



KiwiSaver Evaluation of
Implementation in the
Workplace

Research
Report **2.1**

Employer Panel:
2007/08 Interim Report

Prepared by

Evaluation Services, Inland Revenue

December 2007

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EXECUTIVE SUMMARY

Introduction

KiwiSaver is a voluntary savings initiative designed to make it easier for New Zealanders to save for their future, particularly for retirement.

Inland Revenue (IR) administers KiwiSaver. The Department's intention was to design and deliver the scheme in ways that assisted employers to meet their obligations voluntarily. For example, KiwiSaver is aligned with the existing pay as you earn (PAYE) process — this includes reimbursing the employer tax credit through the PAYE process to help employers' cash flow and minimise compliance costs.

The employer panel is one part of the KiwiSaver Implementation in the Workplace Evaluation¹ which seeks to address questions about how KiwiSaver is working.

The panel is being conducted in phases. This report presents interim findings from the first phase². Subsequent phases are being planned around key events in KiwiSaver (e.g. the second phase will be undertaken after the compulsory employer contributions start in April 2008).

Objectives

The objectives of the employer panel are to:

- investigate employers' and their employees' initial experience of KiwiSaver
- identify which KiwiSaver design features and incentives are working as intended and which are not
- assess emerging trends with particular emphasis on understanding factors influencing employers' and employees' decisions related to the scheme.

¹ The other parts of the KiwiSaver evaluation include qualitative and quantitative research with employers, employees, KiwiSaver scheme providers and individual members of the public.

² The interim findings from phase 1 of the employer panel will be used in conjunction with those from other parts of the KiwiSaver evaluation to provide an overall assessment of the scheme.

Method

Semi-structured interviews were held with 34 employers. The employers covered a range of locations, sectors, size, staff turnover and having an existing workplace superannuation scheme.

Interviews were also conducted with 63 employees from 25 of the organisations.

The interviews were held during September and October 2007. This was two months after KiwiSaver started (1 July 2007) but before the enhancements³ announced in Budget 2007 were enacted.

Conclusions

On the whole, the employers found implementing KiwiSaver in their workplace straightforward. They were able to understand IR's KiwiSaver employer guide and set up processes for administering the scheme. Their largest compliance cost was the time they spent learning about KiwiSaver and communicating it to staff. Most employers seemed to accept this transition cost as an inevitable part of implementing a new government initiative.

Business size influenced employers' experience of implementing KiwiSaver. The large enterprises experienced more difficulties and spent a greater amount of time implementing the scheme than the small medium enterprises (SMEs) did. The reason for this was that the former had a larger number of employees so had more complex human resources processes and payroll systems. They also had to coordinate a team of people who were implementing KiwiSaver. In SMEs, the owner/director or payroll/accounts administrator tended to have sole responsibility for implementing the scheme.

Employers were generally unperturbed by the potential for staff to ask for financial advice. The message from government that employers are not to give such advice was cited often. Many had avoided the possibility of being seen as giving employees financial advice by referring staff, who asked them about the scheme, on to other information sources.

Generally, employers had put off deciding how they would manage the compulsory employer contributions until closer to April 2008 (when the contributions will be introduced).

Some design features and incentives were working as intended. Staff were encouraged to join KiwiSaver because of the ease with which they could save (e.g. having contributions deducted at source) and they felt like they were getting "free money" (e.g. the kick-start payment).

Other design features which were intended to ensure that employees were saving adequately for retirement (e.g. having a minimum contribution rate) and maximise the benefit of saving (e.g. locked-in savings) appear to have stopped some staff from taking up the scheme because they made it seem inflexible.

³ The KiwiSaver enhancements that the Government announced in Budget 2007 included a member tax credit, compulsory matching employer contributions and an employer tax credit (Treasury 2007a).

Personal circumstances had stopped some employees from taking up KiwiSaver (e.g. they had other investments). Conversely, personal circumstances had motivated a smaller number of staff to take up the scheme (e.g. they had reached a stage in their life when they wanted to start saving for retirement).

Contextual factors (e.g. the possibility that future governments might “tinker” with KiwiSaver) had led some existing employees to postpone joining the scheme until they believed it was running smoothly.

Recommendations

Implementation

Overall, employers’ initial experience of implementing KiwiSaver in their workplace was positive. However, some did identify issues they had encountered when putting the scheme in place. The latter led the evaluation to form recommendations that mostly refer to clarifying with employers and employees aspects of the Department’s administration of KiwiSaver.

IR’s KiwiSaver information

Some employers and employees were left with unanswered questions after reading IR’s KiwiSaver employer guide (KS4) and employee pack (KS3) respectively. This is understandable given that the booklets were intended to explain the key points about the scheme — hence the references to other information sources (e.g. IR’s KiwiSaver 0800 number and website, the Retirement Commission’s website).

Not being able to use the booklets to answer questions, or validate things they had heard from other sources, frustrated readers who treated the guides as their prime source of information.

1. IR should promote to employers that its KiwiSaver website is IR’s source of comprehensive information about the scheme.

Auto enrolment

Some new employees did not want to be auto enrolled in the scheme. This created tension between employers and new staff in some instances.

Employers can choose to either refund any deductions that they have made but not sent to IR yet, or send the deductions with their PAYE payments and IR will refund the employee directly. The potential for tension between employers and new staff seems to be greater in organisations that have decided to let IR refund employees’ KiwiSaver contributions, rather than the organisation itself refunding them.

The reason for this is the delay between opt out notices being sent to IR and employees getting the refunds. The lag time between KiwiSaver contributions being deducted from new employees' pay and then refunded is due to delays in the contributions refund process. In addition, a fundamental part of the scheme's policy design is that new staff are unable to opt out of KiwiSaver until they have been in their job for two weeks — this is to discourage new staff from opting out of KiwiSaver.

2. IR should manage employers' and new employees' expectations around the timing of contribution refunds by explaining the refund process to employers in detail (including the evidence IR requires of opted out employees' contributions).

3. IR should investigate whether the contributions refund process has unintended delays built into it and, if so, examine how it can minimise them.

For example, emphasising to employers that they need to send the KiwiSaver employee details form (KS1) to IR, thereby reducing the number of employer monthly schedules (EMS) that cannot be processed automatically due to insufficient KiwiSaver information.

Choosing a scheme provider

A few employees and employers had found the process for choosing their own scheme provider confusing. They did not realise that choosing a provider was a separate process to completing the KiwiSaver deduction form (KS2).

They also found getting a letter from IR telling them which default scheme they had been allocated to, after they had nominated their own provider, concerning.

Furthermore, employers did not expect to get requests from providers via staff (e.g. for the organisation's IR number).

4. IR needs to set out the process for choosing a scheme provider more explicitly (e.g. all staff who join KiwiSaver via their employer will be allocated to a scheme and get a copy of that scheme provider's investment statement, even if the staff member has chosen their own scheme).

5. IR should also raise awareness amongst employers and KiwiSaver scheme providers about the information that providers need from employers and how to get that information (e.g. an employer's IR number).

Design features and incentives

Employees identified KiwiSaver design features and incentives that had encouraged them to join the scheme (e.g. the Government's kick-start payment of \$1,000). Other employees and some employers mentioned features that had discouraged staff from taking up KiwiSaver (particularly the minimum contribution rate and locked-in savings). This finding prompted the

evaluation to recommend further investigation of features that might not be working as intended.

Minimum contribution rate

The minimum 4% contribution rate is intended to help employees to save adequately for retirement. But it was the most frequently mentioned design feature that had discouraged staff from joining the scheme — they could not afford to contribute 4% of their gross pay. This is a reason given in the Sorted (Retirement Commission cited in Inland Revenue 2007b) decision checklist for not joining KiwiSaver.

6. Other parts of the KiwiSaver evaluation will investigate whether the minimum contribution rate is influencing participation in the scheme and, if so, how.

Locked-in savings

KiwiSaver is designed as a locked-in savings scheme to maximise the benefit of saving for an extended period of time (e.g. compound interest). Locking in savings is one of Treasury's guiding principles for a retirement saving scheme. On the other hand, not wanting savings to be locked away is a reason not to join the scheme in Sorted's KiwiSaver checklist (Retirement Commission cited in Inland Revenue 2007b). The inflexibility of having locked-in savings was a commonly mentioned design feature that stopped staff from joining the scheme.

Contributions holidays give employees the flexibility to take a break from saving after they have contributed to the scheme for 12 months. Employees and employers are informed about the holidays in IR's KiwiSaver employee pack (KS3) and employer guide (KS4) respectively. However, the evaluation of KiwiSaver external communications and awareness with employers found that their knowledge of contributions holidays was low. This contributed to employers' perception that the scheme is inflexible (Colmar Brunton 2007).

7. The evaluation will continue to examine whether locked-in savings is influencing participation in the scheme, including understanding people's reasons for not wanting savings to be locked in and their understanding of the benefits. It will also assess employers' and employees' awareness of contributions holidays.

Financial education

The findings around the minimum contribution rate and locked-in savings, as well as employees' questions about KiwiSaver (e.g. whether they should join it and which scheme provider they should choose) highlight the need for good financial education, especially if government wants to encourage people to start saving.

8. IR should continue to coordinate its approach to long-term communications about saving adequately for retirement with the Retirement Commission's approach to financial education.

