NEW ZEALAND BUSINESS ROUNDTABLE

Submission on the KiwiSaver Bill

APRIL 2006

Executive Summary

- This submission on the KiwiSaver Bill (the Bill) is made by the New Zealand Business Roundtable, an organisation comprising primarily chief executives of major New Zealand business firms.

- The Bill is the culmination of work started by the Savings Product Working Group (the SPWG) and continues to exhibit the effects of poor problem identification and analysis.

- There has been no change of significance to the SPWG's original proposals and little apparent recognition given to the major flaws in the SPWG's work that have been identified by many commentators. We are therefore obliged to cover again a number of the points that we made in our report to the government on the SPWG's recommendations.

- For example, there is no compelling evidence that people, on average and over time, make irrational savings decisions. The best New Zealand evidence on the adequacy of savings for retirement suggests that there is no widespread under-saving. It was ignored by the SPWG and the 2005 background papers issued in association with the 2005 Budget (the Budget Papers) and now in the Bill's Regulatory Impact Statement (the RIS).

- The Bill is founded on ideas from so-called behavioural economics that purport to 'guide' people into decisions about, in this case, retirement saving that are deemed by the government to be better for them than alternative uses of their money. Insufficient attention is paid to the costs and benefits of government action. It is implausible to suggest that politicians make better judgments about long-term savings than do individual savers who are the same people that vote them into office.

- The current broad approach to the provision of income in retirement, comprising New Zealand Superannuation (NZS) and benefit support funded from general taxation, together with voluntary provision, has been extensively examined and endorsed, for instance by the 1992 Task Force on Private Provision for Retirement and the 1997 and 2003 Periodic Report Groups, and commands wide public support. Some of the parameters of NZS will need to be changed over time, as advocated by the Organisation for Economic Cooperation (OECD) and other organisations, and the process of those changes requires debate.

- A principled argument for abandoning a voluntary approach to private savings for retirement, including workplace superannuation, has not been made by the government in support of the Bill, and we do not believe that such an argument could be sustained.

- Employers and employees should be permitted to agree voluntarily on pay and conditions of work, including whether to provide workplace superannuation. There is no evidence that either employers or employees have difficulties in formulating such mutually agreed arrangements and, even if they did, employees have considerable opportunity to contribute to superannuation schemes independently of their employer.

- Most of the potential members of the proposed "compulsory, opt-out" KiwiSaver scheme would be in debt. In such cases, a strategy of paying off debt would almost certainly yield a higher return than putting money into a superannuation scheme, and it would be less risky.

- The Bill's compulsory KiwiSaver scheme is likely to put at risk existing workplace superannuation schemes, be excessively costly and impose higher compliance costs on employers. We are concerned that there has been no attempt to quantify those risks and costs, nor to justify them.

- The KiwiSaver scheme will generate much costly activity that savers will eventually have to pay for and has the potential to create market distortions that are likely to be more costly than any costs associated with possible under-provision for retirement income.

- We are also concerned that there is no recognition in the Bill of the first steps on the SPWG's "pathway".

1. Overview

1.1. This submission on the Bill is made by the New Zealand Business Roundtable, an organisation comprising primarily chief executives of major New Zealand business firms. The purpose of the Business Roundtable is to contribute to the development of sound public policies that reflect overall New Zealand interests.

1.2. The Business Roundtable has taken a close interest in superannuation issues and in all relevant government reviews undertaken since the mid-

1980s. Government policy on superannuation is a significant issue for superannuitants, people of working age and the wider community.

1.3. We provided a report to the government on the SPWG's proposals[1] and, in that, analysed the proposals in the context of both economic principles and the available evidence. Our key conclusion was that, while aspects of the SPWG report's recommendations (the early steps on the "pathway") deserved investigation, the final step (the "compulsory, opt-out" scheme) had no evidential or policy-based justification.

1.4. We regret that the government seems to have paid no regard to the significant structural and evidential issues that we and other commentators raised in connection with the SPWG's main proposal. We also regret that there has been no subsequent debate on this proposal and that the government had seemingly already concluded, before the SPWG was appointed, that something akin to the KiwiSaver scheme would be the outcome of this process.

1.5. We therefore feel obliged to canvass many of the same issues that we raised on the SPWG's report. The Bill's key foundation is flawed for the reasons that we cover again. We have decided to focus our attention on these fundamental issues rather than offer comment on the details of the way in which the KiwiSaver scheme might be implemented and operated. There are others with superannuation experience who are in a better position to offer detailed commentary.

1.6. The Business Roundtable supports the principle that employers and employees should be permitted to agree voluntarily on pay and conditions of work, including whether to provide workplace superannuation. We therefore oppose the KiwiSaver arrangements and recommend that it should only be implemented where an employer elects to offer it and individual employees choose to participate (rather than be automatically enrolled).

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[1] New Zealand Business Roundtable (2004), *Submission on the Report of the Savings Product Working Group*, New Zealand Business Roundtable, Wellington and Harris, Peter *et al* (2004a), *A Future for Work-based Savings in New Zealand: Final Report of the Savings Product Working Group*, Office of the Minister of Finance, Wellington.

2. Retirement income policy: general issues

2.1. Government policy on superannuation has broadly moved in the right direction over the two decades to the mid-1990s but has since gone backward. Further policy changes will be required. More specifically:

- There is greater understanding now that living standards in retirement are ultimately dependent on the productivity of the economy – not on financial arrangements such as NZS, the New Zealand Superannuation Fund or workplace superannuation.

  New Zealand has a much better structured, efficient and flexible economy, largely as a result of the economic stabilisation and liberalisation efforts of governments in the 1980s and early 1990s. These improvements have led to higher productivity and stronger economic growth. However, the country is still falling well short of its potential.

  Higher rates of economic growth require the adoption of institutions and policies that protect private property through the rule of law, keep levels of taxation and regulation low, pursue stable prices and fiscal discipline, promote open markets and competition, and emphasise rigorous education and the avoidance of welfare.

  New Zealand cannot achieve fast growth with overall government spending (central plus local) at around 40 percent of the economy. High levels of government spending hamper growth through wasteful and poorly targeted programmes and the deadweight costs of taxation. Compulsory superannuation arrangements have many of the characteristics of a tax and would increase deadweight costs. Unless the economy grows faster, the goods and services needed by the increasing proportion of the population that is elderly will not be available.

- There is broader acceptance today that the provision of retirement income should be a personal rather than a taxpayer responsibility for the majority of people.

- NZS is the dominant superannuation policy. The cost of NZS has been reduced by increasing the age of eligibility and reducing its level relative to wages.

