

KIWISAVER - FREQUENTLY ASKED QUESTIONS FOR EMPLOYERS

1. What are my obligations to existing employees when KiwiSaver is introduced?

Existing employees are not automatically enrolled in KiwiSaver. If employees request information about KiwiSaver, you must provide them with the information pack provided by the IRD.

If existing employees elect to opt in to the KiwiSaver scheme, and they provide you with a deduction notice, you will need to provide the following information to the IRD:

- a. The employee's name;
- b. The employee's address;
- c. The employee's IRD number;
- d. A statement from the employee confirming that they want to opt in.

You must then make deductions from the employee's salary or wages at the employee's selected rate (either 4% or 8% of the employee's gross salary,) and forward these deductions to the IRD for distribution to the employee's chosen KiwiSaver scheme.

2. What is automatic enrollment and who does it apply to?

All New Zealand employees between the ages of 18 and 65 who commence work on or after 1 July 2007 will automatically be enrolled in a KiwiSaver scheme. This means that at the commencement of employment you must forward to the IRD the employee's name, address, and IRD number to enable them to be enrolled in a KiwiSaver scheme. You must deduct KiwiSaver contributions from the employee's salary and forward them to the IRD.

Employees can opt out of KiwiSaver if they so choose, by providing you with an 'opt out notice' (refer question 5.) There are some exceptions to the automatic enrolment rule for various types of employees or employers who qualify as "exempt employers".

3. What are exempt employers?

In certain circumstances an employer qualifies to be exempt from automatic enrolment in a KiwiSaver scheme. In order to qualify as an exempt employer, you must provide an existing superannuation scheme that complies with certain requirements including:

- a. That every employee between the ages 18 and 65 is eligible to become a member of the superannuation scheme and transfer any existing superannuation balances to your superannuation scheme; and
- b. Your superannuation scheme must be a registered superannuation scheme; and
- c. The trust deed for your superannuation scheme must allow members to transfer their accumulation to another registered superannuation scheme or KiwiSaver scheme if the employee elects to do so; and
- d. Your superannuation scheme must provide for a minimum contribution of at least 4% of the employee's annual gross base salary or wages (with some exceptions).

To become an exempt employer you must apply to the Government Actuary for approval. Approval can be revoked if your superannuation scheme ceases to comply with the requirements of the KiwiSaver Act 2006.

You must inform your employees that you are an exempt employer and that they will not be automatically enrolled in KiwiSaver upon commencing employment with you. Employees of exempt employers may choose to opt in to KiwiSaver.

Note, if your employee is already a KiwiSaver member before commencing employment with you, they must continue contributions during their employment with you. You must make these deductions in the same manner that you would for employees who 'opt in' to KiwiSaver.

4. What are exempt employees?

Exempt employees are those employees who will not be automatically enrolled in KiwiSaver upon commencing new employment.

Categories of exempt employees include the following:

- Casual agricultural, election day or private domestic workers;
- Employees employed for 28 continuous days or fewer;
- Working partners and employees on paid parental leave or in receipt of certain ACC payments;
- Employees that remain on the same payroll, where the employee is relocated to new employment with the same employer;
- Employees whose employer changes as a result of the sale or merger of the business they are employed by;
- Employees who are not required to have tax deductions made from their salary/wages under the PAYE rules;
- Employees who are not entitled to remain in New Zealand indefinitely;

5. How do my employees opt out of KiwiSaver?

Employees who have previously opted in to the KiwiSaver scheme, or are existing members of the KiwiSaver scheme prior to employment with you, cannot opt out of the scheme. They may, in some circumstances, be entitled to a contributions holiday.

Opting out applies only to new employees who are automatically enrolled in the KiwiSaver scheme. These employees may opt out of the scheme completing an 'opt out notice' and providing it to you. You must notify the IRD of the employee's election to opt out.

It is important that you advise all new employees of their entitlement to opt out of the KiwiSaver scheme and that they must do this by the 8th week of their employment.