INTRODUCTION

The employer panel is one part of the evaluation of KiwiSaver⁴. The panel is being conducted in phases. This report presents interim findings from the first phase⁵. Subsequent phases are being planned around key events in KiwiSaver (e.g. the second phase will be undertaken after the compulsory employer contributions start in April 2008).

Background

KiwiSaver is a voluntary savings initiative designed to make it easier for New Zealanders to save for their future, particularly for retirement (KiwiSaver Act 2006, Part 1, Section 3 Purpose p.11). For most people, KiwiSaver is a work-based scheme. This means that employers have to meet requirements set out in the KiwiSaver Act 2006. For example, employers are required to:

- check whether a new employee should be automatically enrolled in KiwiSaver
- distribute the employee information pack to new staff who qualify for automatic enrolment and to existing employees who ask for one or want to opt in to the scheme
- deduct KiwiSaver contributions and forward them to IR with the PAYE payments.

IR is responsible for administering KiwiSaver. One of the Department's long-term aims is to minimise organisations' compliance costs and assist them to meet their obligations voluntarily (Inland Revenue 2007a). This led the Department to design and deliver the scheme in ways that seek to assist employers meet their obligations. For example, KiwiSaver is aligned with the existing PAYE process, IR produces information packs for employers and employees, and a KiwiSaver 0800 line and website have been set up to answer employers' and employees' questions. KiwiSaver started on 1 July 2007.

Evaluation objectives

The first phase of the employer panel is one of the early research projects that will address the Joint KiwiSaver Evaluation Strategy⁶ objectives. In particular, it will contribute to objective A which is:

⁴ The other parts of the KiwiSaver evaluation include qualitative and quantitative research with employers, employees, KiwiSaver scheme providers and individual members of the public.

⁵ The interim findings from phase 1 of the employer panel will be used in conjunction with those from other parts of the KiwiSaver evaluation to provide an overall assessment of the scheme.

⁶ IR is undertaking the evaluation in conjunction with the Ministry for Economic Development, Housing New Zealand Corporation and the Treasury.

to assess the early implementation and delivery of KiwiSaver as a whole and the various components to inform the early and on-going development and service delivery of KiwiSaver.

The objectives of the employer panel are to:

- investigate employers' and their employees' initial experience of KiwiSaver
- identify which KiwiSaver design features and incentives are working as intended and which are not
- assess emerging trends with particular emphasis on understanding factors influencing:
 - employers' exemptions, contributions, costs, communications (e.g. via induction for new employees and publicity for existing employees)
 - employees' automatic enrolment, opt-ins, opt-outs and default take up versus active choices.

Method

Semi-structured interviews were conducted with 34 employers. They covered a range of locations, sectors, size, staff turnover and having an existing workplace superannuation scheme (see appendix 1 for details).

Sixty-three employees from 25 of the organisations were also interviewed (see appendix 1). Sixteen of the 63 staff were members of KiwiSaver at the time of the interviews.

The interviews were held during September and October 2007. This was two months after KiwiSaver started but before the enhancements⁷ announced in Budget 2007 were enacted.

The interim findings in this report are based on an analysis of the information gathered in the interviews. Quotes are used to illustrate key messages that emerged during the analysis.

The interviewees' business characteristics are shown in the table below.

⁷ The KiwiSaver enhancements that the Government announced in Budget 2007 included a member tax credit, compulsory employer contributions and an employer tax credit (Treasury 2007a).

Table 1: Interviewees' business characteristics

Location	Size (number of employees)				Sector			Existing scheme		Staff turnover rate	
	1-5	6-19	20-99	100 +	Prim	Man	Ser	Yes	No	Low	High
Total	6	11	11	6	5	14	15	8	26	32	2

CONCLUSIONS

Implementation

On the whole, employers found it straightforward to implement KiwiSaver in their workplace.

- Many employers and employees found IR's KiwiSaver employer guide (KS4) and employee information pack (KS3) clear and easy to understand.
- Employers were able to set up processes for distributing the employee information pack to staff, automatically enrol new employees and act on employees' requests to opt out or opt in.
- Aligning KiwiSaver employee deductions and employer contributions with existing PAYE payments enabled them to integrate the scheme into their existing payroll process and system.

The time spent reading about the scheme, communicating it to staff and learning how to use the KiwiSaver upgrade for their payroll system was the greatest compliance cost for employers. Most employers seemed to accept this transition cost as an inevitable part of implementing a new government initiative.

The amount of time required to implement the scheme tended to be greater in the large enterprises than the SMEs. The former had a larger number of employees so had more complex human resources processes and payroll systems. They also had to coordinate a team of people who were implementing KiwiSaver. In SMEs, the owner/director or payroll/accounts administrator tended to have sole responsibility for implementing the scheme.

The most common questions staff asked employers were whether the staff member would benefit from joining KiwiSaver and which scheme provider they should choose. Many employers were managing the tension between being a trusted information source for staff, and not giving them financial advice, by referring employees on to other information sources.

Design features and incentives

International research identifies design features and incentives that encourage private savings (e.g. automatic enrolment) (Treasury 2007b). IR drew on the lessons from this research when designing KiwiSaver. The design features and incentives intended to encourage employees to join the scheme are shown in Table 2.

Table 2: KiwiSaver’s design features and incentives

Design features that make it easy to join KiwiSaver	Design features that make it hard to get savings out of KiwiSaver	Incentives that make KiwiSaver attractive to employees
Administered by employer	Limited opportunity to opt out	Kick-start payment
Automatic enrolment when changing employers	Locked-in savings	Member tax credit
Deductions at source		Ability to put savings towards a first home mortgage
Default contribution rate		Contributions holidays
Default KiwiSaver scheme provider		

Some design features and incentives were working as intended, others were generating a negative response.

- Employees commented that the kick-start payment, member tax credit, deductions from source, compulsory employer contributions and ability to put savings towards a first home mortgage had encouraged them to join KiwiSaver.
- Employers and employees noted that the minimum contribution rate, locked-in savings, investing in managed funds and no government guarantee had discouraged staff from taking up the scheme.

Generally, employers had deferred the decision about how they would manage the compulsory employer contributions until closer to the implementation date of April 2008.

- Employers were aware that the contributions could create inequity in the workforce with KiwiSaver members effectively getting a 1% pay rise in April. Consequently, their initial thoughts were to make the contributions part of total remuneration packages for employees.

A few employers were aware that including the contributions in salary packages would mean the contributions were no longer an incentive to join KiwiSaver. It might also disgruntle members who thought they were going to get the contributions as well as, rather than instead of, a salary increase. However, treating their employees “fairly” was their primary concern, especially given that higher income earners might disproportionately take up the scheme because, unlike low and middle income earners, they can afford the minimum 4% contribution rate.

Some employers were also considering using the contributions as a way to recruit and retain staff (e.g. qualified experienced trades-people who are in short supply).

How employers have managed the contributions will be assessed in phase 2 of this evaluation.

Factors affecting take up

The employees' decision to take up KiwiSaver was influenced by design features and incentives, personal circumstances and contextual factors.

Personal circumstances

Employers and employees reported that some staff members had decided to join the scheme because they wanted to save for their retirement. However, it is recognised that saving is not necessarily the best decision for all people.

- Some of the personal circumstances that employers and employees cited as having stopped staff from taking up KiwiSaver are those given in the Retirement Commission's (Retirement Commission cited in Inland Revenue 2007b) Sorted KiwiSaver decision checklist as reasons for not joining the scheme (e.g. already having a retirement income plan in place, paying off debt). Others are not (e.g. being too young or too old to join a retirement savings scheme).

Contextual factors

According to employers and staff members, several existing employees had adopted a "wait and see" approach to joining KiwiSaver due to two contextual factors:

- the possibility that future governments might change or stop the scheme
- the newness of KiwiSaver and likelihood that there would be "teething problems".

RECOMMENDATIONS

Implementation

Overall, employers' initial experience of implementing KiwiSaver in their workplace was positive. However, some did identify issues they had encountered when putting the scheme in place. The latter led the evaluation to form recommendations that mostly refer to clarifying with employers and employees aspects of the Department's administration of KiwiSaver.

IR's KiwiSaver information

Some employers and employees were left with unanswered questions after reading IR's KiwiSaver employer guide (KS4) and employee pack (KS3) respectively. This is understandable given that the booklets were intended to explain the key points about the scheme — hence the references to other information sources (e.g. IR's KiwiSaver 0800 number and website, the Retirement Commission's website).

Not being able to use the booklets to answer questions, or validate things they had heard from other sources, frustrated readers who treated the guides as their prime source of information.

1. IR should promote to employers that its KiwiSaver website is IR's source of comprehensive information about the scheme.

Auto enrolment

Some new employees did not want to be auto enrolled in the scheme. This created tension between employers and new staff in some instances.

Employers can choose to either refund any deductions that they have made but not sent to IR yet, or send the deductions with their PAYE payments and IR will refund the employee directly. The potential for tension between employers and new staff seems to be greater in organisations that have decided to let IR refund employees' KiwiSaver contributions, rather than the organisation itself refunding them.

