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KIWISAVER – What does it mean for you?

From 1st July last year, which is the start of our Kiwisaver year, the Government made a number of changes to KiwiSaver and these changes affected every working New Zealander. To recap, there were four main changes:

1. From 1 April 2012 - Employer contributions to KiwiSaver will no longer be exempt from Employer Superannuation Contributions Tax (ESCT). Instead, they will be taxed at an employee's marginal tax rate. E.g. if your employer pays 2% of your salary into your Kiwisaver and the employer marginal rate of tax is 30%, then 1.4% will now be contributed instead. This means that you'll see less go into your KiwiSaver from your employer during the 2012 financial year.

2. For the year to 30 June 2012 and beyond - The Member Tax Credit rate halved from $1 to 50c for every $1 that members contribute. Therefore, the maximum level of the Member Tax Credit will also be halved from $1,042.86 per annum to $521.43 per annum. This means that instead of matching your first thousand dollars or so of contribution each year, the Government will only contribute just over $500 for your first thousand.

3. From 1 April 2013 - The minimum employee contribution rate will rise from 2% to 3%.

4. From 1 April 2013 - Compulsory employer contributions will also rise from 2% to 3%.

What do these changes mean to you?

Briefly, the Government is now contributing less to your KiwiSaver, by removing the ESCT exemption and halving the Member Tax Credit rate.

From April 2013, both you and your employer will have to pay more into your KiwiSaver – a total of 6% of your salary, evenly split. The additional 1% in contributions by both employers and employees may not make much difference to those on medium or high salaries, but people on basic wages will probably feel the pinch in their pay packets.

For the majority of people, these changes will mean an increase to the total amount being paid into their KiwiSaver accounts, with the higher minimum employee and employer contributions more than offsetting the reduction in Member Tax Credits and removal of ESCT exemption.

But for those people who previously chose to make employee contributions of 4% or 8% of salary, and whose employers are contributing at 4%, the changes will see a reduction in contributions credited, given the impact of the ESCT removal and Member Tax Credit changes.

If you are an employer, the increase in minimum compulsory employer contributions will place pressure on your salary budget – although you do have some breathing space before this begins on 1 April 2013.

What should you do now?

If your head is in a bit of a spin after reading about all the various changes to contribution rates and removal of tax credits – relax! The reality is that at 3% of your earned income, we are not talking big numbers. This is exactly why, like many financial advisers, we have always advocated KiwiSaver as only part of an individual's overall retirement plan, not the whole solution. Even the 6% level of total KiwiSaver contributions - when we combine what employers and employees invest - over a full working life will not be nearly enough to secure what most people would regard as a comfortable retirement. Just to provide some context, in Australia there is a 9% compulsory employer contribution which many are advocating be raised to 12%, given concerns about inadequacy.

The truth is that KiwiSaver does not provide the whole solution. In the past it was somewhat more attractive from a tax perspective. Now, the combined 6% contributions provide somewhat more scope for long term wealth creation. But they are still not nearly enough.

Most people therefore need to do two things. First, ensure that the money contributed through KiwiSaver is properly invested to maximise wealth creation over the long term. Second, speak to a financial adviser about a complementary investment strategy to ensure that, when you do wish to retire, the combined KiwiSaver and other investment incomes enable you to enjoy your golden years in comfort.

Finally, for those who were 60 years of age when they joined KiwiSaver in 2007, then the end of June this year, spells the first opportunity for them to withdraw their KiwiSaver funds, having been invested for the minimum of 5 years. So, if you're one of these individuals, do consider taking independent financial advice as to what you should now do with these funds in the big scheme of things, as you may benefit from retirement planning guidance incorporating the money you've built up in your Kiwisaver 'pot'.

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