There is not much scope to reduce the level of NZS further without creating hardship, but the ratio of NZS to average earnings could be allowed to decline over time as incomes grow. The 1988 Royal Commission on Social Policy recommended that NZS should be aligned with the Invalids' Benefit, and the age pension is aligned with the disability pension in Australia.

The level of NZS directly affects the incentive to save privately for retirement. Since many people regard the present level of NZS as adequate relative to living standards in their working years, it is no surprise that they do not save more themselves – the government is committed to doing the job for them. The level of NZS in relation to average earnings is an issue that must be addressed if greater self-responsibility is to be achieved.

NZS is now paid on a universal basis rather than according to need. The long-run tradition in New Zealand since old-age assistance was introduced in the 1890s has been for retirement income benefits to be subject to income and (sometimes) asset tests. There are no good grounds for requiring the general taxpayer to subsidise people with high incomes or substantial assets, as the 2003 Periodic Report Group (PRG) observed.

General economic growth has brought higher incomes and longer life expectancy. It has allowed many people the choice of ending their working lives and retiring on their own savings. People should be free to retire when they choose, but societies with ageing populations are not going to be able to underwrite their living standards on the present basis.

It would make sense to decide well in advance to raise the qualifying age for NZS further, and perhaps to index it to increases in life expectancy. Those unable to continue working should be supported by benefits (such as the Invalids' Benefit).

- Forced savings proposals like the 1997 compulsory retirement savings scheme (RSS) do not withstand intense scrutiny and debate. The RSS was overwhelmingly rejected in a referendum.

- The tax treatment of superannuation funds and savings schemes has been placed on a more neutral basis (with some distortions).[2] Lower and more uniform rates of tax, as recommended by the Tax Review 2001, are the key to reducing the tax burden on savings. Over the last couple of decades, official reviews of superannuation and taxation arrangements have consistently recommended against tax concessions for savings. Other subsidies have not been proposed. Subsidies for workplace savings, which are now included in the KiwiSaver Bill, are euphemistically called "sweeteners".

- Excessive regulatory burdens discourage workplace and other superannuation and savings schemes. Policy-induced impediments to private saving, especially a high overall tax burden, should be reduced to give people more scope to save from after-tax income. Improvements in employment law to promote high levels of employment, more restrictive welfare policies and reduced regulatory burdens – including on the savings industry – also have a role to play in promoting private saving.

  The SPWG suggested a “pathway” that should include a review of regulatory arrangements with the aim of developing a more simplified, flexible and consistent regulatory regime (step 2). In our 2004 submission, we endorsed that objective (and still do) and note that the Bill and the Budget Papers ignore those earlier stages of the “pathway”.

  The Bill will impose heavy-handed regulation on superannuation and saving schemes and, to a lesser extent, employers. Existing workplace superannuation schemes could be put at risk.

2.2. The present level of NZS is at least adequate. Superannuitants may also qualify for supplementary support such as housing assistance. There is no significant problem of old-age poverty as was the case in earlier times. There is little pressure to increase NZS beyond the current ’65 (percent of average net weekly earnings) at 65’ level[3].

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[2] For example, higher rate taxpayers pay lower taxes on contributions, lower rate taxpayers may pay more than their marginal rate on a scheme’s investment income (to be partly addressed by changes in the taxation of ‘collective investment vehicles’) but income-tested benefits and family assistance are not abated for income earned through a superannuation fund. Similarly, such income is not taken into account in computing student loan repayments.

[3] Leaving to one side what seems like a relatively temporary increase to 66 percent that resulted from the coalition agreement that formed the present government.

2.3. Employers and employees have incentives to enter into efficient remuneration arrangements. Around half of large employers deduct employee contributions to workplace or retail superannuation or other savings schemes from their wages. Employees who value such arrangements are likely to be attracted to firms that offer them. If other firms believe that their ability to recruit and retain staff is adversely affected by the absence of workplace superannuation or deduction facilities they would be encouraged to put them in place. Thus, given the regulatory environment, the absence of workplace superannuation can be assumed to reflect the preferences of employers and employees. People's preferences on many matters differ, as a casual survey of the range of vehicles in workplace car parks would illustrate.

2.4. Employees who cannot have superannuation contributions deducted from their pay can arrange automatic transfers from the bank account into which their income is paid. So, even where workplace superannuation and the deduction of contributions to retail superannuation schemes are not presently available, employees can arrange so-called ‘painless’ ways of contributing to superannuation schemes if they wish. In fact, 364,000 New Zealanders belong to retail superannuation schemes.[4]

2.5. Superannuation arrangements, other than the safety net provided by NZS and the benefit system (for those who do not qualify for NZS), should be a matter of personal responsibility and should therefore be voluntary for employers, employees and other people. Every official review of superannuation arrangements conducted in the last 25 years has rejected the introduction of compulsory superannuation. Compelling employers to provide workplace superannuation, employees to contribute (even for a limited period), or both as proposed by the Bill, involves an unjustified intrusion into people's lives.

2.6. Voluntary arrangements provide the only effective means of ensuring that any generic workplace superannuation scheme that is developed is efficient. A compulsory scheme, like KiwiSaver, designed by a committee, officials or both, reflects political interference, lobbying by interested parties, information problems and weak incentives. As in other areas,

[4] Report of the Government Actuary for the year ended 30 June 2005. Over the 14 years to 31 December 2004, total memberships of superannuation schemes have grown by 18 percent from 547,353 to 644,493. We understand there is some double counting in those numbers and that many members are over age 65. However, that has always been the case.

competition is vital to promote efficiency, including cost containment and innovation over time.

2.7. The KiwiSaver scheme may well prove to be a Trojan horse for a compulsory scheme along the lines of the 1997 RSS. The risk is that an opt-out provision may turn out to be unduly costly and administratively complex, and is later removed or significantly tightened in the interests of simplification and lower compliance costs. The RSS had an opt-out provision but it was set at an aggregate level of savings broadly equivalent to the present value of NZS at age 65 (perhaps $130,000 to $140,000 today).

2.8. The balance of this submission is presented in four sections. The next section (section 3) summarises the KiwiSaver Bill's key proposals. The policy context, focusing on whether there is a saving problem and the apparent emphasis on findings from behavioural economics, are examined in sections 4 and 5. We have not examined the detail of the KiwiSaver scheme outlined in the report because it is based on a faulty analysis and unsound foundations. However, we comment on aspects of the scheme of the Bill in section 6. Our conclusions and recommendations are contained in section 7.