The reason for this is the delay between opt out notices being sent to IR and employees getting the refunds. The lag time between KiwiSaver contributions being deducted from new employees' pay and then refunded is due to delays in the contributions refund process. In addition, a fundamental part of the scheme's policy design is that new staff are unable to opt

out of KiwiSaver until they have been in their job for two weeks — this is to discourage new staff from opting out of KiwiSaver.

2. IR should manage employers' and new employees' expectations around the timing of contribution refunds by explaining the refund process to employers in detail (including the evidence IR requires of opted out employees' contributions).

3. IR should investigate whether the contributions refund process has unintended delays built into it and, if so, examine how it can minimise them.

For example, emphasising to employers that they need to send the KiwiSaver employee details form (KS1) to IR, thereby reducing the number of employer monthly schedules (EMS) that cannot be processed automatically due to insufficient KiwiSaver information.

Choosing a scheme provider

A few employees and employers had found the process for choosing their own scheme provider confusing. They did not realise that choosing a provider was a separate process to completing the KiwiSaver deduction form (KS2).

They also found getting a letter from IR telling them which default scheme they had been allocated to, after they had nominated their own provider, concerning.

Furthermore, employers did not expect to get requests from providers via staff (e.g. for the organisation's IR number).

4. IR needs to set out the process for choosing a scheme provider more explicitly (e.g. all staff who join KiwiSaver via their employer will be allocated to a scheme and get a copy of that scheme provider's investment statement, even if the staff member has chosen their own scheme).

5. IR should also raise awareness amongst employers and KiwiSaver scheme providers about the information that providers need from employers and how to get that information (e.g. an employer's IR number).

Design features and incentives

Employees identified KiwiSaver design features and incentives that had encouraged them to join the scheme (e.g. the Government's kick-start payment of \$1,000). Other employees and some employers mentioned features that had discouraged staff from taking up KiwiSaver (particularly the minimum contribution rate and locked-in savings). This finding prompted the evaluation to recommend further investigation of features that might not be working as intended.

Minimum contribution rate

The minimum 4% contribution rate is intended to help employees to save adequately for retirement. But it was the most frequently mentioned design feature that had discouraged staff from joining the scheme — they could not afford to contribute 4% of their gross pay. This is a reason given in the Sorted (Retirement Commission cited in Inland Revenue 2007b) decision checklist for not joining KiwiSaver.

6. Other parts of the KiwiSaver evaluation will investigate whether the minimum contribution rate is influencing participation in the scheme and, if so, how.

Locked-in savings

KiwiSaver is designed as a locked-in savings scheme to maximise the benefit of saving for an extended period of time (e.g. compound interest). Locking in savings is one of Treasury's guiding principles for a retirement saving scheme. On the other hand, not wanting savings to be locked away is a reason not to join the scheme in Sorted's KiwiSaver checklist (Retirement Commission cited in Inland Revenue 2007b). The inflexibility of having locked-in savings was a commonly mentioned design feature that stopped staff from joining the scheme.

Contributions holidays give employees the flexibility to take a break from saving after they have contributed to the scheme for 12 months. Employees and employers are informed about the holidays in IR's KiwiSaver employee pack (KS3) and employer guide (KS4) respectively. However, the evaluation of KiwiSaver external communications and awareness with employers found that their knowledge of contributions holidays was low. This contributed to employers' perception that the scheme is inflexible (Colmar Brunton 2007).

7. The evaluation will continue to examine whether locked-in savings is influencing participation in the scheme, including understanding people's reasons for not wanting savings to be locked in and their understanding of the benefits. It will also assess employers' and employees' awareness of contributions holidays.

Financial education

The findings around the minimum contribution rate and locked-in savings, as well as employees' questions about KiwiSaver (e.g. whether they should join it and which scheme provider they should choose) highlight the need for good financial education, especially if government wants to encourage people to start saving.

8. IR should continue to coordinate its approach to long-term communications about saving adequately for retirement with the Retirement Commission's approach to financial education.

FINDINGS: Work-based savings scheme

Conclusions

- On the whole, employers agreed that people need to save for their own retirement. They also seemed to accept the concept of work-based savings.
- Most employers with existing superannuation schemes were waiting until closer to April 2008, when the compulsory employer contributions are introduced, before deciding how they would accommodate current scheme members who also joined KiwiSaver.

Saving

The combination of the Government's commitment to providing universal retirement income funded out of current year revenues and the aging New Zealand population⁸ will lead to an increase in the cost of New Zealand Superannuation. In response, the Government established the New Zealand Superannuation Fund to partially provide for the increased cost of the pension (Stephenson and Scobie 2002). Whilst the Fund will support New Zealanders in retirement at a basic standard of living⁹, Government also turned its focus on encouraging New Zealanders to save and accumulate assets (Office of the Minister of Finance 2005). This led to the development of KiwiSaver which was designed to help people improve their financial wellbeing, particularly in retirement (ibid).

The Government's encouragement of New Zealanders to save for their future was supported by 24 of the 34 employers¹⁰. Employers cited the decreasing size of New Zealand's working age population and, consequently, smaller amount of tax available to fund New Zealand Superannuation. The remaining employers did not mention whether they agreed or disagreed in principle with saving for retirement.

Eighteen of the 63 employees also thought that KiwiSaver was a "good idea" on the basis that people need to save. One disagreed with the concept of saving privately for retirement — he believed the Government should fully fund his superannuation from the taxes he was paying.

⁸ The reasons for this are a low birth rate, longer life expectancy and the baby boomer generation (people born between 1947 and 1973) starting to retire in 2011 (Stephenson and Scobie 2002).

⁹ The annual adjustment of New Zealand Superannuation must ensure that the standard weekly amount payable to a couple is not less than 65% or more than 72.5% of average ordinary time weekly earnings (New Zealand Government 2005).

¹⁰ Please note that the term employer refers to participants who represented the organisation. It covers owners, directors, general managers, office managers, payroll administrators, accounts administrators and human resources administrators.

Work-based scheme

From a government perspective, the workplace is an effective and efficient conduit for encouraging saving by employees. The reasons for this are that the saving scheme:

- is made available to a large group of people as most individuals earn income through paid employment
- can be communicated to groups of people who regularly gather in one place and the information is given via employers whom employees are likely to trust
- can be administered by making the contribution deductions part of an existing payroll process (Harris 2003).

According to Harris (ibid), employers might benefit from offering a work-based savings scheme. They could use it to give them a competitive advantage over other employers when recruiting and retaining employees (e.g. being known as a good employer, voluntarily making contributions to the scheme). Also, some studies have found that employees who save tend to be more diligent and effective workers than those who don't save. However, Harris (ibid) states that it is uncertain whether the potential benefits outweigh the cost to employers for administering a workplace based savings scheme.

Thirty-two employers seemed to accept the concept of work-based savings. The degree of acceptance ranged from KiwiSaver being seen as another payment that employers had to collect for the Government, to acknowledging that aligning KiwiSaver with PAYE had made administering the scheme easier for employers.

People do need to save for their retirement and this is one way of making it so that people that don't really think about saving for their retirement get a – let's call it a subsidised option – of saying hey if you do this you will get more than what you put in.
(SME)

They [the Government] needed to do something and New Zealanders are appalling savers, we are all putting money into houses – I am no exception – I did think it [KiwiSaver] was a good idea – I did wonder about the administration of it but it hasn't been – for us anyway – it hasn't been a problem.
(SME)

One employer disliked the concept of a work-based savings initiative and was of the view that individuals should be responsible for putting their own savings schemes in place.

I think everybody should take his own responsibility and if people want to save, that's fine, I would encourage them to do that, but why should it go through the employer – it is the people's own responsibility.
(SME)

However, the employer's preference for individual savings did not appear to affect how she made KiwiSaver available to her employees. In preparation for introducing KiwiSaver, she had read IR's KiwiSaver employer guide, material from employer's associations and newspaper articles. She had also selected a bank as her employer chosen scheme. She thought that a bank would be the "safest option" for her employees' money because it was at least risk of financial collapse.

Another employer believed that the Government should administer KiwiSaver completely. A variety of factors appear to have influenced this view.

- The employer valued being a "good employer" and "informed consent" so wanted to support her employees to make the best decision about joining KiwiSaver, without providing financial advice to them. This meant she had had to spend a lot of time explaining KiwiSaver to her employees who, in her view, would be uncomfortable talking to an independent advisor. The employer suggested that IR staff members base themselves at local Citizens Advice Bureaux for a few days each week to talk with people about KiwiSaver.
- The company's online payroll system could not automatically process the KiwiSaver deductions so the employer had spent time working with the payroll provider to solve this problem.
- The employer's company is funded from a fixed term contract. The funder does not cover increases in costs that occur during the contract period. The employer cannot pass increased costs on to her clients who are low income people with disabilities. This meant that the proposed employer tax credit was very important for the employer's cashflow.

Existing workplace superannuation schemes

KiwiSaver is intended to complement existing registered superannuation schemes (Treasury 2006). Employers' options for providing KiwiSaver and their current scheme include:

- converting the current scheme into a KiwiSaver scheme
- establishing KiwiSaver as part of the existing scheme
- operating the current scheme independently of KiwiSaver
- converting the current scheme to a complying superannuation fund.

