



# Fisher Funds

## Investor Education Centre

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### Compulsory Savings

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There are some words that send a shiver down the spine, and compulsion is one of them. Hence the heated debate of recent weeks around the prospect of compulsory savings being introduced in New Zealand.

Actually, to call compulsory superannuation a prospect is an overstatement. Rather, there have been noises from Government as to whether KiwiSaver should become compulsory given that so many Kiwis have embraced it already.

But not everyone is supportive of KiwiSaver, and many believe that compulsory savings is just another form of taxation. For a lot of people, the thought of another deduction from their already stretched household income is the final straw. And one of the more significant debating points is around individual choice – why should we let governments decide what happens to our savings? And the same goes for the financial services sector, particularly after their performance in recent years.

As a KiwiSaver provider, you would expect that I would be in favour of compulsory savings, but I don't necessarily think it is the only answer. I do believe that New Zealanders should be encouraged to save because it is clear to even the most innumerate that the country cannot afford to keep future generations in the retirement lifestyle that they aspire to.

But encouraging people to do anything requires an element of incentive – we need a carrot rather than a stick.

The uptake of KiwiSaver has been better than officials expected, without being compulsory, because the current structure offers KiwiSaver members a benefit. KiwiSaver offers something for nothing for everybody, except those over the age of 65.

If KiwiSaver were made compulsory, the government wouldn't have to offer incentives. They could save money by not offering tax advantages to children, or they could reduce or remove the \$1,000 kickstart contribution. Then we'd get the worst of all worlds – a savings scheme that nobody really wanted or believed in.

Rather than it being a black and white argument about compulsion, there is a discussion to be had about how to enhance KiwiSaver and other elements of our tax system to encourage people to save and entrench the right savings attitudes.

For example, perhaps employer contributions should be compulsory (possibly at a lower rate than currently) but with an added requirement to provide financial education to their employees so that we increase the workforce's financial literacy.

The best way to get us all saving is to ensure we understand it, and how it can benefit us.

Perhaps we could introduce compulsion (the stick) but offer savers more choice (the carrot) – why not let members have several KiwiSaver providers so they can choose the best of breed in different asset classes? And perhaps some people could manage their own KiwiSaver assets if they clearly have the ability to do so?

However the debate unfolds, it is important not to throw the baby out with the bath water. KiwiSaver has already begun to improve our savings habits and our financial literacy – we need to be careful to step forward not backward from here.

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