3. Summary of the KiwiSaver Bill

3.1. The KiwiSaver Bill proposes the establishment of a regime that will apply to all new employees after 1 April 2007 (existing employees can "opt-in"). The key features of KiwiSaver are as follows:

- Unless affected employees opt-out within 2-6 weeks of starting work, they will be joined up to a KiwiSaver scheme provided by the employer's "preferred provider" (if present) or by a national "default provider" allocated by Inland Revenue.

- National "default providers" will be chosen by "competitive tender" and will probably be 4-6 in number. The minimum number of "default" providers is set at one in the Bill and the maximum number can be prescribed by regulation.

- An employer may provide its own KiwiSaver product but that seems unlikely. An employer may also become an "exempt employer" if it has a scheme that meets minimum standards. It is not obvious why an employer might want to do that.

- Once joined to a scheme, the member must start contributing after 77 days from becoming an employee and cannot stop contributing for at least 12 months (except on some closely prescribed grounds). There are two contribution levels (4 percent or 8 percent of gross taxable remuneration) and the KiwiSaver scheme must offer a "low risk" investment option. If the member does not choose an investment option, the scheme will invest the member's contributions in the "low risk" option. The scheme can offer other options.

- Having contributed for at least the first 12 months, a member can go on a perpetually renewable "contributions holiday" of five years at a time.

- Members cannot access savings until they attain the NZS qualifying age, currently age 65, unless they suffer "serious financial hardship" as defined in the Bill (with a minimum period of membership of five years). The benefit can be paid as a lump sum.

- A "first home" purchase facility must also be offered by a KiwiSaver scheme. The member must contribute for at least three years to qualify and up to five years' contributions qualify for the subsidy described next. Complex controls will be applied to "approved" first homes based on maximum family incomes and ceiling house prices that will be calibrated regionally.

- Taxpayers will subsidise members of KiwiSaver schemes in four ways:
  - an initial "sweetener" of $1,000 that will be added to members' accounts when contributions first start;
  - an unstated, but probably modest, annual subsidy to members – possibly of the order of $1 a week;
  - $1,000 for each year of contributions (between three and five) will be provided towards the purchase of the member's

first home. If the member takes up that option, the $1,000 initial "sweetener" cannot be withdrawn; and

- administration costs incurred by Inland Revenue Department and other government agencies. The government estimates the total fiscal cost of the scheme to be $700 million up to 2009/10 (including the costs of the subsidies to members). In addition, there will be significant costs thereafter.

- KiwiSaver schemes will operate under the current superannuation regime and will be approved and administered by the Government Actuary under the Superannuation Schemes Act 1989.

3.2. KiwiSaver will begin on 1 April 2007. Under separate tax changes, all KiwiSaver "default" schemes must be "qualifying collective investment vehicles", offering "look through" tax treatment to members with taxable incomes of less than $48,000 a year.

4. Policy context

Is there a saving problem?

4.1. Clause 3(1) of the KiwiSaver Bill states:

> (1) The purpose of this Act is to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits.

4.2. Clause 3(1) pre-supposes the following problems with present arrangements:

- individuals are either incapable of deciding what to do about their long-term savings' habits or the decisions they have made to date do not conform with a 'central' view of what should happen;

- individuals seem similarly incapable of making appropriate decisions about asset accumulation issues;

- there is a 'central' view of how much individuals should be saving in order to ensure an 'appropriate' continuation of "standard of living in retirement";

- KiwiSaver will fix these difficulties by, in the words of subclause 3(2), facilitating “individuals’ saving, principally through the workplace.”

4.3. But, is there a saving problem? There are two key aspects to this question. First, it is sometimes argued that New Zealand has a shortfall of aggregate savings which constrains investment and hence the growth of output. Secondly, it is claimed that individuals are saving too little for their retirement. The SPWG, for instance, stated that "younger generations will enter retirement in a significantly worse financial position that their predecessors".[5]

4.4. The proposition that national savings are inadequate and therefore the government should take steps to increase savings for retirement is doubtful for the following reasons:

- There is no compelling evidence that aggregate savings are too low. The most exhaustive attempt to assemble evidence on New Zealand's savings level and trends is contained in a 2002 paper by Iris Claus and Grant Scobie.[6] They highlight problems with the measurement of savings and the difficulty of drawing clear implications for policy. Claus and Scobie made the following points:
  - Saving is difficult to measure (in New Zealand and elsewhere) because of factors such as hidden economy activities, depreciation (which is an unobserved variable), and the difficult distinction between households and businesses.
  - In New Zealand, national saving is calculated from two sources of data: (i) from the national income and outlay account as the difference between disposable income and total consumption expenditure, and (ii) from the flows of investment and net lending in the capital finance account. Definitional changes can have large effects, as illustrated by the revisions to national savings from SNA68 to SNA93.

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5 Harris, Peter *et al* (2004b), 'Questions and Answers Prepared by the Savings Products Working Group', Office of the Minister of Finance, 15 September, p 1.

6 Claus, Iris and Scobie, Grant (2002), *Saving in New Zealand: Measurement and Trends*, Working Paper 02/02, The Treasury, Wellington.

- In the national accounts, household saving is obtained from the income and outlay accounts only, and does not have the same degree of accuracy as the national saving rate. (Household savings are also derived from the household economic survey.)

- Saving as measured in the national accounts does not correspond very closely to theoretical concepts of saving. This measure also counts as current consumption many items such as education, some health expenditures and consumer durables which are arguably investment goods. Adjusting for such treatment substantially raises the national saving rate.

- The flow measure also ignores changes in household wealth such as those arising from changes in the value of homes and financial assets. The alternative stock measure of household wealth is more relevant for assessing the adequacy of retirement saving, but little information is available on the assets and liabilities of individual New Zealand households. The wealth survey initiated by the Office of the Retirement Commissioner (see below) is helping to fill this gap. (Estimates for the United States suggest that if realised and unrealised capital gains were included in savings, the US saving rate would actually have increased during the 1990s.) We understand there is work now being carried out on this topic and, when it emerges, it will deserve full debate.

- Unanticipated inflation also distorts the flow measure of private saving, as it transfers resources from lenders to borrowers. When adjustments for inflation are made, there has been no apparent downward trend in the level of private savings in New Zealand and, more importantly from an economic perspective, national saving rates could be much higher than suggested by the conventional measures.

• Provided sound fiscal and monetary policies are pursued, the level of national savings will generally reflect people's preferences for current and future consumption (that is, their discount rates). The level of investment will reflect judgments by individuals and private firms on the number of profitable investment opportunities in New Zealand relative to that of the rest of the world. The welfare of savers and investors would be diminished if their preferences were interfered with other than for valid public policy reasons.

