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Opportunity for a lifetime: Creating an ownership society in New Zealand

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EXECUTIVE SUMMARY

New Zealand is facing a serious ownership challenge. Many New Zealanders do not have a meaningful asset ownership stake, with over 800,000 New Zealanders owning less than \$20,000 and with a median household wealth of just \$68,300. At an aggregate level, New Zealand household savings are amongst the lowest in the OECD and New Zealand has one of the highest levels of external debt in the developed world.

These ownership outcomes have substantial economic and social implications. Asset ownership is linked to improved life outcomes for individuals as well as to more cohesive communities, and the level of savings matters importantly for the level of investment, productivity and growth.

This report identifies policy solutions that will generate a material improvement in ownership outcomes and create an ownership society in New Zealand – to provide opportunity for a lifetime for many more New Zealanders.

Deliberate policy is needed to broaden the distribution and raise the level of asset ownership

A key reason for New Zealand's low and declining ownership outcomes, in an otherwise supportive economic environment, is the absence of policies to support asset accumulation. Whereas debt accumulation has been made considerably easier over the past decade, nothing has been done to make savings and asset accumulation easier.

In contrast, all other Anglo countries – Australia, Canada, the UK and the US – have significant policies in place to

promote and encourage savings and asset ownership. The international evidence shows that these policies do generate improved ownership outcomes. So the good news is that there are policies that can improve the savings and asset ownership position of New Zealanders.

The objective of ownership policy in New Zealand is to simultaneously broaden the distribution of asset ownership and also raise the level of ownership. Ensuring that many more New Zealanders are able to build an ownership stake will generate substantial benefits, both financial and non-financial, to the individuals involved and the communities in which they live.

And increasing the level of household savings and asset ownership will generate substantial benefits to the national economy, by providing a larger pool of capital to finance domestic investment and by reducing the size of New Zealand's external debt.

A broad and substantial challenge demands a broad and substantial policy response

New Zealand's existing ownership outcomes and the evidence on the social and economic benefits from asset ownership mean that improving New Zealand's ownership outcomes is one of the key challenges facing New Zealand. To improve these outcomes in a material way, both in terms of broadening the distribution and raising the level of asset ownership, a substantial and sustained policy response is required.

Achieving this will require a policy response that has the following design characteristics:

- Mass participation, so that most, if not all, New Zealanders receive encouragement and assistance in building an ownership stake.
- Flexibility, so that a range of asset ownership challenges can be addressed, from student loan debt to home ownership to retirement savings.
- Creation of a savings culture, so that the increase in household savings is sustained through time and continues to grow.

Achieving a material improvement in ownership outcomes will require a significant and sustained fiscal commitment from the government. In short, the size of the policy solution needs to be aligned with the size of the ownership challenge.

This report proposes that the government make a commitment of \$4 billion p.a. – roughly \$1000 per New Zealanders – to asset ownership initiatives. This number is chosen because it is sufficient to make a material difference, it benchmarks well against the government's current spending on other initiatives and what other countries spend on promoting asset ownership, and it is consistent with the government's fiscal projections.

Establishment of a Kiwi Savings Account

The major recommendation in this report is the establishment of an individual lifetime savings account.



Kiwi Savings Accounts will be created automatically for everyone at birth, with the government providing a \$500 endowment at birth and again at age 5 and at age 10. The government will also match voluntary contributions into this account 1:1 up to an annual limit of \$200 until age 18, although additional contributions are welcomed. The endowment and the matched savings will accumulate in the account tax free until age 18. Under conservative assumptions, a balance of over \$14,000 by age 18 is likely, which for many people will eliminate the need for a student loan.

For those earning taxable income, it is proposed that the government make an annual lump sum contribution to the account in the form of an across the board reduction in the personal marginal tax rate of two percentage points. People will be required to save the tax rate cut into the savings account, at least initially.

And the government will match additional voluntary contributions to this account at a rate of 0.5:1 up to an annual limit of \$1000, with a supplemental match for those in the lowest tax bracket (earning under \$38,000) to make it a 1:1 match. Employers will also be encouraged to make contributions to these accounts.

Money can be withdrawn from the account for four purposes: to finance education and the repayment of student loan debt (the portion that relates to tuition costs); to finance the deposit on a first home; to finance retirement; and for transfers to the accounts of other family members.

This proposed savings scheme will have a substantial effect on the ability of New Zealanders to build wealth. And it will also lead to a material increase in the level of national savings – perhaps up to 4% of GDP p.a. – which will lead to a significant improvement in the external balance.

A range of other policies are required to supplement this savings policy

Achieving the desired improvement will require a series of policy changes in addition to the Kiwi Savings Account – no one policy can achieve everything. In particular, there is scope for policies in at least four areas to be altered so as to promote asset ownership.

Financial education is critical to achieving a change in the savings culture, and the establishment of a universal savings account provides a great vehicle for this. Strengthened financial education

initiatives at school and university, in the workplace, and among the general public are required.

Efforts should be made to reduce the amount of student loan debt that is incurred, through financial education, and to encourage the rapid repayment of this student loan debt – for example, through rapid repayment incentives and increasing the default repayment rate.

Housing policy needs to be refocused to provide a much greater emphasis on home ownership. Substantial effort and resource is currently committed to housing policy, but there are very few initiatives aimed at home ownership. This needs to change.

And finally, welfare policy should increasingly focus on ways to assist low income people accumulate assets and to get out of debt in addition to the standard focus on incomes. Internationally, asset building policy in low income communities has been very successful, and there is considerable scope for moving in this direction in New Zealand.

In sum, broadening the distribution and raising the level of savings and asset ownership needs to be a top priority for government, business, and community organisations. Improving ownership outcomes will generate profound economic and social benefits for individuals, communities, and for New Zealand as a whole, and this report contains a series of bold and creative proposals to achieve this objective.

