

Hon Peter Dunne

Minister of Revenue



28 May 2009

Media Statement

KiwiSaver mortgage diversion to be closed

The KiwiSaver mortgage diversion facility is to be closed to new applicants from 1 June 2009, Revenue Minister Peter Dunne announced today.

Mortgage diversion is a feature of KiwiSaver that allows members to divert up to half their contributions to their mortgage repayments.

"Any benefits of mortgage diversion are outweighed by its disadvantages, while not all banks offer it and only about 600 people out of more than a million KiwiSaver members have taken it up," Mr Dunne says.

"Mortgage diversion imposes additional and unnecessary compliance costs on KiwiSaver providers and on banks that offer the facility, and these costs are generally passed on to members using the facility through increased fees.

"It also goes against a basic principle of KiwiSaver to lock in savers' funds until they are 65, thus helping them to accumulate assets for their retirement years. Someone using mortgage diversion could, for example, sell the house before he or she is 65, thus gaining access to funds.

"There is no practical way of stopping members gaining early access to their funds via mortgage diversion, without imposing further compliance costs on banks and providers and further complicating the law. It is simpler and more straightforward to stop offering the facility for new applicants," Mr Dunne says.

Mortgage diversion will be closed to new applicants from 1 June, while remaining available for existing participants. However, as providing mortgage diversion has never been obligatory, providers and banks can stop providing the facility to existing participants if they so choose.

"Legislation bringing about the change is being introduced today."

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KiwiSaver change from 1st June 2009 Mortgage Diversion

Overview of Change

As part of the Budget announcements on 28th May 2009 the Government announced their intention to close the KiwiSaver Mortgage Diversion facility to new and existing KiwiSaver members from 1st June 2009.

Please note this is a proposal until it is passed into law, which we expect may take a few days.

Under the proposal, the Mortgage Diversion facility will continue for members currently using the facility, for as long as Scheme Providers and banks continue to offer it. The closure of Mortgage Diversion means that people who stop using the facility from 1 June will not be able to restart, and people who transfer between providers will not be able to continue using the facility. Members who are using Mortgage Diversion and who go on a contributions holiday, or take unpaid leave, will continue to be able to use the facility when they start making contributions again.

Media Release

For further information please find attached a copy of the media release relating to the KiwiSaver change, as well as Inland Revenue's media questions and answers.

Business Process and System Implications

Because Inland Revenue is not responsible for policing mortgage diversion, and because the facility will still be available to members currently using it, Inland Revenue does not need to make changes to its business process or systems.

This means that there will be no changes required to any B2B messages for Inland Revenue or Scheme Providers.

However, in order to help Scheme Providers ensure that members are not accidentally signed up to Mortgage Diversion from 1st June 2009 Inland Revenue will implement a manual monitoring and contact process. Further details of this process will be provided in the updated KiwiSaver Business Process Manual which will be issued shortly.

Communications to Members

Inland Revenue has prepared updates to our websites, our call centre knowledge base, and the relevant KiwiSaver guides (KS3, KS12, KS33) to help answer any member enquiries that are received as a result of this change.

Generally these changes consist of either a notation that the KiwiSaver Mortgage Diversion facility has closed or a complete removal of references to Mortgage Diversion.

In addition we will add a paragraph to the letters we send to members who enrol in KiwiSaver via their employer. The paragraph is as follows:

"From 1 June 2009 no further new or existing KiwiSaver members are able to sign up for mortgage diversion. Please disregard any information in your scheme provider's investment statement about the ability to sign up for mortgage diversion as it no longer applies."

Upcoming Request for Information: Members Using Mortgage Diversion

As part of ensuring that records are up to date and accurate Inland Revenue will shortly be requesting that Scheme Providers offering Mortgage Diversion at 31st May 2009 provide a list of all members using the facility at that date. This request will be sent through via your Relationship Manager in the near future.



Inland Revenue
Te Tari Taake



Q&As for Mortgage Diversion

What is mortgage diversion?

The mortgage diversion facility allows KiwiSaver members who meet certain criteria to divert up to half of their contributions to their mortgage repayments. Not all scheme providers offer mortgage diversion.

Why is mortgage diversion being closed?

Please refer to the Minister's media release.

How does the closure affect members who are already using mortgage diversion?

Mortgage diversion will be closed for new applicants from 1 June 2009. All members using mortgage diversion at 1 June 2009 will be able to continue using the facility for as long as their scheme and mortgage providers offer the service.

Can scheme and mortgage providers currently offering mortgage diversion stop offering the service to existing participants?

Scheme and mortgage providers have never been obliged to offer mortgage diversion. Providers and banks are free to stop offering mortgage diversion to existing participants if they choose.

How many people currently use mortgage diversion?

Approximately 500, but exact figures are difficult to confirm as Inland Revenue doesn't administer mortgage diversion.

How many providers currently offer mortgage diversion?

Inland Revenue does not hold that information as do not administer mortgage diversion.

If somebody is using mortgage diversion at 1 June but later stops using it, are they able to restart in future?

No.

If a member who is using mortgage diversion after 1 June changes providers can they continue to use it?

No.

If a provider stops offering mortgage diversion can a member then change to a new provider who does offer it and start using it through them?

No.

If a member is using mortgage diversion at 1 June, how does a contribution holiday, unpaid leave etc affect this? Does it stop mortgage diversion or is it placed on hold until they are making contributions again?

These events would have no effect on mortgage diversion. Mortgage diversion would continue once the member started making contributions again.

If a member stops using mortgage diversion what effect will this have on their KiwiSaver account?

The amount that was being diverted to their mortgage will now be added to their KiwiSaver account. They may also receive additional member tax credit (MTC) as amounts that are diverted to a member's mortgage do not qualify for MTC.

Note: The maximum annual amount of MTC is \$1042.86.

If a member stops using mortgage diversion will this affect their minimum mortgage repayments?

No. Diverted contributions are additional payments and must be paid over and above minimum mortgage repayments.

Will closing mortgage diversion have any impact on the first home deposit subsidy and first home withdrawal?

No. Both these features of KiwiSaver are unchanged.

What other changes are planned for KiwiSaver?

Please refer questions on policy to the Minister's office.