

# KiwiSaver Total Remuneration

## SUMMARY

Te Ara Ahunga Ora undertook research to collect previously unknown data on employers' use of a 'total remuneration' approach to KiwiSaver. This approach includes the employers KiwiSaver contribution within the total amount of remuneration available to an employee rather than as an additional 'on top' amount. This is not how KiwiSaver is designed to operate but is not legislatively prohibited so long as the outcome is the result of good faith bargaining.<sup>1</sup>

KiwiSaver policy settings are designed to provide incentives for people to contribute, but there is less incentive for an employee to contribute to KiwiSaver under a total remuneration model, as they will receive less 'in their hand' as current compensation (see worked example).

Our report<sup>2</sup> contains data on 306 small, medium, and large organisations who employ at least two people in New Zealand. The mix of firm size included an over-sampling of large business, to ensure sufficient sample size, but weighted analysis did not impact the findings regarding prevalence.

Our research reveals that almost half of employers use a total remuneration approach for at least some of their employees, with 25% using a total remuneration approach for all employees, and a further 20% using a total remuneration approach for some of their employees.

The removal of the incentive that is the employer contribution *on top* of salary or wages could be one explanation for periods of non-contribution (savings suspensions) by those in paid work. Further research would be required to determine whether causality exists by asking people why they took a savings suspension.

## KEY POINTS

- Almost half of employers use a total remuneration approach for at least some of their employees
- 25% of employers always use a total remuneration approach
- 20% of employers use a total remuneration approach for some employees
- The use of a total remuneration approach by employers in this study does not appear to be influenced by organisational type (i.e., size, age of firm, private/public).
- Where an employer uses both approaches, general staff are more likely than senior staff to be paid under a total rem approach.
- A total remuneration approach is not how KiwiSaver was designed to operate but is not legislatively prohibited so long as the outcome is the result of good faith bargaining.
- The prevalence of a total remuneration approach may explain non-contribution by some KiwiSaver members that are in paid work but have taken a savings suspension.

<sup>1</sup> Section 101B KiwiSaver Act 2006

<sup>2</sup> Prevalence-of-the-Total-Remuneration-Model-for-KiwiSaver.pdf (retirement.govt.nz)

## WORKED EXAMPLE

Suppose an employer decides that a particular employee should be remunerated at \$100,000 p.a. The table below shows the four potential scenarios for the allocation of the gross remuneration for that employee.

If the employee is offered \$100,000 as an earnings plus KiwiSaver approach, and the employee wishes to contribute to KiwiSaver, they will receive current compensation of \$97,000 as well as \$5,010 of KiwiSaver contributions (\$3,000 of their own contributions and \$2,010 of net employer contributions). This approach will cost the employer \$103,000 p.a. However, if the employee is offered \$100,000 as a total remuneration package, and wishes to contribute to KiwiSaver, they will receive only \$94,090 as current compensation, and \$4,920 of KiwiSaver contributions (\$2,910 of their own contributions and \$2,010 of net employer contributions). This approach will cost the employer \$100,000 p.a. The annual amount contributed to KiwiSaver will be lower under a total remuneration model due to the reduced earnings figure.

As illustrated, there is less incentive for an employee to contribute to KiwiSaver under a total remuneration model, because they will receive less 'in their hand' as current compensation. The future benefit of contributions to a retirement saving scheme may not be well understood or may be knowingly 'traded off' against more money in the short term. ESCT refers to Employers Superannuation Contribution Tax, which employers must deduct from their contributions to employees KiwiSaver or complying funds, at either 10.5%, 17.5%, 30%, 33% or 39%.

	Employee earnings (gross)	Employee KiwiSaver contribution at 3%	Employer KiwiSaver contribution at 3%	Total cost to employer
Earnings plus KiwiSaver where employee contributes to KiwiSaver	\$100,000	\$3,000 3% of earnings	\$3,000 less \$990 ESCT = \$2,010	\$103,000
Earnings plus KiwiSaver where employee does not contribute to KiwiSaver	\$100,000	\$0	\$0	\$100,000
Total remuneration where employee contributes to KiwiSaver	\$100,000	\$2,910 3% of earnings (reduced to \$97,000 by \$3,000 employer contribution)	\$3,000 gross less \$990 ESCT = \$2,010	\$100,000
Total remuneration where employee does not contribute to KiwiSaver	\$100,000	\$0	\$0	\$100,000



## MAIN MESSAGE

KiwiSaver membership is high, with over 3 million members<sup>3</sup>, representing around 96% of the working age population of New Zealand<sup>4</sup>. However, 'non-contribution' rates are also high, with around 39% of members not currently contributing to their KiwiSaver accounts.<sup>5</sup>

KiwiSaver is a retirement savings scheme that is closely associated with the labour market. Although paid work is not a criterion for KiwiSaver membership, the employer contribution (or 3% 'match') is a significant incentive for employees to participate. From our previous research<sup>6</sup> we know that people who are KiwiSaver members but are not currently contributing to their KiwiSaver are generally not in paid work. 66% of non-contributing KiwiSaver members are experiencing periods of reduced labour market participation because they are studying, full-time parenting, or unemployed. The reasons for the other 34% to be non-contributing remain unexplained.

