

19 May 2005

INDUSTRY SUPPORTS WORKPLACE SAVINGS BUDGET ANNOUNCEMENTS

“The Budget initiatives announced by Government to stimulate increased personal savings will be welcomed as a step in the right direction”, said Mr Arkinstall, Chief Executive of the Investment Savings and Insurance Association.

“The Minister is to be congratulated for introducing this first step towards a solution”, Vance Arkinstall said.

“There is a growing need for Government action to bring about a change in personal savings habits. This has become a priority issue in New Zealand and action is long overdue.” It is certain that “many potential savers cannot get there on their own and require assistance”, said Mr Arkinstall. This announcement provides an important start.

“The proposals are well targeted at lower and middle income earners but contain clear signals for high income earners. Deduction from salary is proven to be the most efficient and effective method of saving. The plan contains flexibility for savers and will not be onerous on employers. These are attractive features”, said Mr Arkinstall.

“Whilst we are pleased at the overall intentions announced by the Minister, it remains to be seen whether the plan as announced contains sufficient attraction and commitment to change the national culture from ‘spenders to long term savers’”, said Mr Arkinstall.

“The \$1000 upfront contribution by Government provides a very useful kick start for workplace savings but the lack of ongoing encouragement will be a design aspect that will come under pressure for a stronger commitment or compulsion in the future.” Mr Arkinstall said.

“The Workplace Savings plan represents an important and positive step forward for New Zealand savers. If this does not have the desired results, then it provides a platform for stronger action by Government in the future to achieve the level of change that is needed. The Minister has delivered a clear signal that personal saving is important and that everyone who can should take greater responsibility for their long term financial security”, Vance Arkinstall said.

“There is ample evidence that NZ has a low personal savings rate”, said Mr Arkinstall (statistics showing NZ as having the lowest household savings rate in the OECD; Statistics NZ showing declining home ownership rates and the Reserve Bank showing ballooning household debt as a percentage of disposable income, all support this view) [details of the sources of this evidence are shown at the bottom of this media release].

“Those who continue to rely heavily on NZ Superannuation will limit their standard of living to the basic necessities – NZS was only ever intended to provide a basic income level. Achieving a more comfortable lifestyle will require individual savings to supplement NZ Super.”

“No doubt the Minister’s announcement will be criticised by those who ignore the crisis of an ageing population and the growing call from New Zealanders for assistance to prepare for

older age and retirement. These detractors overlook the fact that many people would like to have greater financial security but need guidance and assistance to make a start. The Budget announcement provides a pathway for ordinary New Zealanders to start their long term savings. It is not be a huge step but it does point us in the direction many New Zealanders recognise as important.”

“The challenge now will be for Opposition political parties to either support these proposals or front up with alternatives that are more likely to create a sustainable savings culture.”

For further information contact:
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Statistics Available and their Source (to support claim that NZ has low personal savings rate)

Reserve Bank – Household Debt.

OECD Economic Outlook 76 Database – Household Savings Rates.

Reserve Bank – Credit Card Statistics 4/05.

Comparison between NZ and Australia

NZ population 4m vs Australian 20m.

Savings in Managed Funds NZ \$40b vs Australia over \$800b.

Population multiple Australia 5 times bigger.

Savings multiple Australia 20 times bigger.

Hard to argue that Australia is not preparing better for the challenge of an ageing population.