Nine employers had existing schemes, including all six of the large enterprises. The schemes are summarised in appendix 2. Two employers thought that new employees would join the organisation's current scheme because, at this stage, it is more beneficial to them than KiwiSaver is. Another employer believed that some employees had moved from the

organisation's existing superannuation savings scheme to KiwiSaver, presumably because the latter provided more benefits to them.

Seven of the nine were deciding how they would accommodate existing scheme members who also joined KiwiSaver. Their thinking was particularly around managing the contributions they currently paid to schemes and the compulsory KiwiSaver employer contributions announced in Budget 2007.

One had decided that existing scheme members, who joined KiwiSaver, could choose whether they wanted to split their employer's current 6% contribution between the existing scheme and KiwiSaver. If they did, then 4% of the employer's 6% contribution would go into the employee's KiwiSaver scheme and the other 2% would go into the employer's existing scheme.

The remaining employer had two current schemes. One was a government superannuation scheme that the employer contributed to but which was closed to new members. The other was a superannuation savings scheme which the employer did not contribute to. The employer had changed their deed so they could pay the compulsory employer contributions into KiwiSaver for members and the organisation's savings scheme for non-KiwiSaver members.

FINDINGS: Information

Conclusions

- Many employers and employees believed that IR's KiwiSaver information packs were clear and easy to understand.
- However others, particularly readers who treated the packs as their prime source of information about the scheme, were left with unanswered questions after reading the information.
- Employers and employees had got information about KiwiSaver from sources other than IR's packs — employers' sources tended to be more formal (e.g. seminars, Sorted, professional associations) than employees' (e.g. the media).

IR KiwiSaver information packs

Content of packs

IR has a key role to inform employers and, through them, employees about KiwiSaver. The KiwiSaver employer guide (KS4 May 2007) and employee information pack (KS3 June 2007) are the main paper communications developed for them.

Fourteen employers commented that the employer guide was clear and easy to understand. It had prepared them sufficiently to implement KiwiSaver and meet their obligations. (Three large enterprises with existing schemes and 11 SMEs one of which had a current scheme.)

Oh I think it [IR's KiwiSaver employer guide] was very easy to understand.
(Large enterprise)

I didn't have any questions of it [IR's KiwiSaver employer guide] when I read through it. It seemed to be reasonably straightforward, yes. I have no criticisms and yes [it] seemed to be straightforward.
(SME)

Seven were left with unanswered questions after reading the guide. They were two large enterprises with existing schemes and five SMEs one of which had a current scheme. Following are four examples of “grey areas”.

- How employees nominate a scheme provider and the communications that employers could expect from providers.
 - One employer did not know that employees who joined KiwiSaver via their employer would then have to apply directly to the provider of the scheme they wanted to belong to. Another would have liked a flow chart showing this process.
 - A third did not realise that scheme providers would require KiwiSaver members to ask employers for their IR number and to verify that the member had got the provider's investment statement. Also, she had found that some providers were telling members that they did not need to complete a KS2 form.
- Who would be penalised if a new employee does not tell their employer that they are an existing KiwiSaver member.
 - Two employers mentioned this, with one commenting that a new employee might not know whether they are a member or might say that they are not a member so that they do not have deductions made from their pay.
- When an employer is allowed to stop new employees' contributions, and eligibility criteria.
 - One employer had telephoned IR's 0800 KiwiSaver line to check whether he could stop a new employee's contributions as soon as he got their opt-out request (KS10).
 - The same employer had been told by one of his peers that employees who work less than 20 hours per week were exempt from being auto enrolled in KiwiSaver. An industry representative was going to ask IR about the eligibility criteria.
- Step-by-step explanations of how an employer contributes part of an employees' contribution rate and the contributions holidays.
 - One employer wanted to know how they showed that they were voluntarily contributing 2% towards members' 4% contribution rate.
 - She also wanted to find out how the contributions holidays would work in practice.
 - The employer was wary of telephoning IR's KiwiSaver line because, in the past, she had got different answers to the same question from IR's call centre staff. She thought that

she would try to get the answers from IR via the organisation's accountant.

Five employers suggested ways of presenting the information more simply. They were all SMEs without existing schemes.

- Two would have liked a one page summary of employers' obligations with examples. One of them, who worked in sales, suggested promoting the benefits KiwiSaver members would get when they qualified for New Zealand Superannuation.
- One, who acknowledged her tendency to flick through communications rather than reading them thoroughly, found the KiwiSaver forms too similar. She suggested strikingly different coloured forms with clearer headings. She also mentioned putting the Hamilton postal address on the front of the KS10 form as a way of prompting employers to check whether they could use a pre-printed IR envelope.
- Another wanted a poster showing a simple flow diagram of decision points for existing staff. Types of questions the diagram could address were the difference between gross and net pay, how the contribution rates would affect a member's gross pay, how to choose a provider and how to get savings back. This employer had had to spend a lot of time answering general questions about KiwiSaver from staff who had never had an opportunity to save for medium to long-term goals.

Two employers found IR's information about KiwiSaver insufficient. They were both SMEs without current schemes.

- One thought that IR's February 2007 tax bulletin (v.19, no.1) was more informative than the employer guide because the former gave "proper real life" examples he could apply to his workplace. He learnt about the bulletin at a Medical Assurance Society seminar on KiwiSaver.
- The other believed that the short timeframe IR had to develop KiwiSaver meant that the IR's communications lacked detailed information about how it would work in practice. This led to misinformation (e.g. a person promoting a KiwiSaver seminar told the employer that existing employees had to join the scheme as soon as it started). It also gave rise to different interpretations of the same information (e.g. at an Employer and Manufacturers Association seminar on KiwiSaver the employer was told to refund a new employee's second contribution¹¹ if they opted out before it was made to IR, but her payroll provider said that IR should refund all the contributions).

Five employees mentioned issues they had had with IR information about KiwiSaver.

¹¹ A new employee who is subject to auto enrolment in KiwiSaver cannot opt out until they have been in their job for two weeks.

- IR's information sources had left three with unanswered questions — one had submitted a question on IR's KiwiSaver website asking whether he would be able to move money from his KiwiSaver account to his private investment fund if his account and fund were with the same scheme provider, but his question was not answered.
- An auto enrolled employee had not got any information about the default KiwiSaver scheme she had been allocated to — she had expected to hear from IR one month after being enrolled.
- One had got mixed messages from IR about his contributions — he had read in the employee information pack that his contributions would be held for three months before being paid to a scheme, but IR had sent him a letter saying that his contributions had been transferred to a default scheme provider.

Two employees suggested information they would like. One was a guide for choosing a scheme provider and fund. The other was examples of how KiwiSaver might affect individuals with different circumstances (e.g. age, income and household status) that people could compare their own situation to.

Timing of packs

The timing of IR's KiwiSaver employer guide and employee information pack created difficulties for seven employers who had received them one week before or after KiwiSaver was started. The employers were concerned about having insufficient time to learn about a scheme they were required to make available to staff. (Two large enterprises with existing schemes and five SMEs one of which had a current scheme.)

- Two of the seven employers telephoned IR "several times" to check on the timing of the packs. One printed it off IR's KiwiSaver website and gave it to existing staff who were asking about the scheme.
- One employer, who was waiting for IR's packs to arrive, chose to email the electronic version of the packs to staff who requested them. After making this decision the employer realised that electronic copies are more environmentally sustainable than paper ones, and that using an electronic copy enabled them to track staff communications so they knew whether requests had been actioned. Consequently, the employer did not need the packs when they arrived.
- One disliked auto enrolling new employees without giving them IR's information pack. She wrote a letter to the employees explaining that the organisation had had to start deducting KiwiSaver contributions but could not give them IR's pack because it had not arrived yet.

Other information sources

Financial service providers

Nineteen of the employers had been contacted by KiwiSaver providers promoting their schemes. Employers tended to ignore these communications unless they were made in person, or from a provider the organisation had an existing relationship with or had been recommended to them.

Unions

Six of the participating employers had a unionised workforce. Three of them and one non-unionised employer had had contact from unions in relation to KiwiSaver.

- In one of the three with a unionised workforce, the union wanted to know how the organisation was going to introduce KiwiSaver. In another, union representatives spoke to staff and gave them pamphlets about the scheme. In the third, the union wanted to know whether the employer would help staff get into KiwiSaver by voluntarily contributing half of the 4% contribution rate — this was under negotiation at time of the interview.
- Two unions had contacted an employer, who did not have a unionised workforce, to advocate for scheme providers.

Actively searching out information

Seventeen employers had actively sought out information about KiwiSaver. Eight had wanted to learn more about KiwiSaver so they had an in-depth understanding of its implications for their organisation. One was prompted by staff asking general questions about the scheme. Another, being a financial service provider, needed to be able to advise customers about it.

Employers actively sought out information from:

- the internet
 - IR's KiwiSaver website (4 employers)
 - Sorted's website (4)
 - general website search on KiwiSaver (2)
 - NZ Treasury website (1)
- organisations
 - professional associations (e.g. Employers and Manufacturers Association, accountant's society) (4)

- KiwiSaver scheme providers (3)
- IR 0800 KiwiSaver line (1)

- an educational forum
 - KiwiSaver seminar or course (4)
 - IR KiwiSaver presentation (1)

- the media
 - newspaper articles (e.g. Mary Holm's articles in The Press and The Herald) (4)

- social networks
 - peers (1).