- Government policy aimed at changing the level of savings via superannuation arrangements is more likely to alter the form of savings than the aggregate amount of savings. KiwiSaver members, for instance, could be expected to divert savings that would otherwise be made, such as the repayment of debt and contributions to retail superannuation schemes, to the compulsory scheme. The increase in net savings is likely to be substantially less than the gross level of KiwiSaver savings.

- The government should focus on all savings rather than savings for a single purpose if it wishes to raise the aggregate level of savings. It is plausible to suggest that the savings ratio is being depressed by (i) income tax, (ii) the form of the welfare safety net, and (iii) NZS. Lower government spending and hence lower taxes would help to promote saving. Another efficient way of encouraging savings might be to reduce income tax relative to GST. Unlike GST, income tax tends to discourage saving relative to current consumption. Excessive welfare programmes discourage saving by reducing the need for private savings in the event of unemployment, ill health or accident, and by requiring higher marginal tax rates than otherwise. While the SPWG may not have been "aware of any evidence that suggests New Zealand Superannuation is a disincentive to other forms of saving", standard economic analysis indicates that the level of private saving by those on modest incomes is likely to be lower than otherwise.[7] High saving rates recorded by some Asian countries may well be explained by low taxes, limited welfare support, a young population and fast economic growth.

- There are no valid grounds to favour long-term savings relative to other savings. Financial markets enable savings of different

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7 Harris *et al* (2004a), p 11. For a discussion of the research in a New Zealand context, see Scobie, Grant M and Gibson, John K (2003), *Household Saving Behaviour in New Zealand: Why do Cohorts Behave Differently?*, Working Paper 03/32, The Treasury, Wellington, pp 22-25.

durations to be matched with the lending terms desired by borrowers. This is illustrated by an investment in a company. Although the ownership of a share may change many times within a year, the company retains the capital initially subscribed. This allows long-term capital spending to be financed by short-term investors.

- Higher domestic savings do not automatically translate into increased output. Savings must be invested. Higher investment will only increase output in the future if it yields an appropriate return. Some centrally planned countries like Albania, Russia and China recorded high saving rates for certain periods, essentially by constraining the supply of goods and services, but abysmal growth in output. On the other hand, the United States and South Korea are countries that have achieved high growth with relatively low savings. New Zealand has undertaken considerable investment but it has not always obtained commensurate increments to its output. Some of the most poorly directed investment arose from inefficient government policies and investment programmes. Moreover, higher levels of investment, if sustained, imply larger provisions for depreciation or the consumption of capital. They may lead to an increase in the level of output but not to an equivalent increase in the rate of growth.

- Funding for investment is not limited to domestic saving. Firms, banks and other borrowers have access to world capital markets. There is no evidence of a lack of capital to fund profitable investment projects. On the contrary, a sustained period of relatively low interest rates suggests that world-wide savings are plentiful. This has led some respected experts to speak of a savings glut.

4.5. The second proposition, that individuals are saving too little for their retirement, is also doubtful for the following reasons:

- The Taxation Review 2001 reported:

> [W]hen looking at the impact of savings on the current and future well-being of New Zealanders, the most relevant measure is national savings; that is, the sum of private and government savings. On examining the available evidence

> and the reasons why people save, it was not clear to us that New Zealanders save too little ... [8]

Although a number of submissions disputed this conclusion:

> None … cited any supporting evidence other than a claimed consensus among relevant experts that there is a problem.[9]

- The Taxation Review's finding is consistent with recent research by Scobie, John Gibson and Le Trinh, which drew on the results of a household savings survey.[10] They examined whether people were on average saving sufficiently to be able to maintain their real pre-retirement level of consumption in retirement. The researchers assumed (among other things) that NZS is retained in its present form, people retire at age 65, their current equity in their principal residence is not realised to fund consumption, and life expectancies are known with certainty.

  Scobie, Gibson and Le report:

  > Typically we find that the actual saving rates do in fact exceed the rates needed for maintaining living standards in retirement. This reinforces our tentative conclusion that there is no apparent gross under-saving for retirement especially in the older age cohorts.
  >
  > The results apply to broad groups within which there will be a distribution of people some of whom would likely not be saving at a rate to maintain their real standard of living in retirement. The results in no way imply that every individual is saving “adequately”.

  Here, in a bit more detail, are the authors’ main conclusions:

  > **Little evidence of undersaving:** Tentatively, there is little evidence that New Zealanders are under-saving for retirement.
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  > **NZS plays a crucial role:** NZS plays a crucial role in this conclusion – a significant proportion of New Zealanders’ expected retirement wealth is in the payments of NZS that they will receive.

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8 McLeod, Robert *et al* (2001), *Tax Review 2001: Final Paper*, Office of the Minister of Finance, Wellington, p 93.

9 *Ibid* p 93.

10 Scobie, Grant M, Gibson, John and Le, Trinh (2004), 'Saving for Retirement: New Evidence for New Zealand', Working Paper 04/12, The Treasury, Wellington. This work and other related work has now been collected and refined in Scobie, Grant, Gibson, John and Le, Trinh (2005), *Household Wealth in New Zealand,* Institute of Policy Studies, Wellington.

Consistent results across different groups: There is little difference in average net retirement wealth across males and females and little difference across the age cohorts in projected retirement wealth (including, again, current levels of NZS). Both these conclusions were unexpected – until now, received wisdom was that females would have less net retirement wealth (low lifetime incomes and long retirements) and also that older employed New Zealanders (the “selfish generation”) would be better off than younger New Zealanders.

Possibly saving more than needed: Based on indications of actual saving behaviour from the separate *Household Expenditure Survey*,[11] New Zealanders may be saving, on average, a little more than they need to smooth consumption from work to retirement, assuming that NZS stays at current real levels. The conclusion also broadly applies if the NZS age were either reduced to 62 or increased to age 68. There are expected differences in these two cases but they are relatively insignificant.

A conservative approach to ‘quantum’: The "excess" savings (noted in conclusion 3.5.4) could be seen as precautionary in that people don't know exactly when they are going to retire, how long they are going to live or what their health will be like after they retire. So having a bit ‘in reserve’ makes sense.

Those who can’t shouldn’t: Those who can’t or aren't saving really don't need to. The poor can’t afford to save and are, in any event, looked after by the state, based on the consumption test adopted in the research. At the other end, the rich don’t need to save. They already have enough put aside for

11 Available on the Retirement Commission’s web site at www.retirement.org.nz.

retirement, and anyway we do not need to worry too much about them.

Scobie, Gibson and Le emphasise that their conclusions are tentative because the data could have both a greater quality and depth. That may be a reason for the very conservative nature of the assumptions they adopt – for instance, the level of consumption in retirement is often assumed to be lower than in work.[12] However, their conclusions are not really breaking new ground – they are consistent with the life cycle model, which is a widely accepted analytical basis for examining such questions. They are also consistent with the view, dating back at least to Adam Smith, that ordinary people normally understand their own interests better than politicians or other third parties.