The 'opt out notice' will take effect from the later of the day on which you are given the 'opt out notice' and the thirteenth day after the employee starts work. Once the 'opt out notice' takes effect, you no longer have to deduct contributions from the employee's salary or wages.

Any contributions already deducted will be refunded to the employee. This refund will be made by the IRD if you have already made payment to the IRD, or by you if you have yet to forward those contributions to the IRD.

Employees who have chosen to opt out of the KiwiSaver scheme may later opt in if they desire.

Employees may not opt out of the scheme any later than the end of the eighth week of their employment with you.

6. What is a contributions holiday?

Employees who want to temporarily cease making contributions to the KiwiSaver scheme may do so by applying to the IRD for a contributions holiday. Such a contributions holiday will be granted if the employee meets the necessary requirements.

The employee makes an application for a contribution by filing a notice containing the following information:

- a. Their name and address; and
- b. Their IRD number; and
- c. The name and address of each employer for whom the employee wishes to take a contributions holiday; and
- d. The period of time for which the holiday will apply; and
- e. Any other information required by the IRD.

If the IRD grants the employee a contributions holiday you will be given notice of this and you must cease withholding contributions for the duration of the contributions holiday.

7. What are employee contributions and how do they work?

Employees must contribute either 4% or 8% of their gross salary or wages to the KiwiSaver scheme. Employees can make additional voluntary payments.

Employees who are automatically enrolled under the automatic enrolment rules will have contributions deducted at a rate of 4% from their gross salary or wages. Employees must notify you of their intention to increase their payments to 8% of their gross salary if they wish to do so.

You must deduct contributions from your employee's salary/wages before the salary/wages are paid to the employee. You must then forward contributions to the IRD, and the IRD will forward the contributions to each employee's selected KiwiSaver account.

8. Can the employee change the size of their contribution?

Yes. Employees are able to change their contribution from 4% to 8% or vice versa by informing you, in writing, of their intention to do so. If you receive notice of such a change, you must change the employee's rate of deduction from their next salary/wage payment date.

Employees cannot vary their rate of contribution more often than once every three months without your agreement.

9. What are employer contributions and how do they work?

Employer contributions are additional payments made to the employee's KiwiSaver scheme by you or where you pay any of the administration or benefit related costs. Employer contributions are currently voluntary. If you elect to contribute you must make the contribution by paying the IRD. There is no cap on the amount you may contribute. Your contributions can comprise of all or part of the employee's contribution of 4% or 8%, but your contributions will only reduce the employee's contributions if the employee consents to this (otherwise, your contributions will be a voluntary additional payment).

Your contributions are exempt from income tax and Specified Superannuation Contribution Withholding Tax (SSCWT) up to the lesser of:

- i) the employee's contribution; or
- ii) 4% of the employee's total salary/wages.

SSCWT will have to be deducted from any portion of your contribution exceeding this amount.

10. What about the Budget?

The budget does not take effect until laws are passed that bring it into effect. The 2007 Government Budget includes a proposal for consideration which would make three changes to the above:

- From 1 April 2008 your contributions will not count towards your employee's minimum contribution of 4%; and
- From 1 April 2008 compulsory employer contributions (for employees who are KiwiSaver members only) will be phased in at the following rates:
 - From 1 April 2008 - employers must contribute 1% of employee's gross salary/wages;
 - From 1 April 2009 - Employers must contribute 2% of employee's gross salary/Wages;
 - From 1 April 2010 - Employers must contribute 3% of employee's gross salary/Wages;
 - From 1 April 2011- Employers must contribute 4% of employee's gross salary/Wages;
- From 1 April 2008 all employers making contributions to an employee's KiwiSaver scheme will be eligible for a matching employer tax credit of up to \$1,040 per year per employee.
This will be paid to employers through the PAYE system.

11. What happens when the employee's employment is terminated?

When an employee ceases to receive salary/wages from you, their contributions cease. You must stop making and forwarding deductions to the IRD.

You must notify the IRD when the employee ceases employment with you.

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