Employees' information sources

Forty-two employees had got information about KiwiSaver from sources other than their employer and IR's employee information pack. The sources were varied:

- the media
 - television advertisements and/or news and/or panel discussion (13 employees)
 - newspaper articles (13)
 - media (non-specific) (5)
 - radio advertisements (2)
 - magazines (1)

- the internet
 - IR's KiwiSaver website (9)
 - Sorted's website (6)
 - general website (2)

- organisations
 - scheme provider (4)
 - union (2)

- social networks
 - peers (3)
 - family (2)
 - friends (1)

- an educational forum
 - seminar (5)

- independent advisor

- financial advisor (1)
- Mary Holm's book *KiwiSaver: How to make it work for you* (1).

FINDINGS: Employer-chosen schemes

Conclusions

- Employers who had nominated a KiwiSaver scheme chose a provider who they trusted and believed would be “secure”.
- Those who had decided not to nominate a scheme were wary that, if they had chosen one, they might be seen as having provided financial advice to staff.

Reasons for choosing a scheme

IR’s employer guide (KS4) states that one way employers can encourage retirement savings among their employees is to choose a KiwiSaver scheme for their staff to join if they don’t choose one of their own.

Ten employers had nominated a KiwiSaver scheme. They seemed to choose providers that they trusted and thought would be “secure”. Their judgement was based on:

- having an existing business relationship with the provider (five employers)
- the provider being recommended to them — the recommendations came from a financial advisor, accountant, customer or bank (four)
- the information they had actively sought out about providers (one).

They were recommended by our bankers and they are a well-known company as well – with all the financial companies that are going under at the moment we didn’t want to go with a smaller company either.

(SME)

Banks are usually the safest option. I don’t want anyone in our employment to lose their money because a scheme goes awry – we hear too much of financial institutions going wrong at the moment. So now I want them ... want their money to be as safe as possible.

(SME)

Reasons for not choosing a scheme

Employers gave a variety of reasons for not having an employer-chosen scheme.

- Four, all SMEs without a current scheme, wanted to remain independent of their employees' choice of scheme provider. Knowing that they should not provide financial advice to employees seems to have made these employers wary about being seen as directing staff to a scheme.
- The lack of any perceivable necessity or benefit stopped four employers from nominating a provider — they could see no value in choosing a provider if employees could nominate their own anyway. One of these employers was a large enterprise with an existing scheme. The rest were SMEs without a current scheme.
- Two did not want to have any liability, or be seen by staff as liable, if the employer-chosen scheme collapsed (SMEs without an existing scheme.)
- One dealt with two scheme providers so decided not to choose “*one over the other* — *it was going to mess up the relationship we had with both*” (large enterprise with an existing scheme).

I have left it for IRD to nominate a scheme and, and those people who chose to invest in KiwiSaver it is up to them to choose, where they chose to appropriately put their money because I would hate to be, you know, to be responsible for also investing their money if it doesn't work [out].

(SME)

We just felt, because we are quite small, and – in all the literature it said that you should never give the people any financial advice at all or tell them – and we just felt that if we are choosing a scheme for the company, basically we were doing that [giving financial advice to staff]. So we didn't.

(SME)

Two did not know they could choose a scheme (SMEs without an existing scheme).

FINDINGS: Employer contributions

Conclusions

- Some of the employers disagreed with the compulsory employer contributions, seeing them as an additional labour cost that they might have difficulty meeting.
- Others accepted that the compulsory contributions were a feature of KiwiSaver.
- Most of the employers were waiting until closer to the time when the contributions are introduced, 1 April 2008, before deciding how they would include them in their current remuneration structure. This will be evaluated in phase 2 of the employer panel evaluation.

Response to compulsory employer contributions

Financial incentives are an important part of encouraging people to take part in retirement savings plans (Toder and Khitatrakun 2006). In particular, employer contributions are an incentive for employees who do not currently get such contributions, to join the savings scheme (Treasury and Inland Revenue 2007).

The matching employer contributions announced in Budget 2007 for KiwiSaver mean that, from 1 April 2008, employers will be required to contribute 1% of an employee's gross pay into their KiwiSaver account if that employee is contributing to KiwiSaver (or a complying fund). The rate of compulsory employer contributions will increase by 1% each year until 2011, when the compulsory contribution reaches 4%. (Employers can contribute voluntarily to their employees' KiwiSaver accounts. These voluntary contributions are on top of the compulsory ones.)

A KiwiSaver employer tax credit was also announced in Budget 2007. It will reimburse employers for their compulsory contributions to employees' KiwiSaver accounts by providing a tax credit at a rate of 100% up to a maximum of \$20 per week per employee (about \$1,040 per year).

Seven of the 34 employers accepted the compulsory employer contributions — all were SMEs. Reasons given ranged from expecting that compulsory employer contributions would be introduced at some stage, to believing that employers should contribute to employees' superannuation. The employer tax credit was seen as only covering part of the contributions cost.

Ten disagreed with the compulsory employer contributions. They saw the contributions as an additional labour cost that the organisation might struggle to meet — all of these employers were SMEs. The employer tax credit was regarded as a “gesture” that would partially offset the cost of the contributions.

I don't know enough about it [compulsory employer contributions] to actually understand the implications of it to be quite honest. I have left that up to my accountant to work through.

(SME)

About employer contributions and so on? My personal response? I actually thought it was just another cost to owners and quite an onerous thing to put on business owners who have to keep producing and seem to have ever more compliance costs like that put on to them. But, once again that's a personal view ... Yes, I think that's a flaw in the system.

(SME)

We are being asked to pay the Government's promise – I mean – I accept superannuation as such but it has just been loaded onto the employer again...

(SME)

Paying compulsory employer contributions

Thirty-one employers had not decided how they would include the compulsory employer contributions in their current pay structure. They were going to start working on this closer to April 2008. There was awareness that the contributions could create inequality amongst employees as KiwiSaver members will, in effect, get a 1% pay rise on 1 April 2008.

Yeah it's going to be a tricky one that one ... what do you do if you have got two good people, one is in KiwiSaver and one isn't. How do you do that fairly? And what if they get a pay increase and then join KiwiSaver [chuckle] what do you do then? So there would be all those sort of things ... it will probably be something that we will look at at the end of the year.

(SME)

It's yet to be crossed [reference to the metaphor about crossing a bridge] as to how we go about it – what we do etcetera but if it is mandatory we will have to contribute – we will need to do that but then obviously the other side of the coin is – people who haven't joined KiwiSaver – are they at a disadvantage because the company is not contributing – well in four years time it will be 4% won't it.

(Large enterprise)

... one of the issues we have been struggling [with] ... is that you are providing that employer contribution for everybody who elects into KiwiSaver but if you start doing that you are effectively only giving it to those individuals who can afford to go into it ... we could have two people in the [organisation] both being paid exactly the same, yet one could ultimately end up in the long-term getting 4% more pay than the other one because they're a single person with a lot of disposable income versus a person with

a family of say four or five who [are] basically struggling to have anything left at the end of the day.

(Large enterprise)

Two large enterprises with existing superannuation schemes had put a system in place to accommodate the compulsory employer contributions.

A SME regarded the employer contributions as an increase in staff “overheads” that employees “owed” him. Consequently, he had changed the wording in his individual employment contracts — staff are now on a total remuneration package that includes contributions to KiwiSaver.

Voluntary employer contributions

Employers can choose to make a voluntary contribution to their employees’ KiwiSaver accounts over and above the compulsory requirements. Three SMEs were thinking about doing this. (One of the three had an existing superannuation scheme.)

Two thought their voluntary contributions would be on top of what employees contributed (e.g. they would voluntarily contribute 1% on top of their employees’ 4% or 8% contribution). One believed this might give them a competitive advantage when recruiting qualified tradespeople who were in short supply. The other saw voluntary contributions as a benefit that might help to retain valuable long-term employees.

In contrast, the third employer was going to voluntarily contribute 2% towards his employees’ 4% contribution rate. It appeared that he valued saving and wanted to encourage his employees to save for their retirement.

FINDINGS: Effect on administrative processes

Conclusions

- Generally employers found administering KiwiSaver straightforward — the scheme had fitted easily into their current payroll system and process.
- However, a few had had difficulties. In particular, IR might be able to assist employers with two issues.
 - IR could explain the refund process in detail to employers (including the evidence IR requires of opted out employees' contributions) and investigate making the process faster.
 - IR might help employees and employers understand the process for choosing their own scheme provider better by setting out the expected communication lines between staff, employers and providers more clearly.

Joining employees

Employers must enrol eligible new employees in KiwiSaver, unless they are an exempt employer who provides access to a complying superannuation fund. Two employers were exempt for auto-enrolling new staff members. Both were large enterprises with current schemes.

Employers must also act on requests from eligible existing employees to join the scheme.

Ten had found the process of joining new and/or existing employees straightforward — aligning KiwiSaver with PAYE meant that the scheme slotted into their existing payroll process and they were able to file forms online. (All of them were SMEs one of which had an existing scheme.)

...so it [joining employees] has just been integrated – guys hand me the stuff [KS2 deduction form] and I just put it in [a folder] until I do the wages on a Wednesday and leave it at that.