Some suggest that even if Scobie, Gibson and Le are right in concluding that New Zealanders are saving enough for retirement, the government should still seek to increase the rate of savings on the grounds that it would be better to err on the high side and for people to end up richer rather than poorer in retirement. This argument is false because it ignores the cost of doing so, in particular the required reduction in current consumption by present employees and their dependants. These include those on low or modest incomes who have difficulties in making ends meet and face other immediate priorities for spending. It also ignores the potential cost to the country of a possible misallocation of resources. A similar conceit – that 'the government knows best' – underlay the Think Big programmes.

- A study by Claus and Scobie showed that the ratio of household savings to disposable income, using household economic survey data, has increased quite strongly since the mid-1980s. This is broadly consistent with a Reserve Bank study which showed that the ratio of household net wealth to disposable income increased from 282 percent to 537 percent between 1979 and 2004.[13] However, national income and outlay data suggest that the rate of

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12 Other conservative assumptions included no capital gains in net housing wealth; business and financial assets growing at 2 percent a year; no change in the values of farms or other property and no change in "current" savings behaviour.

13 Reserve Bank of New Zealand, 'Household Financial Assets and Liabilities to December 2004', Table 4, www.rbnz.govt.nz/statistics/monfin/household.html.

household savings has declined. However, until the data are reconciled, uncertainty about savings trends will remain.[14]

- Scobie and Gibson examined the saving behaviour of different age cohorts. They found that lifetime saving rates were the lowest among today's superannuitants (that is, those born in the 1930s). The mean saving rate increases monotonically across the more recent age cohorts until it peaks with those households headed by someone from the 1970-1974 birth cohort, where it is 28 percentage points above the reference group (1910-1914). Thus people who are yet to retire and who are still at the peak age for saving had higher lifetime saving rates than their parents and grandparents.[15]

- KiwiSaver's supporters assert that future generations will retire with even less net wealth than present retirees. That is, indeed, the unspoken assumption in the Bill's stated "purpose" – we have already commented on this in paragraph 4.2 above. We know of no research to support that claim. It assumes a reversal of the experience of successive age cohorts from the 1930s. With growth in real income per capita, each generation has a higher lifetime income (wealth) than the previous generation. There is no compelling reason why successive generations would choose not to use some of their additional wealth to enjoy a higher level of consumption in retirement. Over the past 100 years, increases in productivity and life expectancy have been accompanied by a marked reduction in aggregate working hours and a longer average period in retirement. Retirement other than for health reasons was rare just two or three generations ago. This suggests that people have not allocated their higher lifetime income entirely to increased consumption and leisure during their working years.

4.6. Increasing workplace superannuation alone will not, in any event, fix whatever the problem might be with New Zealanders' saving behaviour. That is because such savings will to a large extent replace other forms of savings. At a public presentation in Wellington[16] the then associate

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14 Claus and Scobie (2002), *op cit*, pp 9-10.

15 Scobie and Gibson (2003), *op cit*, p 11.

16 *The Politicians at Our Place*, a presentation by each political party's representatives before the 2005 election to a conference organised by the Association of Superannuation Funds of New Zealand (August 2005).

minister of finance David Cunliffe cited the report on wealth ownership by David Skilling and Arati Waldegrave of the New Zealand Institute.[17] He said, in response to a question that he preferred the work of the New Zealand Institute to that of his own Treasury officials (already referred to). However, the New Zealand Institute's work in this area is weak on analysis. The goal should be to increase the overall welfare of New Zealanders. An increase in national income may be consistent with that goal but measures that make it harder for people to service their mortgages or fund their businesses may reduce welfare. Some people, especially those on low incomes, may well prefer higher current consumption to saving. Neither study warrants the following conclusion drawn by the SPWG and on which the whole KiwiSaver proposition is founded:

> There is sufficient evidence and opinion to lead us to conclude that there are public policy, personal and commercial benefits to justify a reasonably concerted programme of mutually reinforcing measures to lift work-based savings.[18]

4.7. We note that the Regulatory Impact Statement in the KiwiSaver Bill[19] has significantly weakened the key conclusion of the SPWG on this central point. It states:

> …there is a risk that some New Zealanders may not own sufficient assets nor save enough to meet their objectives specifically for retirement. A changing environment creates the risk that many New Zealanders will not be able to maintain their current living standards in retirement and are less able to weather adverse circumstances in their lives, contributing to a lack of security, independence, and control. Government action is desirable to contain this risk and facilitate a mechanism for New Zealanders to meet their savings objectives.

We have detailed the only credible New Zealand research that is available on these issues and none of the justifications for the KiwiSaver intervention cited in the Regulatory Impact Statement is justified by that research.

4.8. We note, with considerable concern, that the only supporting research cited in the Regulatory Impact Statement itself was two *vox populi* surveys conducted by New Zealand financial service providers and a further survey conducted in Australia that reflects Australians' attitudes to Australia's compulsory saving arrangements. These surveys, even if relevant, are notoriously unreliable as they ask people what they think rather than, as

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17 Skilling, David, and Waldegrave, Arati M (2004), *The Wealth of a Nation: The Level and Distribution of Wealth in New Zealand*, Discussion Paper 2004/1, New Zealand Institute, Auckland.

18 Harris, Peter *et al* (2004a), *op cit*, p 23.

19 The KiwiSaver Bill at pages 30-31.

with the previously cited research, examine what people are actually doing.

4.9. The only other supporting data are references in the Regulatory Impact Statement to:

- disputed Census data on seemingly falling household ownership rates (but no indication that there are doubts about those data);
- falling participation rates in workplace superannuation schemes (with no reference to rising retail superannuation participation rates);
- work by the Retirement Commission in 1996 on individuals' knowledge of retirement issues (but no reference to the impact of the Retirement Commission's work in the 10 years since that survey was carried out).

4.10. None of the work that we have summarised in detail in paragraphs 4.4 and 4.5 above is discussed in the Regulatory Impact Statement, let alone rebutted. This is a poor analytical basis on which to found KiwiSaver and will inevitably lead to future change. If there is no present problem then KiwiSaver will, at great expense, change nothing other than, arguably, negatively. That will lead to calls for further intervention to justify KiwiSaver's operating costs.

4.11. The government is now gathering better data on saving and the survey of family income and employment (SoFIE) being conducted by Statistics New Zealand has completed gathering the first tranche of data in an eight-year longitudinal study. This will be the best New Zealand survey of its kind (and, possibly, in the world) and will track an initial 15,000 New Zealanders over an eight-year period. SoFIE can reasonably be expected to provide a wealth of data on which to better assess the extent of any savings problem.

