



**Kiwi Saver Bill – Submission to Parliament’s
Finance and Expenditure Select Committee**

28 April 2006

Introduction

1. This submission is from the Tourism Industry Association of New Zealand (TIA), located at level 4, Travel and Tourism House, 79 Boulcott Street, Wellington.
2. Attached as Appendix 1 are details about our organisation and who we represent.
3. If you wish to contact us regarding this submission, in the first instance, please telephone Simon Wallace, Policy Manager on 04 494 1842 or e-mail him at simon.wallace@tianza.org.nz. Should there be an opportunity, we would also be interested in making an oral presentation to support this submission.
4. The TIA submission comments on the Kiwi Saver Bill, that was introduced to Parliament on 28 February 2006 and that the government plans to implement in April 2007.

Comment

5. TIA supports the objective of the Kiwi Saver Bill which is:

“to encourage a long-term savings habit and asset accumulation by individuals who are not currently saving enough, with the aim of increasing individuals’ well-being and financial independence, particularly in retirement”.

We acknowledge that some New Zealanders need to improve their savings habits and this Bill will go a long way in encouraging many New Zealanders, who might not otherwise have an opportunity, to put money away for their retirement or save a deposit for a first home. While we think the Bill is well intentioned and good for employees, ultimately we think it should be an employee’s choice to participate in a savings scheme.

6. TIA believes it is essential that clear and appropriate messages are needed in the promotion of the Kiwi Saver scheme. Provided, a “people like me” style of marketing is used so the audience can relate to the benefits and advantages of the scheme, both acceptance and take up of the Kiwi Saver will be enhanced.
7. The main thrust of our submission, however, relates to implementation issues with the Kiwi Saver and the possible implications it may have for the many tourism businesses in New Zealand which consist of mainly small and very small enterprises. Legislative change such as this can have unforeseen compliance issues for businesses, involving time consuming changes to payroll procedures and costly changes to IT systems and business processes and documentation to support these changes.
8. The other key concern that TIA has around compliance relates to the nature of employment in the tourism industry which is very seasonal. Many employees, for example, ski and café workers, kayak guides and national park operators, can be employed on fixed term contracts for very short periods, perhaps just three to four months. The automatic enrolment process for these employees will create

additional time consuming tasks, at a time when small businesses can least afford onerous compliance requirements.

9. The Kiwi Saver Bill's explanatory notes (p.3.) states, employers will be required to:

- a) advise IRD of a new employee's name, IRD number and address within three weeks of that new employee starting;
- b) provide all new employees with a savings information pack, supplied by IRD containing information about Kiwi Saver, an opt-out form and default providers and schemes;
- c) make deductions of Kiwi Saver contributions from the gross salary or wages paid to employee members and pay this amount along with PAYE to IRD.

On point a), TIA is concerned that an employee address may be used by IRD for tax purposes, other than that for the Kiwi Saver.

On point b), we believe it inevitable that employees will seek the advice of their employers on receiving the information pack – it should be made clear to employees in this pack what the legal responsibilities of both the employer and the employee are with regard to financial advice. In addition, we suggest that IRD provide all employees with a 0800 helpline phone number where they can seek independent advice about the Kiwi Saver scheme.

On point c), we re-iterate our earlier statement above on the extra costs employers may incur, while we seek clarification as to an employer's responsibilities in paying the IRD tax on the employee savings banked.

10. The Kiwi Saver Bill also allows employers to choose whether or not to:

- a) elect an initial provider for employees who do not select their own provider.

On this point TIA believes it is not the employer's responsibility to select a savings provider for employees. If for some reason, an elected provider is a poor performer, resulting in a loss on return for the employee, the employer-employee relationship could be unnecessarily compromised.

11. TIA is concerned about the 11 week cut off period for automatic deductions from an employee's salary or wages. We believe it is incumbent upon IRD, rather than employers, to reinforce this deadline. We also note that some employees will not always be mindful of the effect a 4% deduction in wages or salary will have on their net pay. At the same time, it is our view that the financial hardship provisions for seeking a contributions holiday in the first 12 months may be set at too high a threshold.

12. Finally, with regard to Part 1, clause 5 of the Kiwi Saver Bill, TIA seeks confirmation that international visitors on temporary work permits, many of whom work on a seasonal basis in the tourism industry, are in fact excluded from the automatic enrolment process.

Conclusion

13. TIA understands that New Zealanders' savings habits need to be improved and believes that the Kiwi Saver Bill provides the right incentives in encouraging savings. Ultimately, however, we believe it is an individual employee's choice whether to contribute to a savings scheme and we are concerned that the Kiwi Saver Bill, as currently drafted, is too compulsive and ignores the fact that debt repayment is an equally praiseworthy habit.
14. For the many small tourism businesses, the costs of implementing the Kiwi Saver scheme may have been underestimated by IRD. As with the Holidays Act, it is another government regulation that will impose more compliance costs, both in time and money, on the small enterprises which play a critical role in New Zealand's tourism industry.

Appendix 1

Background Information on the Tourism Industry Association of New Zealand (TIA)

1. The Tourism Industry Association New Zealand (TIA) advocates for the interests of the tourism industry in New Zealand. The businesses we represent generate more than 85% of New Zealand's tourism-related revenue.
2. Tourism is a \$17.2 billion industry (\$7.4b from international and \$9.8 from domestic tourism) with international tourist expenditure accounting for 18.5% of New Zealand's total export earnings.¹ The industry, directly and indirectly, employs 1 in 10 New Zealanders in a diverse range of businesses – the majority of which are small and medium sized enterprises. Not only is tourism important because of its size, representing 9.4% of New Zealand's GDP, it is:
 - Highly employment intensive;
 - Regionally disparate; and
 - Very diverse - ranging from large stock exchange listed companies to small cottage industries.
3. These businesses cover a range of tourism-related activities – hospitality, transport, adventure and activities, attractions and retail and related tourism services. In many cases, regional tourism businesses have developed around regional assets divested by other industries and have revitalised those assets and the communities that depend on them.
4. The tourism industry in New Zealand consists of more than 8,000 small and medium sized businesses. Of these businesses, most employ less than five people.
5. New Zealand welcomes more than two million overseas visitors to its shores every year. The domestic tourism industry is also important in helping to sustain a vibrant tourism industry. TIA estimates that over 75 million visitor nights are spent by New Zealanders every year.

¹ "Key Tourism Statistics – March 2006", Ministry of Tourism website