

Business Matters

FEATURE

APRIL 2006

To Save or Not To Save

That is the Question?



Household Savings in New Zealand is at a crisis point, we cannot continue to believe that one day we will buy a rental property and it will be our retirement plan. Our Kids are going to be lucky to buy a first home without mortgaging their children so we must change our savings habits and also those of the following generations if we are to be successful as a Country.

To retire comfortably you need to have a balanced portfolio of assets that might include an investment property, shares and cash. It is a lot easier for young adults to start accumulating cash than any other asset. What stops them is self-discipline, we know it is good for them, but how do we make them save.

Working on the philosophy "what you don't see you won't miss" will create that savings discipline and rather than having nothing saved at 25, they will at least have a decent nest egg and the knowledge that they can save. It is this mind set that we need to instill in our younger generation.

As a business owner you have an influence on your staff, so you can choose to bag the concept of saving or promote it. If your staff's financial future is secure then they will feel secure and be a better employee because of it.

So what are the options?

1. **Independent Savings Scheme**
2. **KiwiSaver**

Independent Savings Scheme

The KiwiSaver scheme has significantly stimulated the debate around employee savings schemes.

HWI supports the concept of an employee savings scheme to encourage savings behavior to help each team member achieve their personal savings objectives.

The schemes can be structured to be entirely employee contributions, or can also include employer contributions.

The main advantages to an independent scheme are that the savings habit is introduced however, unlike the KiwiSaver scheme, the funds are available to be withdrawn as and when required – there is no need to wait until you're 65.

Plouton Planners can assist you with setting up an employee savings scheme of your own to encourage your employees to change their savings habits and assist them towards long-term financial stability.

Overview of a Typical Structure:

Available to staff who have been with the firm more than 6 months.

Eligible staff would be welcome to participate in the scheme, but this is entirely optional.

The Company could provide a subsidy of 50 cents per \$1.00 saved up to a maximum of \$10.00 per staff member per week ie \$20.00 of savings from the staff member's personal funds would attract the maximum subsidy. Staff are welcome to contribute additional funds to their savings plan in excess of the \$20.00, but these additional funds would not be subsidised.

The company's subsidy would be added to the team member's fortnightly salary & grossed up so that the net amount received after tax is equal to the value of the subsidy. All investments in the scheme would be through the Professional Advisory Network &

administered by Plouton Planners Ltd. An investment account would be opened in **PAN** in the staff member's sole name.

Withdrawal of any funds would be solely at the discretion of the staff member. Staff leaving the firm's employment would be welcome to continue with the plan but contributions from the firm would cease.

Contact **Jonathan Hislop** for further details.

KiwiSaver

KIWISAVER is a voluntary work based savings scheme for employees that will start on 1 April 2007 and is intended to increase the level of household savings and improve New Zealander's financial well-being in retirement.

Employees will be automatically enrolled into KiwiSaver when they start a new job. They will have six weeks to "opt-out". Scheme enrolment is not automatic for existing employees or workers under 18 - they will be able to join if they wish. Self employed people and beneficiaries will also be able to join.

Savers can elect to put four or eight per cent of their gross salary automatically into a qualifying savings fund that they choose. Savers will have personalised accounts that they can take with them if they change jobs, and they can change schemes and take contribution holidays after 12 months in the scheme.

The Government will contribute \$1,000 into each person's KiwiSaver account, which, together with the employee's savings, is locked in until the recipient reaches the age of eligibility for New Zealand Superannuation and will contribute towards members' fees. KiwiSaver will also allow some savers to make a one-time withdrawal of their funds for a deposit on their first home. Certain eligible savers will also receive, after three years membership, a home deposit subsidy of \$1,000 per year of membership in the scheme up to \$5,000.

helping with your business is our business



The Cost of four weeks annual leave starts this year for employers



Four Weeks Annual Leave Starts in 2006 For Many Employers
The minimum annual leave entitlement increases from three weeks to four weeks from 1 April 2006 as far as the vast majority of employers are concerned who use the leave accrual methodology. And it brings another round of administrative problems for HR Managers and payroll.

While employees cannot get access to that leave until at least April 2007, employers will be putting money aside based on four weeks from 1 April 2006 to ensure they can pay for it. The Holidays Act increases employee's holidays from three to four weeks from their anniversary date on or after 1 April 2007.

If an employee leaves their job after 1 April 2007, they get paid annual leave based on four weeks right back to their anniversary in 2006.

Say an employee leaves their job after 1 April 2007, but before their anniversary date when they would get the extra week's leave, the annual leave they have accumulated between their anniversary dates in 2006 to the date of their departure is to be paid out at 8%, not 6%. The extra 2% increase in cost is put aside now so an employee can be paid if they leave. An employee who just wants to take a holiday gets their entire year's annual leave entitlement all at once on their anniversary date each year.

Employers accrue the costs of leave during the year leading up to the anniversary date in case employees want to use it immediately.

There is plenty of room for confusion with an employer's systems accruing the extra leave in 2006 but the staff not being entitled to it until 2007.

Tips

- The anniversary date is the date the employee started work for you.
- The need to put money aside to pay for this extra leave is from each employee's anniversary date on or after 1 April 2006.
- If an employee leaves before 1 April 2007, all leave is paid at 6%.
- If an employee leaves on or after 1 April 2007, it is only the leave accrued after their anniversary date falling after 1 April 2006 that is paid out at 8%. Leave accrued before that date is paid out at 6%.
- While your computer systems may be including the extra week's leave, staff are not able to take it until their anniversary date in 2007. Any staff who take this extra leave and then resign before April 2007 will have taken paid leave to which they are not entitled.
- If the extra leave accrual is showing on pay slips before April 2007 it may cause some confusion for staff working out how much leave they have available to use. It is recommended this extra leave either not be shown on pay slips until April 2007 or be shown separately with an explanation.

BUSINESS EXPO

HWI is exhibiting at this years Business Expo on the 10th - 11th - 12th of May at the Auckland Showgrounds. You can find us in Hall 2 Stand 236. We have complimentary tickets available, please contact our reception to receive them.

HWI FREE MONTHLY SEMINAR BREAKFAST

See each month's programme and book online at www.hwi.co.nz
SEMINARS

PEOPLE NEWS

Tony Keogh departed on the 22nd of March to do some exploring in London for a few Years. We wish him luck and look forward to catching up with him when he returns.

HWI TEAM SUMO

They made it to the netball finals again this season, but it seems they had to forfeit the final due to a mysterious illness that swept through the office late that afternoon. 3 players having to withdraw and 1 under suspicious circumstances failed to show.

Umesh Dewan

Has Joined the HWI Team, Umesh will be part of Jonathan Hislop's team and comes with 15 years experience in a CA environment.

Definition Of Direct Marketing

"Direct marketing is an interactive system of marketing, which uses one or more media to effect a measurable response and/or transaction at any location".

The key words are "interactive" and "measurable response".

Direct marketing is not advertising. It is selling to existing and potential identifiable customers.

General advertising builds awareness and creates a positive image for a new product.

Direct marketing asks for the order.

Because the results of direct marketing are measurable the sales approach can be tested and then modified to achieve the best results.

For more information call + 64 9 307 8500 fax + 64 9 307 8505 email hwi@hwi.co.nz

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