4.12. In summary, although there are uncertainties about the level of saving, the best information is that New Zealanders generally seem to be behaving rationally. At worst, therefore, the KiwiSaver Bill addresses a problem that we do not have. At best, it addresses a problem whose extent and character is undefined and unexamined. The rational approach of asking what adverse effects existing government policies – eg on taxes and welfare – might have on people's savings and retirement decisions was not followed.

5. Behavioural economics

5.1. New Zealand's public policy head has been turned by the results of studies from the United States based on "behavioural finance".[20] They seem to show that ordinary employees don't understand what decisions to make about workplace schemes (for example, whether to join; how much to contribute; and what investment strategy to choose).[21] Too much choice is seen as preventing employees from making any decisions, never mind making appropriate decisions. The research typically shows higher rates of joining if employees are 'guided' by default choices – to join; to pick a 'realistic' contribution level and a 'sensible' investment strategy – but then to give employees the opportunity to change those decisions. Again, the research typically shows that employees tend not to move away from the default selections.

5.2. In the New Zealand context, there are two flaws that will follow from importing the US research uncritically:

- **New Zealanders are probably saving enough:** We have already shown that New Zealanders may already be saving enough for retirement. Based on the preliminary research, it seems that we might not need the helpful 'guidance' of the "compulsory, opt-out" KiwiSaver.

  Interestingly, this flaw was not even referred to in the SPWG's report that recommended the KiwiSaver framework, nor in the Budget Papers that accompanied the 2005 announcement of KiwiSaver. Apparently, low participation rates in workplace schemes were evidence enough that New Zealand employees (and employers) were behaving inappropriately. The authors of the SPWG report have since been unable to justify this curious gap. The government has not tried to justify it either.

- **The tax and subsidy issue:** In the United States, workplace superannuation schemes are heavily tax-subsidised. It is not hard to demonstrate that an employee who does not join a workplace

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20 See, for example, Mitchell, Olivia S and Utkus, Stephen P (2003), *Lessons from Behavioral Finance for Retirement Plan Design*, Pension Research Council Working Paper, University of Pennsylvania, Philadelphia.

21 One of the reasons the decisions seem so complex in countries like the United States is the plethora of rules created by increasingly complex tax and regulatory environments. That is a problem New Zealand savers do not presently face but that is changing for the worse over time.

scheme will be worse off financially than one who does. That is particularly the case where the employer subsidises contributions to the scheme, as is often the case in the United States. If the employee did not join, he or she would miss out on part of the available remuneration. Despite that, many make the seemingly irrational decision not to join or, more accurately, fail to make the decision to join. Their preference for higher income in the immediate future may outweigh their assessment of the benefits of higher income in retirement.

Because of our unique TTE income tax environment, the same is usually not the case in New Zealand (joining being unquestionably good). First, there are none of the generous tax concessions available in the United States. Secondly, workplace schemes, even if available, are not always subsidised. Probably only one third of all New Zealand employees even have the opportunity of joining a workplace scheme, subsidised or not. There is to be no requirement for employers to subsidise their employees' contributions to KiwiSaver (as has been recommended for the equivalent arrangement in the United Kingdom).[22] In fact, the only subsidies will come from taxpayers in the shape of the "sweetener" (the opening $1,000), ongoing administration fee subsidies, the capping of the tax rate on earnings within superannuation funds at 33 percent and the abatement of income-related assistance.[23]

Lastly, under New Zealand's tax-neutral TTE regime, an employee is almost always better off repaying private debt, such as house mortgages (where, again, there are no tax preferences for interest payments, unlike in the United States) rather than saving through a workplace scheme. The only exception to this general rule is where the workplace scheme is subsidised. As stated, that is relatively uncommon. So, it would be possible to measure the financial loss to employees each year after the first 12 months'

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22 The second report issued by the Turner Commission recommended that, if employees join, they must contribute the equivalent of 4 percent of their pay above a threshold and the employer must then contribute 3 percent to a new 'National Pension Savings Scheme'. A benefit worth about an additional 1 percent of pay will come from tax relief. See Turner, Adair *et al* (2005), *A New Pension Settlement for the Twenty-First Century,* www.pensionscommission.org.uk.

23 The government has estimated that KiwiSaver will cost about $167 million in each of the first three years (0.1 percent of GDP) and $100 million a year after that (*Budget 2005 Savings Package: Work Based Savings Scheme*, Budget Paper 6 April 2005). That is likely to be a significant under-estimate but no one really knows what might happen as no survey work has been done on the likely take-up or ongoing costs.

membership by remaining a KiwiSaver contributor rather than repaying debt, despite the “sweetener” and other subsidies noted above. Unfortunately, again, this issue was not even mentioned by the SPWG’s report, nor by the 2005 Budget Papers, nor the Bill’s own Regulatory Impact Statement.

5.3. KiwiSaver appears to rely heavily on the ‘lessons from psychology’, or where ‘psychology meets economics’, to endorse the following findings that are attributed by the SPWG to a literature survey by Olivia Mitchell:

> People tend to save less than they objectively calculate they need to save …
>
> Restrictions on withdrawals can be an effective counter to lapses in willpower …
>
> While choice in theory is good, there is a risk of "choice overload", particularly with investment options, where many people lack confidence to make decisions and workers taking a "can't decide, therefore don't join the plan" attitude …[24]

Mitchell is reported to have observed that:

> [I]t is because retirement savings decisions are at least an order of magnitude more complex than other economic decisions, that people need help.[25]

5.4. Even if these views could be translated uncritically into the New Zealand environment (paragraph 5.2 suggests that is not possible) they are paternalistic and do not constitute an argument that people cannot find help from private sources without coercion or encouragement. The idea that findings from behavioural economics, which underpin KiwiSaver, warrant a move away from voluntary arrangements is also doubtful for the following reasons:

- Colin Camerer *et al*, who advocate regulation designed to address individual biases reported in behavioural research, note that such regulation may be harmful:

  > Recent research in behavioural economics has identified a variety of decision-making errors that may expand the scope of paternalistic regulation. To the extent that the errors identified by behavioural research lead people not to behave in their own best interests, paternalism may prove useful. *But, to the extent that paternalism prevents people from*

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24 *Op cit* pp 16-18.
25 *Ibid* p 18.

> *behaving in their own best interests, paternalism may prove costly*.[26]

All forms of compulsion run this risk. KiwiSaver might even prevent people from behaving in their best interests.

