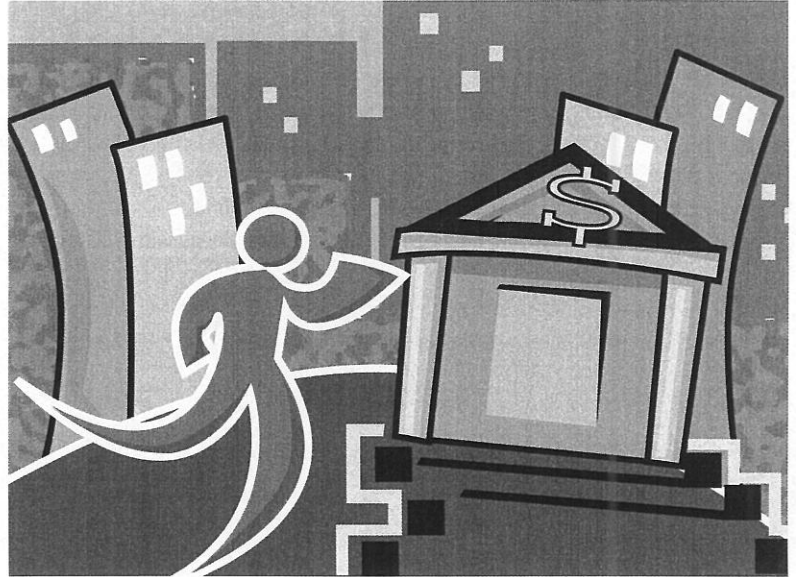




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a place for workplace savings?



Those involved in the superannuation industry have been bombarded over recent years with the line that membership within private sector employer sponsored superannuation schemes is on the decline, along with the number of registered superannuation schemes. Official statistics make it hard to argue with that line, but as is often the case, statistics are only as good as the analysis that comes with them. In this article, David Ireland, the Chair of the Association of Superannuation Funds of New Zealand (ASFONZ – the voice of workplace super) looks at the case for employer involvement in long term savings for employees in the current environment, and provides some trouble-shooting pointers.

The Government Actuary's newsletter from October 2008 tells an interesting story. Despite all the gloom about the future of superannuation as a savings concept, from the end of 1990 through to 31 March 2008, the total number of members and pensioners involved in registered superannuation schemes actually grew from 547,353 to 573,735 (and that doesn't include KiwiSaver membership). Sure, over that period the total number of registered schemes has been slashed dramatically from 2,863 down to 541, but the total number of employee members involved in employment-based schemes over that period has only reduced by some 20,000.

It remains to be seen what the eventual impact of KiwiSaver will be on these figures. That picture will start to become clearer when a further round of official statistics are released later this year. Membership of ASFONZ, an organisation committed to encouraging sustainable, efficient participation in workplace savings by employers, amongst other things, has held up pretty well to date. One question we are constantly asked, however: Is there still a place for pro-active employer participation in workplace savings in a KiwiSaver world?

The case for workplace savings

The decline in the number of standalone employer superannuation schemes can be put down to many factors. Not least of these has been an increasingly complex regulatory environment over the past

15 years that has exponentially increased the cost and management time accompanying participation. The market responded with a dramatic increase in the number of multi-employer superannuation schemes and master trusts available, effectively allowing employers to outsource their workplace savings solution to specialist organisations who could take the bulk of the compliance burden off their hands. Thus the closure of an employer's scheme does not necessarily translate to a loss of members or employers participating in workplace savings. Rather, arrangements have steadily transitioned from direct employer control to specialist superannuation providers, and that process is continuing.

For many employers, one of the hardest aspects to come to terms with is the loss of control and corporate identity with workplace savings arrangements that comes from outsourcing to a third party provider. However, that depersonalisation of arrangements occurs in varying degrees, depending upon the terms agreed with the relevant third party provider. There are a multitude of options available for employers in deciding how close an involvement in workplace savings arrangement they wish to maintain, whether they are migrating from an existing standalone scheme or coming at things afresh.

Like it or not, every employer in New Zealand is either already involved in KiwiSaver arrangements, or is but an opt-in notice away from being involved. There is no longer a choice in the

matter. The question for employers then boils down to whether or not they wish to do more than the statutory minimum.

The problem with KiwiSaver is that despite its various tax and subsidy incentives, it remains a very inflexible tool for an employee's long term savings. Apart from those able to access some fairly limited pre-retirement withdrawal options, most KiwiSavers will end up being locked into their scheme until age 65. For some, age 65 will be later than their preferred employment retirement date. So for most, KiwiSaver should only be a part of their long term savings solution – those reliant upon KiwiSaver as their sole source of savings to fund their retirement lifestyle who wish to cease working before age 65, or who lose their job before that time, are stuck.

