 25 percent of NZ's eligible workforce will have joined KiwiSaver.

The key implications of KiwiSaver for savers and also the government's budget are as follows:

**SAVERS:**

- Participation is voluntary
- Employees are automatically enrolled when they begin a new job and have six weeks in which to opt out
- Contributions will start from the next pay day after week 11 with the employer
- Contributions are deducted from wages at a rate of 4 per cent of gross salary and wages before tax, unless the individual chooses to contribute at the higher rate of 8 per cent

- Those who do not specify an investment product are randomly allocated to a default scheme provider
- Savers can select their own investment product and can change scheme providers, but can only have one provider at any time
- Enrolment is not automatic for workers under 18, or for existing employees, but they can join if they wish – as can other people, such as beneficiaries and the self-employed, although the latter will have to make the payments to IRD or to the provider directly.
- Savings are primarily for retirement and are locked in until the recipient reaches the age of eligibility for NZ superannuation or for five years membership, whichever is the later, except in cases of financial hardship, permanent emigration or, after a minimum of three years, to contribute towards a deposit on a first home
- After 12 months of contributions to the KiwiSaver scheme, all individuals can stop contributions for up to five years at a time.

#### THE GOVERNMENT:

- Makes an \$1,000 kick-start contribution to each member's account, to be locked in until the recipient is eligible for NZS or for five years of membership, whichever is the later
- Will make a contribution towards members' fees
- Offers a first home deposit subsidy of \$1,000 per year of membership in the scheme, up to a maximum of \$5,000 for five years, to qualifying KiwiSaver members after at least three years of saving.

Finsia has been invited to lodge a submission to the Finance and Expenditure Committee by 28 April 2006 and looks forward to providing relevant analysis during the consultation process. KiwiSaver is anticipated to begin operating on 1 April 2007.

For an update on other policy activities in NZ visit the policy page of Finsia's website. [■](#)

## International update

Finsia has been busy in the region, in Korea, Thailand and Indonesia, and this year will host the International Banking Summer School and Senior Business Forum.

In partnership with the Korea Securities Dealer Association (KSDA), Finsia presented a 5-day Advanced OTC Derivatives program in Seoul from 12 to 16 December 2005. The program received excellent feedback from the participants and was based on material sourced from postgraduate and masters subjects. Chris Cossor led the presentations during the training course, which was completed by simultaneous translation, and this provided extra challenges for our presenters. The Korea Derivatives market is the most active in the world and positive response may lead to further training in Korea.

#### THAILAND

With a grant from the ASEAN Australia Development Cooperation Program, Regional Partnership Scheme funded by AusAID, Finsia joined with ASEAN partners the ASEAN Secretariat, SIDC Malaysia and SEC Philippines to provide two training courses for participants in the capital markets in the ASEAN countries.

The jointly developed courses currently approved are Capital Markets Legislation and Supervision and Capital Markets Liquidity Enhancement. The first course on Capital Markets Legislation and Supervision was delivered in Bangkok from 13 to 15 December 2005.

Designing the training program was very challenging and covered the spectrum from emerging through transitioning to developed economies. Finsia's approach was to have all participants complete some pre-course work about the regulatory system in his/her country. The three days involved the use of case studies, hypotheticals and group work to analyse the different regulatory regimes in the ASEAN region with reference to specific case studies provided throughout the three days on the USA, Philippines and Malaysia.

At the conclusion, the feedback was excellent and the Thailand Securities Institute proved a great partner in delivering the course in Bangkok. The next course is scheduled for presentation in Bangkok in April 2006.

#### FINSIA SIGNS MOU WITH MONASH

Monash University's Department of Accounting and Finance and Finsia Education have signed a Memorandum of Understanding that will provide quality training and education to people worldwide in the banking, finance and securities industries. Finsia now provides financial services education and membership services to more than 30,000 professionals in Australia. One of the major objectives of the Monash—Finsia collaboration is to establish a training program for inbound Chinese banking personnel involving intensive classes in Melbourne and in China.

For Monash University this forms part of a Financial Services Education Project that is supported by the Victorian Government's Department of Innovation, Industry and Regional Development. Monash and Finsia will also jointly bid for international aid work funded by agencies such as the World Bank, International Finance Corporation, Asian Development Bank and AusAID.

The Memorandum of Understanding was signed between Professor Kim Langfield-Smith and Brian Salter on Tuesday 28 February at the Windsor Hotel, Melbourne.

#### INDONESIA: ASIAN DEVELOPMENT BANK PROJECT

Finsia has provided a consultant, Sandra Harris, to provide advice on enforcement for the new super regulator being established in Indonesia. Sandra was formerly with the US SEC and brings a wealth of experience to