- Consistent with the risk identified by Camerer and his colleagues, Cass Sunstein and Richard Thaler, leading behavioural economists, make the case for reflecting the findings from behavioural research without restricting freedom of choice:

  > Often people's preferences are ill-formed, and their choices will inevitably be influenced by default rules, framing effects, and starting points. In these circumstances, a form of paternalism cannot be avoided. Equipped with an understanding of behavioral findings of bounded rationality and bounded self-control, libertarian paternalists should attempt to steer people's choices in welfare-promoting directions without eliminating freedom of choice.[27]

  While this may justify the Bill's proposal of allowing new employees to opt-out within 2-6 weeks of starting work, it does not justify forcing a KiwiSaver member to contribute for at least 12 months, once they join whether by choice or by default.

- Shlomo Benartzi and Thaler advocate a savings scheme, 'save more tomorrow', which is based entirely on voluntary arrangements.[28] Their conclusion that employee savings schemes advance the welfare of employees, like much behavioural research on retirement savings in the United States, is influenced (as already noted) by employer contributions and tax concessions. These factors may encourage some researchers to conclude that they know what is in the best interests of employees. Benartzi, who visited New Zealand in 2004, said that his message should be changed for New Zealand from 'save more tomorrow' to 'pay off more [debt] tomorrow' because this is a more profitable strategy in New Zealand given the absence of tax inducements for saving (see below).

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26 Camerer, Colin, Issacharoff, Samuel, Loewenstein, George, O'Donoghue, Ted and Rabin, Matthew (2003), 'Regulation for Conservatives: Behavioural Economics and the Case for "Asymmetric Paternalism", www.law.columbia.edu/center_program/law_economics/wp_listing_1/wp_listing/221-230#7313 (emphasis added).

27 Sunstein, Cass R and Thaler, Richard H (2003), 'Libertarian Paternalism Is Not an Oxymoron', John M Olin program in law and economics working paper series, University of Chicago, http://www.law.uchicago.edu/Lawecon/index.html.

28 Thaler, Richard H and Benartzi, Shlomo (2004), 'Save More Tomorrow: Using Behavioural Economics to Increase Employee Saving', *Journal of Political Economy*, vol 112, no 1, part 2, pp S164-187.

- Jennifer Arlen, writing on the future of behavioural economics and the law in the *Vanderbilt Law Review*, questions the efficacy of policy prescriptions arising from behavioural economics:

> Proposals designed to address biases generally entail the intervention of judges, legislators, or bureaucrats who are [themselves] subject to various biases. The very power of the behaviouralist critique – that even educated people exhibit certain biases – thus undercuts efforts to redress such biases. In addition, the decisions of government actors also may be adversely influenced by political concerns – specifically interest group politics. Thus interventions to "cure" bias-induced inefficiency may ultimately produce outcomes that are worse than the problem itself.[29]

- Tyler Cowen explored the diversity of rationality assumptions made in economics. He is sceptical of the criticisms of traditional economic analysis by behavioural economists:

> Economists, who tend to accept efficiency as a relevant standard … believe that this competitive process yields an approximation of good science, and this of course involves the rationality postulate in its diverse forms … [A]ny effective criticism of economics must start with the institutions that produce (and evaluate) economics. Methodological criticisms alone, especially if they focus on rationality, are unlikely to be very persuasive.[30]

- Richard Epstein, a leading legal scholar, is also critical of research findings similar to those cited with approval by the SPWG:

> I regard that [behavioral economics] as highly dubious in terms of the inferences that it draws. The problem here is that there are more biases than one knows what to do with. People are often risk averse, so they buy insurance, and they are risk preferrers, so they gamble. And it is the same people who do both in different degrees. So too there are some individuals who buy too little insurance for their old age, and some who buy too much. So long as there is no systematic bias in what goes on, it is difficult to figure out what form of regulation would help. Rather what happens is that any form of regulation is sure to do harm to those who know what they are doing even if it might (or might not) help those who do not quite understand. The point here is not that people are perfect. It is that they slowly learn from their mistakes. And there are powerful forces that help correct them [such as banks and life insurance companies].
>
> Thaler makes the point that people do badly with their pension decisions, because these happen only once. But what regulation helps them? Sometimes people get too many choices; but what of it if they can hire a broker or a financial representative to sort through the mess, which is what is done in countless different ways. The biases of which they speak are not unknowns. Employers have some interest in correcting them. They have other conflicts of

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29 Cited by Bainbridge, George (2004), 'Are We All Behaviorists Now?', http://techcentralstation.com/102004D.html.

30 Cowen, Tyler (2003), 'How Do Economists Think About Rationality?', http://www.gmu.edu/jbc/Tyler/.

> interest (eg investment in the stock of the firm) which are not behavioral but involve old fashioned greed etc.[31]

- Epstein summed up the general relevance of behavioural economics to public policy in the following terms:

> One critical issue with behavioral economics is a matter of perspective and proportion. The current fascination with behavioral insights has powerful things to say about the glitches in personal behavior, conduct that is hard to regulate in any case. But it has far less to say about sensible regulation of public markets …
>
> The second great problem of the social order is that of monopoly power, either public or private, and the difficulty of adopting some sensible social response to that issue. Nothing in behavioural economics requires us to jettison the strong results of traditional economic theory. No behavioural phenomenon justifies rent controls, price controls, or wage controls. None should cause us to ignore the destruction of common pool resources, to cast a kind eye to monopoly behavior, to overlook the temptations of faction and self-interest in public life. *On issues that really matter, the traditional accounts of human behavior deserve our continued allegiance*.[32]

Saving for retirement is one such issue. Mitchell's paternalistic 'findings' are inconsistent with the equally paternalistic view that New Zealanders' 'love affair' with home ownership induces them to commit themselves to overly large mortgages (and therefore to too much contractual saving subsequently). There is no explanation for why people who are worried about their self-discipline cannot have their needs met by the private supply of contractual saving schemes – there are plenty of incentives on providers to offer 'lock-in' products. The notion that they will behave differently from their 'objective' preferences simply begs the question of whether their 'objective' preferences are genuine.

6. Comment on the KiwiSaver Bill's foundation and detail

Identification and analysis of the problem

6.1. The whole KiwiSaver project has, from its inception, suffered from poor problem identification and analysis. The SPWG was largely told what to do. Its report stated:

> The Group identified its central mission as being:

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31 Personal communication, 27 October 2004.

32 Epstein, Richard A (2003), *Skepticism and Freedom: A Modern Case for Classical Liberalism*, The University of Chicago Press, Chicago and London, p 258, emphasis added.

> [T]o provide advice to the government on the detailed design and implementation issues to be resolved in delivering widely adopted generic work-based savings products.

