



## A scheme for everyone

People looking for a one-sentence summary of KiwiSaver frequently call it a workplace savings scheme. That's a pity. I suspect it makes people not in employment think KiwiSaver is not for them.

KiwiSaver is, in fact, a good idea for every New Zealand resident under 65 – including the self-employed, beneficiaries, adults not in the work force and children. What's more it's more flexible for those who are not employees.

True, if you are an employee – putting in 4% or 8% of your pay – you get one big advantage: contributions from your employer, starting at 1% of total pay next April and rising to 4% by April 2011. Some employers are generously starting earlier.

And, like all other adult KiwiSavers, you will receive a \$1,000 kick-start, a \$40-a-year fee subsidy, and a "tax credit" – although it's really just a payment that has nothing to do with taxes.

The tax credit matches dollar for dollar what you contribute, up to a maximum of \$1040 a year. That equals \$20 a week, although your contributions don't have to be a regular amount.



### 6 WAYS TO GET MONEY OUT

- *Buying a first home.* After three years in KiwiSaver, you can withdraw yours and your employer's contributions plus returns on all the money to buy a first home – not an investment property. You can't take out the \$1,000 kick-start or tax credits. You may also be eligible for a \$3,000 subsidy, rising to \$5,000 after five years.
- *Substantial financial hardship.* You can withdraw everything except the tax credits you've received over the years. Those stay in the account.
- *Serious illness.* You can take out all the money, including tax credits.
- *Going overseas permanently.* You can continue to make contributions – or take a contributions holiday – but you won't get further tax credits. Or you can close your account after a year offshore and take all the money except the tax credits, which will go back to the government.
- *Reaching NZ Super age (or, if you join after 60, five years after joining).* You can withdraw your money in a lump sum or bit by bit; keep contributing, or just leave your money in KiwiSaver. But the tax credits, fee subsidy and compulsory employer contributions will stop.
- *Death, before or after NZ Super age.* The money goes into your estate.

From 2011, employees contributing 4% of income and making up to \$26,000 a year will see their savings tripled. Their boss will double their money and the government will contribute the same again.

At \$26,000, 4% of pay is \$1,040, the tax credit cutoff level. So employees making above that won't receive a full 4% from the government.

But still, employees making \$52,000 will get 50c from the government for every \$1 they contribute, and those making \$104,000 will get 25c for every dollar. That's not to be sneezed at – especially when you add the employer's matching contribution.

The downside, for some employees, is that they feel they can't afford to save 4% of their pay, or they are reluctant to tie up that much money until NZ Superannuation age, currently 65.

There are ways to reduce the effect of this. You can take a small second job and join KiwiSaver through that, paying just 4% of that income. Or if you have a mortgage – and your mortgage lender and KiwiSaver provider agree to it – you can

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