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INVESTMENT SAVINGS AND INSURANCE ASSOCIATION

## HOW TO UNDERSTAND THE IMPACT OF THE 2011 BUDGET ON YOUR KIWISAVER FUNDS

### THIS IS THE EXAMPLE IF YOU CONTRIBUTE 4% AND YOUR EMPLOYER CONTRIBUTES 4% TO A CONSERVATIVE FUND

To work out the likely impact of the 2011 Budget changes on your KiwiSaver conservative fund at age 65 pick the age and income closest to your own.

The Budget made 3 changes to KiwiSaver. The effect of each of the changes, compared to the position before the Budget, is shown in the table below.

If you are 25 years old and your earnings in a year are \$36,000 before tax, the effect of the Budget on your KiwiSaver is:

All figures are in "todays dollars"				If you and your employer invest 4% each - Effect on your savings at age 65 of the 2011 Budget changes				If you want your total savings at age 65 to stay the same, you will need to increase your weekly contributions by:	
Age	Annual earnings	Weekly earnings	Weekly take-home pay	Member Tax Credit Impact	Employer Superannuation Contribution Tax Impact	Minimum contribution rate Impact	Total Budget Impact		
25	36,000	690	588	-27,000	-11,000	0	-38,000	<b>\$8.03</b>	
	48,000	920	778	-27,000	-15,000	0	-42,000	\$8.82	
	57,600	1,104	906	-25,000	-28,000	0	-53,000	<b>\$12.06</b>	
	80,000	1,533	1,208	-25,000	-39,000	0	-64,000	\$14.58	
	115,200	2,208	1,653	-25,000	-62,000	0	-87,000	<b>\$19.82</b>	
35	36,000	690	588	-18,000	-7,000	0	-25,000	\$8.71	
	48,000	920	778	-18,000	-9,000	0	-27,000	<b>\$9.49</b>	
	57,600	1,104	906	-17,000	-17,000	0	-34,000	\$12.74	
	80,000	1,533	1,208	-17,000	-24,000	0	-41,000	<b>\$15.24</b>	
	115,200	2,208	1,653	-17,000	-38,000	0	-55,000	\$20.45	
45	36,000	690	588	-11,000	-4,000	0	-15,000	<b>\$9.56</b>	
	48,000	920	778	-11,000	-5,000	0	-16,000	\$10.33	
	57,600	1,104	906	-11,000	-9,000	0	-20,000	<b>\$13.57</b>	
	80,000	1,533	1,208	-11,000	-13,000	0	-24,000	\$16.03	
	115,200	2,208	1,653	-11,000	-21,000	0	-32,000	<b>\$21.17</b>	
55	36,000	690	588	-5,000	-1,000	0	-6,000	\$10.60	
	48,000	920	778	-5,000	-2,000	0	-7,000	<b>\$11.33</b>	
	57,600	1,104	906	-5,000	-4,000	0	-9,000	\$14.46	
	80,000	1,533	1,208	-5,000	-5,000	0	-10,000	<b>\$16.82</b>	
	115,200	2,208	1,653	-5,000	-8,000	0	-13,000	\$21.74	

**Member Tax Credit Impact** - the government's contribution of up to \$20 per week will be halved from 1 July 2011, which means your total savings (in today's dollars) will be smaller by \$27,000.



**Employer Superannuation Contribution Tax Impact** - from 1 April 2012 your Employer will no longer get tax relief on its contribution to your savings, which means it will put less into your KiwiSaver and your savings will be smaller by \$11,000.



**Minimum contribution rate impact** - none, because both your contribution rate and your employer's contribution rate are already above the new minimum.



**Total Budget Impact** - Overall, these changes add up to a decrease in your savings at retirement at age 65 of \$38,000.

**However, you can keep your savings at age 65 the same if you save an extra \$8.03 per week out of your take-home pay (based on your current earnings).**

#### In calculating these figures we have made some important assumptions, which are:

Your earnings will increase at 1.5% p.a. above the rate of inflation.

You will contribute to KiwiSaver 4% of your earnings.

Your employer will contribute to KiwiSaver 4% of your earnings.

You join on 1 June 2011 and receive the one-off government contribution of \$1,000 to "kick start" your savings.

The Fund in which you choose to invest will credit you with the following investment returns above inflation, after fees and tax.

3.10% If your earnings are less than \$14,000

2.80% If your earnings are between \$14,000 & \$48,000

2.40% If your earnings are above \$48,000

These figures are general information only, to help you understand the possible effect of the Budget 2011 changes on KiwiSaver.

There are other Budget changes which may also affect you,

depending on your particular personal and family situation.

This information should not be used as a basis for making financial and investment decisions or as a substitute for specific professional advice.

This information has been prepared for the Investment Savings and Insurance Association of New Zealand Inc. (ISI) by Melville Jessup Weaver, Consulting Actuaries.