This statement, which comes from the SPWG's terms of reference, implies that there is something wrong with present workplace saving arrangements that warrants government action.

6.2. However, the government did not articulate any such shortcomings in the SPWG's terms of reference and the SPWG did not explain what was wrong other than stating that fewer employees belong to work-based schemes in New Zealand than in other developed countries and that fewer employees belong to such schemes than previously. What was it about these observations that justified government intervention of the kind that the SPWG was directed to investigate? If we do not have a clear idea of the alleged problem, how will we know whether KiwiSaver will work or, retrospectively in review, has worked?

6.3. Our 2004 submission analysed the background to the issues covered only lightly by the SPWG. In summary, we provided the answers to the questions that the SPWG failed to ask or address properly:

- What do employers think about what they are presently doing in respect of workplace savings?
- How receptive might employers be to change?
- What is wrong with the workplace saving industry?
- What are the potential barriers to the provision of workplace superannuation by employers?
- How might the costs to employers of decision making change?
- Is a workplace saving scheme necessarily the best option for the employee?
- Is KiwiSaver the best use of taxpayers' resources?

We are willing to re-submit our analysis of these key issues, if required. However, we think that the whole KiwiSaver process has been driven in a way to avoid asking and answering the questions that actually matter.

Other issues relating to KiwiSaver

6.4. There are some issues of principle worth emphasising with respect to the underpinning public policy justification for KiwiSaver. These are:

- **Risks:** There are several actual and potential hazards for employees in participating in any compulsory scheme, KiwiSaver included. First, the government will require some employees (those who do not organise the opt-out) to join the scheme and continue to contribute to it for at least 12 months when it may be an inappropriate option. The approved list of "default" and "preferred" providers will give more potential room for inappropriate signals, as would the default investment option that each provider must identify.

- **Confiscation:** Next, the Bill proposes that the Inland Revenue Department should be the collector of contributions. It assumes that the IRD is a low cost administrator. However, the contributions may be deducted from wages but not paid to IRD for between 2-7 weeks. Even then, it would take further time for the contributions to reach their ultimate destination and be invested with only a modest interest rate credited by the IRD.[33] All this means lost potential investment income for members. Moreover, what if the member owes some back tax or child support payments? What guarantee is there that contributions will continue to be protected from deduction in those regards?

- **Politicisation of private provision:** Private provision of saving for retirement has been largely depoliticised over the last 20 years (the referendum on the RSS aside). New Zealanders understand the damaging effect of politicising superannuation issues – a brief look at the history of public provision (now NZS) provides graphic evidence of that.

  The KiwiSaver regime would change that for private provision. Without political consensus, we can foresee alternative policy positions being adopted by parties that wish to differentiate themselves from the government in order to win votes. That will be

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33 Interestingly, the IRD is obliged to add interest from the 15th of the month in which contributions are deducted from salary or wages (clause 73), even though the money is not actually received by the IRD in that month.

disruptive for the financial services industry, for employers, but worst of all, for employees.

We see this as a potential threat to New Zealanders continuing their current rational behaviour in financial preparation for retirement.

- **Threat to other savings:** The Bill recognises the potential threat the KiwiSaver scheme might have to current workplace superannuation schemes.[34] Its Regulatory Impact Statement states:

> … it may change the structure of the financial sector as people switch the form of their savings …
>
> These [default] providers may be more likely to obtain an efficient scale for their operation.
>
> Other providers may find it harder to compete and attract business …
>
> To the extent that the ["registered superannuation scheme" - RSS] schemes wind up, then funds may flow out of the financial sector …
>
> It is uncertain how RSS will respond, particularly as there is a lack of quality data in this area …
>
> Non-KiwiSaver providers, particularly small and niche providers, may withdraw from the retirement or long-term saving market, given the difficulty of achieving economies of scale. A result is that the long-term savings market may become more consolidated and less competitive.

This last influence then justifies the government's stepping in on behalf of members to negotiate "lower fees for default product providers". That illustrates the beginning of an increasing regulatory spiral in what should be private savings arrangements.

However, the position is more complex even than the Bill suggests. The focus of the Bill's Regulatory Impact Statement on workplace superannuation arrangements means that it neglected the impact of KiwiSaver on other savings. The gains to the economy (and to savers themselves) of those other savings would be counteracted if savers decide that what KiwiSaver offered was all they need, especially if they then chose to opt-out until they have money to spare.

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[34] The Bill, page 34.

6.5. KiwiSaver should be entirely voluntary. If such arrangements meet the preferences of the interested parties and are efficient, employers will offer superannuation schemes and employees will elect to join them.

6.6. We think the government has strayed into dangerous territory when it recommends policies that favour one form of saving over another (eg workplace superannuation over reducing debt) especially when the financial case is unanswerably against that particular preference. The absence of any comment in the SPWG's report and in the Budget Papers on this issue was, in our view, telling.

6.7. We favour efficient regulation of superannuation and other saving schemes and products. KiwiSaver runs against such efficient regulation.

6.8. We cannot see any advantage in restricting the number of default providers. The Bill does not specify a target number, stating only (clause 158) that there be at least one. However, other statements made by the minister indicate that the number will be relatively small – say, only 4-6 default providers. The government has the power to impose a maximum by regulation. We question the need for any limitation, particularly if the selected default providers are not to pay for their privileged position.

6.9. From a competition viewpoint, we think that any provider meeting prescribed conditions should be added to the pool of default providers. This approach would help to reduce the risk to the government of default providers being seen to be implicitly guaranteed by the government because they have been selected to provide this service. The Bill acknowledges this risk in the Regulatory Impact Statement (at page 34) and suggests that it will advantage the chosen few at the expense of other providers.

6.10. We can see little downside risk in widening the number of default providers to all providers that meet the minimum standards. Alternatively, the chosen default providers, if limited by the government on grounds other than the compliance with minimum standards, should be asked to pay for the economic value of the privileged position they obtain through government appointment.

7. Conclusion

7.1. Our main conclusions are as follows:

- Policy on superannuation should focus on lifting the rate of economic growth, reducing the cost of NZS over time below the levels projected on current parameters, and reducing tax and regulatory burdens for all superannuation and saving schemes.

- A focus on KiwiSaver, which will entail substantial additional regulatory burdens, is misdirected.

- Employers and employees should continue to be permitted to agree voluntarily on pay and conditions of work, including whether to provide workplace superannuation.

- Voluntary arrangements provide the only effective means of ensuring that a workplace superannuation scheme, such as KiwiSaver, is efficient. The scheme that underpins the whole KiwiSaver framework discourages that development.

- The Bill should not proceed in the absence of further sound and objective research that clearly demonstrates that the KiwiSaver scheme is warranted.