

Saving New Zealand

What is 'Saving New Zealand'?

Saving New Zealand is a project instigated by the Investment Savings and Insurance Association ("ISI") to bring a fresh view to the debate on savings in New Zealand.

The plan is to form a 'Partnership' of government, individuals, employers, unions and the financial services industry to design a framework for savings that will enable New Zealanders to each accumulate sufficient personal savings to give them more financial freedom.

The ISI believes that private saving in New Zealand has been stifled by the public's confusion and general lack of understanding about how and why they should save. Increased savings has the potential to substantially increase both personal and national welfare.

Working together to achieve change.

Understandably, there is some reluctance to lock savings away for a long period when the immediate future appears so uncertain and there are other spending priorities such as health and education.

We believe the whole issue of savings needs to be looked at from a 'lifetime' point of view so that everyone will have personal savings that can be drawn on for specified expenditure at different stages in the lifecycle.

Saving New Zealand is intended to shift the current inertia around savings to a broader vision, with the objective of achieving an integrated savings framework for New Zealanders by the end of 2003.

Why do we need to encourage more private savings?

Savings are important at the personal level and also at the national level. A fund of private savings gives each person 'financial flexibility', such as the ability to take time out of the workforce to retrain, to have an overseas trip, or to have a hip replacement without going on the public hospital waiting list. Compared with borrowing (often at very high interest rates), saving for goods releases income that would otherwise be spent on interest payments. Saving also allows for extra income in retirement to supplement the amount available from NZ Superannuation.

Individual 'financial flexibility' and a boost to the economy.

All the major political parties are committed to maintaining the provision of NZ Superannuation in some form, and there is no suggestion that the current level of state funding in other areas will be reduced. By the time the majority of baby-boomers retire, however, the level of NZ Superannuation benefit is likely to be sufficient only for a very basic

standard of living. Anyone who wants any extras should expect to pay for them from their own private savings.

At the national level savings are important to drive the economy and provide sources of investment from within the country. In a speech to the 2002 National Summit on Retirement Savings the Chairman of the U.S. Federal Reserve, Alan Greenspan, noted that savings are crucial to economic growth in two ways:

- Savings contribute to America's capital markets by funding capital investments and thereby boosting productivity.
- Savings give retirees individual spending power.

What is the Framework and how will it help?

The savings framework is intended to be a plan, showing New Zealanders what they can expect from the State, and how they can supplement that with their own savings, especially through their workplace. Once agreement is reached on a way this can be done, it will remove the confusion over why private saving is needed, what the options are, what the tax treatment will be and what impact saving will have on their future entitlement to state benefits. It will take the current level of state benefits (including education, health and NZ Superannuation) as the foundation and give people the confidence to plan medium/long-term savings on top of that, with some certainty about what the outcome is likely to be.

Having a framework will remove the confusion

Why should I sign up to the Partnership?

The best way to achieve agreement on a framework for lifetime savings is through a partnership between government, individuals, employers, unions and the financial services industry.

With co-operation, commitment and a concerted effort by all parties a framework can be designed which will give the public some certainty in planning for their financial milestones and some assistance in achieving lifetime security. This framework will set out clearly how State provision and private savings can work together to cover expenditure needs at different stages of the life cycle. For instance, tertiary education, retraining later in life, medical treatment or the provision of retirement income. It will also set out the various options available for private savings and the tax treatments of those options.

Working together will achieve the best result.

The success of such a framework in encouraging private saving will depend to a large extent on public confidence. That is why the 'Partnership' approach is

important. It will catch the public attention (such unity is unprecedented in NZ) and inspire the imagination with what is possible if we all work together. A framework based on the co-operation of employers, employees, Government and business will present a firm foundation on which people can build their financial security.

What commitment is expected from the Partners?

It is important that anyone who signs up to the Partnership is prepared to give a commitment to support the process of designing the framework. Some will choose to be more actively involved than others.

Give a commitment to support the process.

We will set up an electronic group so that we can seek comments from and distribute information by email to all those who sign up as Partners. The most important input sought will be suggestions for the design of the framework to be discussed at a mid-year 'savings forum'.

The main contribution expected of Partners will be to participate in the debate and support the process of designing a framework.

How can we make a difference?

We can raise the awareness of the need to save by publicising the creation of the Partnership. Actual progress will only be made once the framework has been designed and that will be an outcome of the process. We envisage holding a "Savings Forum" mid-year to provide a focus for the discussion. Once the shape of the framework has been agreed we can do some further work on the policy details

- Step 1:** Sign up Partners who are prepared to commit themselves to finding a way to make a difference
- Step 2:** Identify the problems that need to be resolved in order to 'kick-start' savings and agree on the basic structure of a framework at a 'savings forum'
- Step 3:** Agree on detailed policy design for recommendation to Government and the Periodic Review Group.