**Press release – section 9**

***The Missing 2016 Review* – Tax breaks for retirement saving are a bad idea**

**24 July 2017**

Michael Chamberlain and Michael Littlewood have launched what they say is the review of retirement income policies that New Zealand should have received from the Retirement Commissioner in December 2016. Their report is called *The Missing 2016 Review – building trust for life beyond work* and is available online at [www.alt-Review.com](http://www.alt-review.com/).

This press release looks at the arguments against tax breaks for retirement saving.

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**Summary:** Tax breaks for retirement saving are expensive, complex, inequitable, distortionary and regressive. But, worst of all, they seem not to work (raise saving levels). They could even reduce saving levels.

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The Minister of Finance says that he wants to look the idea of using tax breaks to encourage more savings. In the Budget ‘lock-up’ on 25 May 2017, he reportedly said: "I literally didn't have time to have a look at it in the current cycle but I'd like to have a look at it in future years – if I get the opportunity."

However, in *The Missing 2016 Review – building trust for life beyond*, authors Michael Chamberlain and Michael Littlewood eviscerate the case for tax breaks to ‘improve’ New Zealanders’ saving habits. They conclude:

“Tax breaks for retirement saving are expensive, complex, inequitable, distortionary and regressive. But, worst of all, they seem not to work (raise saving levels). They could even reduce saving levels.”

The authors even question the $800 million a year currently spent on KiwiSaver tax subsidies. Where is the evidence, they ask, that the subsidies or even KiwiSaver itself have increased savings in the ten years since it began?

Chamberlain and Littlewood also point out that tax subsidies for retirement saving have unintended consequences. “For starters, they impose a deadweight cost on the economy. Taxes have to be higher overall to pay for them (‘my tax incentive is your tax cost’). The Treasury estimates the deadweight cost as being about 20%. In other words, the full cost to taxpayers of $100 of tax relief is about $120. That is an extra burden on the economy that must be paid for.”

Savers themselves will allow for the value of the concession when setting their retirement income saving target. The cost of reaching that target is less in the presence of a concession and so the annual saving required to reach is less. “That’s why saving specifically for retirement could be lower if we had tax concessions than if we didn’t.”

Chamberlain and Littlewood say that New Zealand taxpayers have spent more than $8.5 billion on KiwiSaver since it started 10 years ago. “Is there any evidence that KiwiSaver has increased saving levels?”, they ask. “Before we even think about extending tax breaks for saving, let’s at least look to see whether KiwiSaver is ‘working’.”

The report suggests that governments seem unable to encourage citizens to save more than they want to save. Savers will naturally take account of the value of concessions. Also, the international evidence is that most of that value is captured by the highest earners:

“Where is the sense in asking all taxpayers to help pay for something that only those who can afford to save take advantage of? Economists call that effect ‘regressive’ – the rich benefit at the expense of poorer taxpayers.”

The authors also suggest that, before KiwiSaver started, there was no evidence that New Zealanders were under-saving for retirement.

*The Missing 2016 Review* finishes its analysis of tax incentives with a list of five questions that their proposed review of retirement income policies will need to address.

A review of tax and the implications for retirement saving is number seven on Chamberlain and Littlewood’s list of the nine key elements that they think should form the framework of a sustainable, flexible, inclusive, successful retirement income framework. Greater economic growth and a new longitudinal survey of households’ financial lives are numbers one and two on that list.

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**Report accessible at:**

[www.alt-Review.com](http://www.alt-review.com/)

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* Also, each of the 22 sections;
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