(SME)

Any issues? No, none at all. The only sort of main issue I had was simply getting my head around the payroll software that we use to do it. But once I had actually sorted that out and, like I did it, the number crunching, the good old fashioned way with a pen

and calculator and paperwork and the numbers came out the same. I was really happy with that. And once I had that down and fast the rest of it seemed pretty straightforward. Admittedly there is certainly the added paperwork, but it is just situation normal – no I have got no issues with that [joining employees] at all.

(SME)

...as we've now become the size business that we are – is now compulsory for us to submit our forms to Inland Revenue on the internet – E-Forms – and because we've had to get software in to do that it's been very simple.

(SME)

Eight mentioned difficulties they had had with the enrolment process. Six were large enterprises with existing schemes. The other two were SMEs without a current scheme.

- Six had had issues with auto-enrolment.
 - Five referred to refunding contributions made by auto-enrolled employees who had opted out of KiwiSaver. One had got mixed messages about whether the organisation or IR should make the refunds¹². Another believed it was unclear that they had to supply IR with a list of all the payments they had made so that IR could refund contributions. The last three knew that some new staff were unhappy about being auto-enrolled and wanted the organisation to refund their contributions as soon as possible. However, the organisations had decided to let IR make the refunds, even though this might take “months”, because they wanted to avoid the “administrative nightmare” and extra administrative cost of reimbursing staff.
 - Two were going to have to auto enrol the same staff members repeatedly. One employed staff on a seasonal basis. The other employed staff who transferred from the organisation to another and back again on a regular basis.
 - One had had new staff who wanted to opt out after the eight week timeframe. The organisation refunded an employee's contributions if payroll staff had made a mistake that delayed the opt out request (KS10). Otherwise they referred staff to IR.
- Six discovered glitches with joining existing employees.
 - Two had got notifications from IR that employees had joined KiwiSaver. This prompted them to start deducting KiwiSaver contributions even though they had not got deduction forms (KS2) from the employees. One asked these staff members to complete a KS2 form so the organisation could hold on to it on the employees' personal files.
 - A couple had overlooked the need to send the KiwiSaver employee details form (KS1) to IR.

¹² Employers can choose to either refund any deductions that they have made but not sent to IR yet, or send the deductions with their PAYE payments and IR will refund the employee directly.

- One employer had got a letter from an employee stating that IR had agreed their contributions could be suspended for one year and that IR would instruct the employer to stop making deductions. However, six weeks later, the employer had not received the instruction and so was still deducting contributions from the staff member's pay.
- The sixth had an employee who had got a letter from IR telling him that he had been allocated to a default provider, after he had nominated a scheme provider. He telephoned IR's 0800 KiwiSaver line and was told that his default provider was the one IR had allocated him to rather than the scheme he had chosen. He then got a letter from his chosen provider acknowledging that he had joined their scheme.

One employer mentioned difficulties when an existing member was employed by the company because the employee had not realised that there was a need to inform the new employer of this.

A casual guy started ... and because he was casual he wasn't auto-enrolled but regardless of that we still gave him a book ... so he went away and we didn't hear from him. After the first pay came back he said "oh there's no deduction for KiwiSaver". I said "what do you mean?" and he said "I am already an existing member". [I said] "You know in that book I gave you and all that information that was something that you needed to let me know because we don't have ESP" and he goes "Oh OK" and I said "go away and fill out the form that you are [an] existing [member], bring it to me and I will sort it out for your next pay".

(SME)

Payroll systems

Employers are required to administer KiwiSaver by deducting contributions from employees' pay, and acting on opt out and contributions holiday requests. Twenty-five found it straightforward to set-up the payroll system needed to do this.

- Twenty-three had got a KiwiSaver upgrade for their computerised payroll system — they found the upgrade easy to use. (Two large enterprises with existing schemes and 21 SMEs, two of which had current schemes.)
- Two had added a column for KiwiSaver to their manual payroll system. One of them noted that the PAYE deductions tables, which include KiwiSaver calculation tables, were easy to follow. (Both SMEs, one with an existing scheme.)

Three had had difficulties.

- One described the timeframe for including KiwiSaver in the organisation's payroll system as "ridiculous". Initially their payroll provider, which is based in Australia, had problems getting the

KiwiSaver upgrade to work. Then they had to customise it for the organisation's payroll system. This left the employer with no time to test the system before using it to file the first pay in July 2007. When they filed that pay, they found that the "parameters" in the organisation's payroll software did not match those in IR's employer monthly schedule. This meant that the organisation's software could not "read" IR's. The employer had had to make a "manual intervention". (Large enterprise with an existing scheme.)

- Another had found errors in their payroll providers' KiwiSaver upgrade (e.g. incorrect formatting for employees' bank account numbers, not recording correctly that an employee had opted out, not allowing the organisation to make voluntarily contributions). (Large enterprise with a scheme.)
- The third organisation's online payroll system could not automatically process the KiwiSaver deductions. (SME without a current scheme.)

FINDINGS: Compliance costs

Conclusions

- The largest compliance cost was the time employers spent reading about the scheme, communicating it to employees and learning how to use the KiwiSaver upgrade for their payroll system. Overall employers seemed to accept this cost as an inevitable part of implementing a new scheme.
- The financial cost of putting KiwiSaver in place was minimal for the majority of employers.

Financial costs – preparation

One of IR's long-term aims (Inland Revenue 2007a) is to make it easier for organisations to voluntarily meet their tax obligations. Minimising the financial and time costs associated with administering KiwiSaver is one way of achieving this aim.

It had cost 19 of the employers nothing to prepare their organisation for KiwiSaver. This was mainly because the fee they paid to their payroll provider covered all system upgrades.

... it's been pretty smooth I'd have to say – I have been quite impressed with the whole process. It will be interesting to see whether or not the other troops feel the same about the information and such coming through ... there's a – it seems like a lot of hype and you brace yourself for the onslaught but when it actually arrived it's been quite workable.

(SME)

Eight employers specified set-up costs. These ranged from \$35 for a payroll upgrade, to approximately \$2,000 in professional fees to change a clause in an individual agreement.

Financial costs – long-term

Ten thought the long-term financial costs for managing KiwiSaver would be negligible. (All SMEs one of which had an existing scheme.)

Very minimal. It's only another column on the end of month tax, fortnightly tax and all the reports for that print out of EMS so all that I do is copy one to the other and that's it, yeah.

(SME)

Six of the SMEs saw the compulsory employer contributions as an administration cost — three of them disagreed with the concept of the contributions.

Six referred to the cost of staff time needed to administer the scheme. However, they were unable to quantify that cost because it will fluctuate according to the level of take up.

One large enterprise mentioned the cost of retaining independent advisors, who administered the organisation's existing scheme, to give financial advice to employees about KiwiSaver.

Time costs

The largest transition cost appears to be the time employers spent reading about KiwiSaver, communicating it to staff and learning how to use the payroll upgrade for the scheme. Twenty-two employers were able to quantify this time. Just over half had spent up to one day preparing for the scheme (see table below).

I would say, realistically, KiwiSaver so far – the upgrade was free – the only thing that I have done was the time ... I have probably spent approximately two to three hours talking with my existing staff and probably half an hour talking to my new employee about it and then probably an hour and a half sorting it out with the [payroll] thing – so realistically five hours of my time, tops.

(SME)

One exception was an employer that had spent 20 minutes flicking through IR's employer guide. He was waiting for an employee to join before he put any systems in place. (SME with no existing scheme.)

The other outlier was an organisation that had spent 80 hours answering staff member's questions and solving problems with their KiwiSaver payroll system upgrade. (SME with no existing scheme.)

Table 3: Time spent preparing for KiwiSaver by size of business

Time	Size of business		Total
	SME	Large enterprises	
Less than one hour	1	0	1
1 to 4 hours	7	1	8
More than 4 to 8 hours	5	0	5

More than 8 to less than 20 hours	2	0	2
20 to less than 40 hours	2	0	2
40 hours	2	1	3
80 hours	1	0	1

FINDINGS: Employers' communications to staff

Conclusions

- Employers had distributed IR's KiwiSaver employee information packs to new and existing staff. Many had given the pack to all of their existing staff, even though they are only required to give it to those who ask for one, because they thought it was important that their entire workforce knew about KiwiSaver.
- Many employers had got questions from staff about the scheme. Most of these employers, who were aware that they should not provide financial advice to employees, had erred on the side of caution by referring all staff who asked them anything about KiwiSaver to other information sources.

Distributing information

All of the employers had met their minimum responsibilities of distributing information packs to eligible new employees and giving them to existing employees who asked for one.

Nineteen had given a pack to all of their existing employees. One reason for this was the belief that staff should know about KiwiSaver. Another was that employers thought that existing staff would be unlikely to get information about the scheme from another source.

... obviously when we do the induction process that booklet is part of the process so we spend, generally, I spend usually an hour to an hour and a half with each individual employee so – go through all our paperwork etcetera so this is part of it.

(Large enterprise)

Well I just – because of our workforce being stable – you know – and no imminent new employees coming – I figured well the existing ones – if I didn't give them the book, where were they going to get it from. They are not extremely motivated to help themselves ...

(SME)

Answering questions

IR's KiwiSaver employer guide (KS4) states that employers should not provide financial advice to employees. Employers should refer their staff to the Retirement Commission's website or encourage them to talk to an independent advisor. Employers are not liable under the securities legislation if they provide general savings or KiwiSaver information to their employees.