Contrast this position with the traditional workplace savings arrangement. Under such an arrangement, there is usually an earlier retirement date at which savings can be withdrawn. Perhaps more importantly, cessation of employment is invariably a trigger event allowing the employee member to withdraw their savings, irrespective of age at the time. Redundancy invariably gives rise to a full withdrawal benefit becoming available.

It is this feature that means workplace savings remain as relevant today as they did 20 years ago. KiwiSaver simply adds another layer of complexity to the equation. With the reduction of the minimum member contribution rate down to two percent from 1 April 2009, and a capping of the compulsory employer contribution rate (and accompanying tax incentives) at the same level, the door has been opened to KiwiSaver plus workplace savings solutions: doing more than 4+4 was beyond the means of many employers and employees, but doing more than 2+2 may well be feasible. Coupled with the resurrection of the total remuneration package that was briefly outlawed for the last few months of 2008, we now have an environment offering a reasonable level of flexibility in helping employees work towards long term financial security.

So why do it? There are many reasons, some 'soft', others very calculated. Many of New Zealand's strongest institutions have workplace savings as an integral part of their remuneration culture and staff retention strategy, and the view of ASFONZ is that this is no accident. With the threat of redundancies in the current economic climate, the knowledge that long serving employees have been assisted to accumulate a savings nest egg that will be immediately accessible to them if they lose their jobs – rather than being financially bereft until age 65 – can be a great comfort for employers facing some hard decisions, let alone the employees who are let go.

What's the catch?

There is no doubt that securities law requirements involved in making savings products available through the workplace have played a significant part in discouraging employer participation. What those laws have done is ensure that only the strongest of the standalone employer and industry-based schemes remain, with the economies of scale and robustness of systems necessary to manage the regulatory compliance load. ASFONZ has enjoyed some success in securing some relief from the requirements, most notably an exemption from prospectus requirements for many employer schemes, and more recently a specific carve out from Financial Advisers Act obligations for employers assisting employees with their workplace savings arrangements. Multi-employer scheme providers will generally take on much of the compliance burden involved in employer participation – although there will always be a base level of compliance involved that any employer participant will need to keep on top of, including payroll adjustments to deal with Employer Superannuation Contribution Tax.

Carl Reaich, a senior associate with Kensington Swan's employment team and a co-presenter of the ASFONZ workplace

savings training module targeting HR professionals, had this to say:

One area where we have seen employers get in trouble has been with their strategic approach to workplace savings. Those that have taken a holistic approach and clearly articulated the place of workplace savings in their overall remuneration and staff retention policies have generally had few problems with it from an employment law perspective – the short-lived September 2008 law changes aside. However, those that have simply clipped on workplace savings to remuneration packages on a tick the box basis without any philosophical buy-in to the concept sometimes find it cutting across, rather than supplementing, remuneration strategies – and that can cause problems.

So a few tips then on developing a sustainable approach to involvement with workplace savings:

- Think hard about the rationale for getting or remaining involved. As an employer, if you don't have a philosophical commitment to helping staff with long term savings solutions, it is questionable whether you will derive full value from what is involved, and there are other options if you are only considering workplace savings on an ad hoc basis.
- Review your existing remuneration strategy, and how it fits with your overall approach to attracting, retaining and rewarding your employees. Superannuation can be a key component within such a strategy, rather than being tacked on as an afterthought or omitted altogether.
- Understand the legal implications of your involvement – particularly for those participating in multi-employer arrangements, the compliance requirements are pretty well defined, meaning the biggest exposure lies in failing to identify your obligations at the outset. Those charged with implementing your workplace savings need to have a clear understanding of the obligations involved.
- Having a good handle on the options available for using workplace savings to improve tax efficiencies in remuneration strategies – and maximising the value of KiwiSaver incentives available – is critical when discussing packages with employees.
- Ensure that your updated remuneration strategy is reflected in your employment agreements, letters of offer, and remuneration/HR policies. You should also make sure that you regularly review and update that documentation to reflect any legislative changes (such as the KiwiSaver changes coming into force on 1 April), and to ensure that your arrangements are competitive. Your legal adviser can advise you about whether your current documentation is lawful, and may be able to suggest how it can be modified to provide maximum flexibility for the future.
- Ensure your strategic objectives and workplace culture regarding savings is clearly communicated to any third party provider involved. One area where things come unstuck is where there is a disconnect between the design of the arrangement put together by the third party provider and the employer's objectives.

...and of course, become a member of ASFONZ so you can keep abreast with developments in the area, and exchange ideas with other like-minded employers and directly interact with the service providers involved in workplace savings!

The workplace has long been seen as a key pillar for facilitating long term savings. KiwiSaver has tilted the playing field but the place for workplace savings remains just as relevant today as it was when the Todd Task Force released its first landmark report on retirement savings in 1992. ■

For more information on ASFONZ, visit the ASFONZ website www.asfonz.org.nz or talk to Executive Director Bruce Kerr on 04 381 3382.