Meanwhile, we know that total remuneration is not how KiwiSaver is intended to operate, as the legislation clearly states that compulsory contributions must be paid *on top* of gross salary or wages except to extent that parties otherwise agree. The legislation also includes a provision, described as being for the avoidance of doubt, which explains that a duty of good faith applies when parties to an employment relationship bargain for terms and conditions relating to compulsory contributions and associated matters.<sup>7</sup>

In recognition of the fact that the default setting for KiwiSaver is that employer contributions are paid on top of salary/wages, when KiwiSaver was introduced in 2007, the government provided employers with a tax credit to offset this additional outlay. The credit was for a maximum of \$20 per week per employee (the employer 'matching' contribution was 1% at that time). The employer tax credit remained in place until 1 April 2009 (by which time the employer contribution had risen to 2%).<sup>8</sup>

Over time, it appears that employers have started to pass on the additional outlay of employer KiwiSaver contributions to their employees, through the use of a total remuneration approach. A common reason given for using a total remuneration approach was simplicity, but interestingly, all employers gave transparency as a reason, whether they only use total remuneration, use a mix of total remuneration and earnings plus KiwiSaver, or only earnings plus KiwiSaver.

### Total rem only

# 25%

#### Why do you use only total rem?

- 60% Simplicity
- 42% Use of casual and contract employees / not required
- 37% Transparency
- 21% Cheaper

### Mix of both approaches

# 20%

#### Why do you use both approaches?

- 42% Transparency
- 40% Use of casual and contract employees / not required
- 34% Fairness

### KS on top of earnings only

# 55%

#### Why do you use only KS on top of earnings?

- 55% Haven't considered alternative
- 45% Transparency
- 40% have considered using total rem but decided against it
- KS on top of earnings is more common when a greater proportion of employees are in KS

<sup>3</sup> KiwiSaver-Annual-Report-2022.pdf (fma.govt.nz) at page 4

<sup>4</sup> NZLFS Dec 2022 aged 15-64 figure of 3,307,800 Household labour force survey estimated working-age population: December 2022 quarter | Stats NZ

<sup>5</sup> KiwiSaver-Annual-Report-2022.pdf (fma.govt.nz) at page 20

<sup>6</sup> TAAO-\_NZ-financial-capability\_KiwiSaver-non-contributors.pdf (retirement.govt.nz)

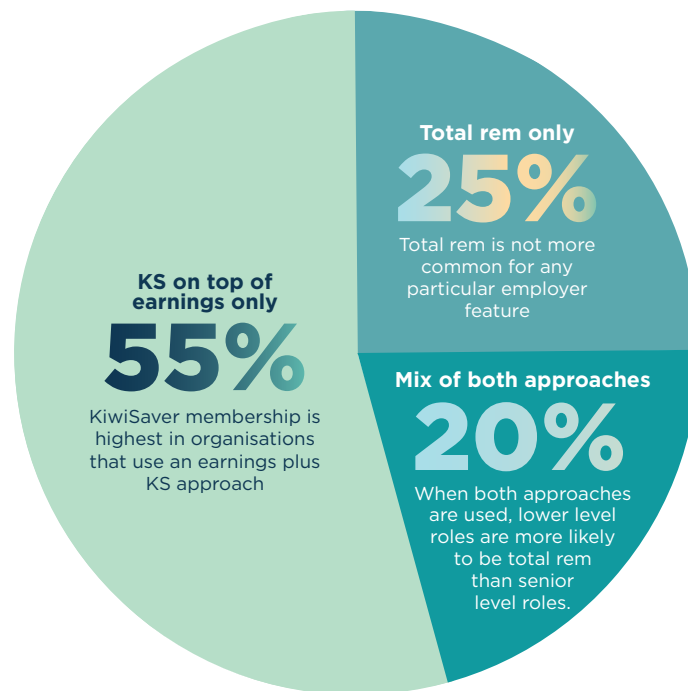
<sup>7</sup> KiwiSaver Act 2006 No 40 (as at 01 July 2022), Public Act 101B Compulsory contributions must be paid on top of gross salary or wages except to extent that parties otherwise agree after 13 December 2007 - New Zealand Legislation

<sup>8</sup> KiwiSaver (ird.govt.nz)

In guidance provided to employers when KiwiSaver was introduced, they were advised that ‘employees and employers alike have a stake in lifting the saving performance of New Zealand. Increased savings helps employees enjoy a higher standard of living in retirement and also increases the supply of domestic savings that can be invested in New Zealand businesses, helping local businesses grow.’<sup>9</sup> However, this joint approach is no longer common, with only 55% using total remuneration for all employees.

The removal of the incentive that is the employer contribution *on top* of salary or wages goes against the ‘spirit’ of the scheme and could be an explanation for why some KiwiSaver members (who are in paid work) choose to take a savings suspension. Further research would be required to determine whether causality exists by asking people why they wish to pause their contributions.

### Proportion of employers



<sup>9</sup> KiwiSaver Extended Questions & Answers (treasury.govt.nz)