All of the interviewed employers knew that they were not allowed to provide financial advice to their employees.

We did have a couple of launches to staff etcetera and we've got [an] intranet website where we have got details on there as well and, obviously, we can't give financial advice on KiwiSaver of course but we can point them in the direction where maybe they need to go.

(Large enterprise)

No I just gave everybody a pack and asked them to read it and if there were any questions come back to me but only, as I said, only one lady opted in and she obviously knows what she is doing. Nobody had any questions. The other girls simply can't afford it – they just can't afford it. They are either part-timers or full-timers on semi-basic wages because their work is fairly basic. So it is all non-skilled work so they just can't afford it.

(SME)

Employers aren't allowed to give advice and you are very careful not to...I just said, I gave him the brochure and I said "get onto the website, if you haven't got a computer come and use the ones here at work", and I said "you should be going to a reasonably dynamic fund. You don't want it locked away where you are only going to get 3% interest, you are only nineteen, you've got no loans, you know, you should be going for a reasonably dynamic sort of one. ... And yet, as an employer you are really not even supposed to say that – and you wouldn't in a big organisation – you wouldn't say anything because you don't have time to answer people's queries.

(SME)

Twenty-two of the 34 employers said that employees had asked questions about KiwiSaver. The two most common questions were whether the staff member should join the scheme (nine employers mentioned this) and which provider they should choose (10 employers said this).

When I initially handed out the booklets that we received I have been asked about what scheme I think is best and I sort of just made it clear that the information is in here if you want to discuss about schemes, particular schemes, you can contact those companies direct or the Inland Revenue Department, you know – I am very wary about giving financial advice to people...I don't know that much about it myself, so, I would pass that on. But I did say that I felt that KiwiSaver was something that they should consider, especially the younger, we've got some younger guys here - for the future if they already didn't have a savings Plan in place.

(SME)

Fifteen of the 22 employers who had questions from staff, decided to provide no savings advice to them. They referred employees to other information sources. (Four were large enterprises with existing schemes and 11 were SMEs, one of which had an existing scheme.)

- The information sources that the 15 employers referred staff to were IR's employee information pack, IR's 0800 KiwiSaver line, IR KiwiSaver website, scheme providers, the Sorted website or an independent financial advisor.
- Three of the 15 employers talked about the tension between maintaining good working relationships with staff and not providing any savings advice.
 - One was a large enterprise that was "well positioned" to provide such advice to staff, but did not do so.
 - The other two were SMEs. One felt that they should answer employees' questions while the other was "worried" about staff becoming angry if she did not remind them they were nearing the end of their opt out timeframe.

Seven of the 22 employers took a more active approach to answering employees' questions. All were SMEs without a current scheme.

- They helped staff work out what their contributions would be in dollars, used Sorted's calculator to determine what employees' savings would be worth at the current retirement age, discussed staff members' personal circumstances with them, or offered an opinion as a "friend".
- It appears that four were concerned about their employees' financial wellbeing (in general) and wanted to assist them to make an informed decision about the scheme. They believed that employees tend to see their employers as trusted information sources and that it was unlikely that staff would actively search out information about the scheme themselves.
- The other three's approach to the scheme seemed to be driven by meeting their obligations, maintaining the organisation's bottom line or, in the case of a financial service provider, serving their own customers.

Pretty much I've given them help where I can, because we can't give any financial advice – I sort of ask "have you chosen a provider", "yes", "well, contact them and they can give you financial advice – I can help you with the paperwork for other things but that's about as far as it goes" - because some of our staff have quite limited English – so, yeah.

(SME)

FINDINGS: Factors affecting employees' take up

Conclusions

- Design features and incentives, personal circumstances and contextual factors influenced employees' decision whether to join KiwiSaver or not.
- The design features and incentives are of particular interest to IR as the Department wants to find out how they are working.
 - Some design features and incentives were working as intended — the kick-start payment, member tax credit, deductions from source, compulsory employer contributions and ability to put savings towards a first home mortgage had encouraged staff to join KiwiSaver.
 - Other features had discouraged employees from taking up the scheme, notably the minimum contribution rate and locked-in savings.

Design features and incentives

Behavioural economics theory recognises that people put off saving because it is seen as a high up front cost with distant benefits. They also have difficulty sticking to long-term plans. This leads to behaviour such as inertia where people are more likely to go along with a decision that is made for them, than make their own decision. Rational and behavioural economic theories of saving suggest that automatic enrolment and locked in savings are two interventions that governments can use to counter people's lack of commitment to long-term saving (Treasury 2007b). International experience suggests that tax incentives which avoid generous tax benefits to high income earners and requiring people to invest in well managed privately-owned funds might encourage private savings (ibid).

Examples of the design features and incentives intended to encourage employees to join KiwiSaver are automatic enrolment, the default contribution rate, default scheme providers, kick-start payment and member tax credit.

For the 16 employees who were KiwiSaver members at the time of the interviews, the most influential design features and incentives¹³ that had encouraged them to take up the scheme were:

¹³ Employees and employers were able to mention multiple features.

- kick-start payment — the Government's \$1,000 tax-free contribution to members' KiwiSaver accounts (five employees)
- member tax credit — the Government is matching members' contributions up to \$20 a week (five)
- deduction of contributions from source — employers deduct contributions from members' gross pay (five)
- compulsory employer contributions — the proposed contributions that employers must make to their employees' KiwiSaver accounts (two)
- ability to put savings towards a first home mortgage — a member who has been in the scheme for three years might be able to put their savings towards buying their first home (one).

On the whole, employers did not comment on why employees had taken up KiwiSaver. However, one believed that the new employees in her organisation had stayed in the scheme because they were "too lazy" to opt out — these staff members were students employed on a part-time basis.

Some KiwiSaver design features and incentives generated the opposite response and discouraged take up of the scheme. Decisions by new employees who had opted out and existing staff who had not opted in were influenced by:

- minimum contribution rate — not being able to afford the minimum 4% contribution rate (mentioned by 11 employers and three employees)
- locked-in savings — members not being able to withdraw their savings until they qualified for New Zealand Super except under special circumstances (six employees and four employers)
- not government guaranteed — the Government has not guaranteed that members will get their money back if their scheme provider goes bust; the collapse of financial institutions prior to the interviews (which several interviewees referred to) might have heightened participants' sensitivity to this feature (six employees and four employers)
- private scheme providers — two employees were put off because they believed that providers do not have to declare all of their fund management charges; not knowing how to choose a "good" KiwiSaver scheme discouraged another staff member.

Personal circumstances

Treasury recognises that “...*saving is not necessarily the right approach for all individuals at all stages of their life.*” (Whitehead 2007 p.2). The Retirement Commission’s (Retirement Commission cited in Inland Revenue 2007b) Sorted KiwiSaver decision checklist helps people decide whether it is financially beneficial for them to take up the scheme.

The personal circumstances that stopped employees from taking up KiwiSaver were:

- had investments they were going to use for their retirement income including property, superannuation schemes and savings accounts — having a retirement income plan in place that is at least as good as KiwiSaver is a reason the Retirement Commission gives for not joining the scheme (nine employers and seven employees said this)
- being too young to think about retirement or too old to benefit from joining the scheme (five employers and two employees)
- paying off debt — the Retirement Commission includes paying off high interest debt as a reason for not joining the scheme (four employers).

Personal circumstances had motivated two new and three existing employees to take up KiwiSaver. Four wanted to save for their retirement. The fifth had heard in the media that it was a good idea to join the scheme if you did not have too many high interest debts and he could afford the 4% contribution.

Contextual factors

Two contextual factors appear to have resulted in a “wait and see” approach to joining KiwiSaver amongst existing employees.

- The possibility that future governments might change or stop the scheme has made staff cautious about taking it up.
 - The 2008 election appears to have heightened people’s sensitivity to governments “tinkering” with KiwiSaver (mentioned by four employers and five employees).
 - Memories of the Labour Government’s 1974 compulsory New Zealand Superannuation Scheme that the incoming National Government changed in 1975 have made staff “jittery” about opting in to the scheme (three employers).
- The newness of KiwiSaver and likelihood that there would be “teething problems” (e.g. members not being assigned to their chosen scheme provider) meant that staff had delayed joining the scheme (three employers and one employee).

END

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Appendix 1: Method

Design

The evaluation's purpose is to assess the early implementation of KiwiSaver in the workplace. A qualitative methodology was chosen so that in-depth information could be gathered from interviewees. The specific qualitative method used was panel research.

Panel research involves gathering information from the same group of participants at different intervals over an extended period of time (Black and Champion 1976). This approach is useful for comparing perceptions from one time period to the next and for revealing trends (ibid). The evaluation plans to collect information from a panel of employers in three phases over two financial years. Each phase is planned around key events in KiwiSaver.

Table 4: Timeframe for employer panel

Phase	Timing of interviews	Key event
Phase 1	September and October 2007	KiwiSaver started on 1 July 2007
Phase 2	May 2008	Compulsory employer contributions start on 1 April 2008
Phase 3	June 2009	Two years since KiwiSaver started

Semi-structured interviews were used to collect feedback from the panel of employers. This involved preparing interview guides that listed pre-determined issues to be explored during each interview (see appendix 3). The strength of this approach is that it enabled interviewers to cover the same topics systematically with each participant, while giving them the freedom to share their own perspectives and experiences.

