Economic Policy Centre

Pensions and Intergenerational Equity

PIE Submission

Taxation (Annual Rates for 2023–24, Multinational Tax, and Remedial Matters) Bill – commentary on the Bill (revised version 31 May 2023) (ird.govt.nz)

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I would like to make an oral submission please.

The 2023 budget announced a three percent KiwiSaver contribution by government to recipients of Paid Parental Leave who make their own contribution of at least 3% from 1 July 2024.

Summary of submission

- The objective appears to be a desire to help close the pension gender gap.
- The option chosen is tokenism. The cost of $5m pa with high admin costs of 20% will have minimal impact on the objective.
- The second option was rejected but would have had fives times the impact and been much fairer.
- There is no distributional analysis of who gets PPL and how much, and which PPL recipients would gain from the KiwiSaver addition.
- The wording of the bill is confusing and muddles existing terminology.
- The Generic Tax Policy Process was not followed.
- The submissions date has not given sufficient time for consultation with the wider public. The Tax Bill will be considered after the election and that at that point it should be subject to a full analysis.

Introduction

The justification for the policy relates to the gender pensions gap as shown by the difference between male and female KiwiSaver balances and is set out in the commentary on the Bill:

> *Under the proposed amendment, the government would pay a three percent KiwiSaver contribution on amounts of PPL received by KiwiSaver members where the PPL recipient also paid a corresponding three percent KiwiSaver employee contribution into their KiwiSaver account. This would help to increase the KiwiSaver balances of PPL recipients, many of whom are women.*

On the face of it this sounds like a win for women. Who could possibly object if women who take time out of the paid workforce to have babies receive some acknowledgement of the financial penalties motherhood entails?

Background

Paid Parental Leave (PPL) is payable for 6 months at a rate of up to $ 661.12 gross per week to parents who qualify. Many get far less but there is no breakdown provided. PPL is not paid by the employer, but by the general taxpayer and while taxable it is not income tested. Now the government will step in to pay an equivalent employer's 3% KiwiSaver contribution as well, providing the parent also pays 3%.

The total cost for this new policy is just $19m over 4 years or just under $5m a year including about $1m a year in administration. The [Regulatory Impact Statement](#) admits this policy will inhibit some employers who are already paying KiwiSaver for their employees who are on PPL, and that the overall impact on the policy problem will be minimal:

> *the overall impact of the proposal is likely to be small, and disproportionately benefit wealthier households who are able to contribute to their KiwiSaver accounts while a member of the household is on PPL (RIS)*

The option to make the 3% government payment non-conditional on the parent contribution of 3% was estimated to be 5 times more expensive and was rejected. If it is supposed to recognise the value of caregiving of young children, the option chosen does so in a highly discriminatory way, giving the most to those on the highest PPL as if their caregiving is of most value.

The criticism the PIE hub (Economic Policy Centre) would make of this policy is that it has been made hastily and somewhat carelessly constructed with inadequate consultation.

> *This analysis has been prepared at pace under time constraints. Officials were instructed to prepare a Budget bid for this proposal late in the Budget process and before detailed policy design had been completed. Due to the timing and proposed inclusion as a Budget item, there was no opportunity*

for external consultation on the proposal beyond the limited discussions that were carried out in 2022 as part of broader early-stage KiwiSaver enhancement policy work (Inland Revenue RIS)

The terms used are very confusing: 'government contribution' is usually applied to the matching 50% subsidy that all KiwiSavers can access on the first $1042 of saving. It is used in a different sense here to mean the 3% paid by government in lieu of an employer contribution:

> *[The] maximum is $516 over 26 weeks of PPL. As PPL recipients would have to contribute the same amount to qualify for the **government contribution**, this would represent up to $1,032 in annual KiwiSaver contributions which might otherwise not be made.*

The mother's contribution of $516, will be matched by a 50% payment from the taxpayer. This $258 is usually referred to as the Government Contribution, but the IR have confusingly called it the former name of Member Tax Credit

> *Additionally, the proposal's incentivisation of KiwiSaver employee contributions could also result in KiwiSaver members receiving some portion of the Member Tax Credit (MTC). The MTC matches KiwiSaver employee contributions at 50 percent up to a maximum of $1,042.86, meaning the government contributes up to $521.43 to a KiwiSaver member's account each year. A KiwiSaver member who contributes $516 over 26 weeks of PPL would receive an MTC of $258 from the government.*

Does this policy have merit?

Treasury was lukewarm to say the least and for good reason:

> *In general the Treasury does not support the government payment of an employer KiwiSaver contribution to eligible PPL recipients. Although the proposed KiwiSaver enhancements are a positive first small step, they are unlikely to address wider gender disparity issues.*

MBIE noted likewise:

> *… neither option addresses the more fundamental issues identified with current KiwiSaver contributions settings, regarding the adequacy of default contribution rates, affordability of contributions, and support for the self-employed to save for the future beyond investing in their home and business. Further, because the gender retirement savings gap is driven by differences in participation in paid work, changes to reduce this gap will be more effective if they are not tied to participation in paid work.*

The RIS notes

> *Good childcare is important, but it is often unpaid. This small top-up helps redress the imbalance with others, normally males, who do not take extended childcare leave.*

The policy as it stands once more reinforces the advantages of paid work over the value of caregiving as it is only those with a paid work connection that qualify for the state funded top-up, or indeed for PPL itself. The receipt of the so called 'government contribution' is conditional on the PPL recipient also contributing, of whom only about 15% do so currently. The IR do not appear to think that number will increase significantly under their preferred option.

Thus it is clear from the costings that the benefit of this proposal would disproportionately accrue to higher income households who are able to afford KiwiSaver contributions while on PPL, while doing little about the fundamental problems for the majority of women who take time out to look after children.

There needs to be a much fuller debate about effective KiwiSaver policies to make a real difference for women. Acknowledgment of unpaid caregiving requires substantial policy debate.

For those lucky enough to have paid work, the Pensions and Intergenerational Equity Hub of the Economic Policy Centre have analysed the Total Remuneration option for example, and have concluded that women would be assisted in a far more meaningful way if the employer contribution was mandatory for all KiwiSaver members, whether or not on a suspensions holiday. See PB 2020-1 Total Remuneration and KiwiSaver Final.pdf (auckland.ac.nz).

This suggests at very least this tax bill should revisit option 2 for the KiwiSaver policy for those on PPL