Selection criteria

Employers

IR's Large Enterprises business unit in Assistance recruited six large enterprises for the employer panel. IR contracted a research company to recruit 28 SMEs (registered with IR as employers) for the panel. The company recruited the SMEs from a list of potential participants that IR supplied to the company. The criteria IR used to select potential employers from the Department's records were:

- geographic location — the employers were located within an hour's drive of Auckland, Wellington, Christchurch or Dunedin giving a mix of urban and provincial locations
- industry sector — the organisations ranged across the primary, manufacturing and service sectors

- number of employees — the hypothesis was that employers with a small number of employees (e.g. 1 to 5) might be less able to dedicate resources to meeting their KiwiSaver obligations than employers with a large number of employees (e.g. 100+)
- staff turnover — the hypothesis being that organisations with high staff turnover (e.g. for SMEs, having an average of more than two new employees reported on their employer monthly schedules during January to June 2007) would have to meet their KiwiSaver obligations (e.g. auto enrolling new employees) more frequently than those with low staff turnover (e.g. less than 1.5 new employees)
- existing workplace superannuation scheme — the sample needed to include employers with an existing scheme so that information could be collected about how they were going to accommodate KiwiSaver.

Employees

IR evaluators telephoned the 34 recruited employers in August 2007 to arrange interview times. During that telephone call, the evaluators asked the employers for permission to interview some of their staff (either individually or in small groups) during the visit. 25 of the 34 employers permitted IR evaluators to interview some of their employees¹⁴.

The employers recruited staff for the interviews in three ways:

- prior to the IR evaluators' visit, the employer asked their staff whether they would like to be interviewed and arranged interview times with those who did
- at the time of the visit, the employer asked staff whether they would like to be interviewed about KiwiSaver and brought those who did to the evaluators
- at the end of their own interview, the employer let the evaluators approach staff and ask them whether they would like to answer a few questions about KiwiSaver.

Sixty-three employees from the 25 organisations were interviewed in person during September and October 2007.

- Eleven of the 63 employees were new staff who had been auto-enrolled in KiwiSaver:
 - five had opted out of the scheme
 - three had stayed in it
 - three were deciding whether to opt out or not.
- Fifty-two of the 63 staff were existing employees:
 - 39 had not joined KiwiSaver
 - 13 had taken up the scheme.

¹⁴ The other nine employers were unable to give the evaluators permission to interview employees because staff were on leave or too busy.

Profile of participating organisations

Face-to-face interviews were held in 34 organisations during September and October 2007.

- The organisations were reasonably evenly spread across location:
 - 9 in Auckland
 - 10 in Wellington
 - 8 in Christchurch
 - 7 in Dunedin.
- The length of time they had been operating ranged from less than one year to over 100 years.
- The main business activities were:
 - manufacturing/retail (17)
 - importing/exporting (5)
 - health service provider (3)
 - food processing (2)
 - hospitality (1)
 - laundry (1)
 - customs agency services (1)
 - plant nursery (1)
 - banking (1)
 - accounting (1)
 - airport (1).
- They ranged from having one to just over 5,000 employees.
- Nine had an existing workplace superannuation scheme.
- Ten had nominated a KiwiSaver scheme that their employees could join.
- Twenty-eight employers were able to estimate the number of employees who had taken up KiwiSaver at the time of the interview:
 - 96 new employees had been auto enrolled, 19 of whom had opted out
 - 190 existing employees had opted in to the scheme.

Table 5 shows the spread of interviewees across the sample selection criteria.

Table 5: Interviewees' business characteristics

Location	Size (number of employees)				Sector			Existing scheme		Staff turnover rate	
	1-5	6-19	20-99	100+	Prim	Man	Ser	Yes	No	Low	High
Auckland (n=9)	2	2	3	2	2	4	3	3	6	9	0
Wellington (n=10)	1	3	3	3	1	3	6	4	6	9	1
Christchurch (n=8)	1	3	3	1	1	4	3	1	7	7	1
Dunedin (n=7)	2	3	2	0	1	3	3	0	7	7	0
Total	6	11	11	6	5	14	15	8	26	32	2

Information coverage

To gather comprehensive information, employers and employees will be interviewed twice during the 2007–08 year.

In the first phase of the evaluation, a range of topics was covered during interviews with employers:

- employers' perceptions of KiwiSaver
- types of information they had got or actively sought out about KiwiSaver
- the process of implementing and administering the scheme to date
- the administration and compliance costs of putting KiwiSaver in place
- how KiwiSaver has affected employers' relationships with employees, financial service providers and unions.

The topics explored in interviews with employees were:

- employees' perceptions of KiwiSaver
- types of information they had got or actively sought out about the scheme
- their decision process around taking up KiwiSaver.

Appendix 2: Existing schemes

Employers' existing superannuation schemes are summarised below.

Employer	Summary
Large enterprise 1	<p>Had six schemes.</p> <p>Five were closed to new members. Existing members were able to access their savings as a lump sum payment, a pension or a combination of both. About 70% of members opted for the lump sum payment when they left the organisation.</p> <p>The current scheme was open to all permanent staff who met the eligibility criteria (e.g. a satisfactory medical check). Employees had to join the scheme within three months of their start date and they could not opt out. Staff contributed 5% of their net salary. The organisation contributed 5% for the first five years and 15% thereafter. Employees were not able to take a contributions holiday but they could reduce their contribution to 2.5% of their net salary for up to five years. If an employee died their estate got a lump sum payment that was four times their net salary. On leaving the organisation, a staff member got a lump sum payment which was tax exempt. Around 99.9% of staff belonged to the scheme.</p>
Large enterprise 2	<p>Had a scheme that has existed for 120 years. Employees could contribute up to 7% of their pay. The employer also contributed up to 7%. The employers' contributions were part of a total remuneration package for half of the staff. Employees could access their savings. The scheme had around 2,500 members.</p>
Large enterprise 3	<p>Had two schemes.</p> <p>One was a government superannuation scheme that is closed to new members. The organisation matches some employees' contributions dollar for dollar. About ten staff members belong to the scheme.</p> <p>The other was a superannuation savings scheme. Staff could join it after they had been with the organisation for six months. The organisation did not contribute to the scheme but paid the fund management fees.</p>
Large enterprise 4	<p>Had two schemes, one for each industry the organisation worked in.</p> <p>The first one was open to permanent full-time staff. The employer started contributing 3% from an employees' start date. Staff could contribute to the scheme after one year. The organisation matched 75% of employees' contributions for the first four years, increasing to dollar for dollar after that.</p> <p>In the second scheme employees contributed 6% and the employer contributed 9%.</p>
Large enterprise 5	<p>Had two schemes.</p> <p>One was a government superannuation scheme that is closed to new members. The employer matched employees' contributions up to 5%. Approximately 1,200 staff belonged to it.</p> <p>The other scheme was open to one occupational group. The employer matched employees' net contributions up to 6%. Approximately 60% of that group belonged to it.</p>
Large enterprise 6	<p>Had an industry scheme that staff could join after two years. The employer matched employees' contributions up to \$30.80. The take up was 34%.</p>

- SME 1 The organisation contributed 6% and employees contributed 4% to the scheme. Staff could cash in the scheme or take it with them when they left the organisation.
- SME 2 The organisation contributed to the scheme after an employee had worked there for ten years.
- SME 3 An historical scheme that three or four long-term employees belonged to. It seemed that the scheme was closed to new members. The interviewee did not know how the scheme operated.
-

Appendix 3: Interview guides

1. Employers

Introduction

Purpose of evaluation

Length of interview

Interview is confidential

Permission to tape interview

Participant's background

Participant's role

Length of time in role

Length of time organisation been operating

Perceptions of KiwiSaver

First thing that came to mind when heard about KiwiSaver

Response to budget changes (e.g. compulsory employer contribution, employer contribution tax exemption)

Organisation

Data — number auto-enrolled, number opt ins, number opt outs

Employees' reasons for joining KiwiSaver or not

Future trends in take up

Selected provider as employer-chosen scheme — who, why, issues

Existing superannuation scheme — made contributions to it, how accommodated KiwiSaver

Information about KiwiSaver

Type of information employer got about KiwiSaver

Where the information came from

How helpful IR information was

Type of information employer actively sought out about KiwiSaver

Implementation process

What did it involve

Time it took

Issues

Cost

Putting KiwiSaver in place — change to payroll system and process

Managing KiwiSaver

Relationships

Staff — any questions

Financial service providers

Unions

Conclusion

Any other comments about KiwiSaver

2. Employees

Introduction

Purpose of evaluation

Length of interview

Interview is confidential

Permission to tape interview

Employee's role

Length of time in role

Perceptions of KiwiSaver

First thing that came to mind when heard about KiwiSaver

Information about KiwiSaver

Type of information employee got about KiwiSaver

Where the information came from

How helpful IR information was

Type of information employee actively sought out about KiwiSaver

KiwiSaver decision

Whether taken KiwiSaver up or not

Reasons

Influences

Issues

Conclusion

Any other comments about KiwiSaver