



Overseas pensions

Options for reform

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- Background working papers
- Who is affected?
- Development of 2 possible options

- **WP 2007-2, *Passing the buck***, reviews the origins of the DDP, its rationale, and its impact on those receiving one or more pensions from overseas.
- **WP 2009-1, *Literature Review***, surveys recent academic and government publications in NZ and overseas on pension portability and migration.
- **WP 2009-2, *Issues and Principles for Reform***, analyses complaints, policy, legislation and reviews of the treatment of overseas pensions and of NZS overseas. This leads to a discussion of suitable principles for guiding decision-making and forming policy, then it proposes
- **Smith, A. (2009). *New Zealand's Social Security Conventions: Merely Double Taxation Agreements In Reverse?*** Wellington: Victoria University of Wellington.

People receiving an overseas pension of any type, by country

	2004	2008	% change
Australia	914	4918	438%
Canada	306	795	160%
China	166	427	157%
Fiji	45	111	147%
Germany	87	200	130%
Ireland	91	170	87%
Netherlands	2400	3324	39%
Switzerland	82	173	111%
UK	37754	41359	10%
USA	98	376	284%

Main types of pension complaints

- Special treatment for Pacific nations
- Marital discrimination
- Australian anomalies
- *New*: unfair allocation and distribution of pension benefits eg 100% of gross NZS taken overseas
- Misinterpretation, misinformation, lack of transparency, and unfair deductions

Some consequences of DDP

- Financial hardship
- Physical health is compromised
- Ability to work is impaired
- Seething resentment at the injustice

Policy reform aim:

Provide treatment in the calculation of NZS that is:

- fair for immigrants to New Zealand,
- fair in relation to other superannuitants,
- fair to emigrants from New Zealand,
- fair to the working age population,
- fiscally sustainable, and
- transparent and administratively simple.

Current rules based approach

- **Decisions by the Chief Executive of MSD about pensions “analagous” to NZS and therefore deductible**

Which are “analagous” to NZS?

Currently

- Decisions by MSD’s CE not open and transparent
- Information about how retirees will be treated in NZ unclear
 - =
 - much misinterpretation
 - much misunderstanding

The purpose of a principles-based approach to changing pension policy is to

- **provide a clear line** for complainants
(Report of Regulatory Responsibility Taskforce on Regulatory Responsibility Bill)
 - **discourage violations** of letter & spirit of rules
 - **seek assent**
- “The complexities of globalisation require trust, and adherence to generally agreed, clearly stated principles promotes trust.”
- **support accountability and transparency**

What principles?

- **Egalitarianism** incorporates impartiality,
- **Equity** incorporates truthfulness, respect for rights, and accountability
- **Income adequacy** incorporates social responsibility to aged members of the community (includes right to supplement)
- **Efficiency** (including sustainability)
- **Simplicity** and **transparency** (information)



Reform of the current system:

- In addition to better information for MSD around pension systems of other countries, RPRC proposes two possible options:
 - **Option 1:** *Susan St John*
 - **Option 2:** *Michael Littlewood*

Time for brief comments at end

Susan St John
Reform Option 1 –

Option 1

Locates the problem in the low residency requirement

Currently only 10 years required with 5 after age 50

Used to be 25 years

(and required 'good moral character and sober habits')

Option 1

Raises residency requirement for all to 25 years, achieved between ages 20 and 65

- If reciprocal Social Security Agreement exists, totalisation may apply
- Where 25 years' residence is satisfied without totalisation, any other "basic pension" entitlements ignored, other than for tax purposes

If 25 yr residency test not met

- No NZS payable
- **BUT** access to income-tested benefit
- In such cases, any OS pension is considered in household income-test, and reduces income-tested benefit but not dollar for dollar (as currently under section 70)

Option 1

- Social security agreements may have to be redrawn
- If totalisation used- cannot also receive other countries basic pension
- Establishing 25 year residency record should not be much more complex than the present requirement for ordinary New Zealanders applying for NZS
- People who 'live in caravans' may need special provisions



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Reform Option 2 – apportioned basis

Option 2 – apportioned basis

- Each country bears its own costs
- *Emigrants* now have a $1/540^{\text{th}}$ entitlement to NZS payments overseas.....
- why not *immigrants*?
- Recognises a 45 year accrual (45 years from age 20 to age 65 $\times 12 = 540$ months)

Option 2: the suggested rule

- At State Pension Age, does applicant have a Basic Pension entitlement?
- If 'yes', NZS reduced by $1/540^{\text{th}}$ for each month of residence outside New Zealand between ages 20-65.
- No NZS if outside New Zealand between ages 20-65 (540 months).

Option 2 - issues

- Definition of 'Basic Pension' crucial
 - Must be analogous to NZS
 - Generally Tier 1 but could extend into Tier 2
 - Some discretion needed but principles must be stated and adhered to
- Offset proportion calculated at age 65 stays fixed
- Separate offset for each of a couple
- If overseas State Pension Age is later, offset calculated at later age
- Current 10(5) residence rule could go

Option 2 – for

- Simple and transparent
- Reflects 'contribution' by immigrants to NZ
- Retirees keep each country's entitlements
 - Assures other countries of 'fairness'
- Sidesteps complexities of overseas schemes
 - ...and their changing conditions
- Consistent with new treatment of emigrants
- Limits 'gaming' against NZ taxpayers
- If Social Security Agreement, could unify payment – no impact on total entitlement

Option 2 ... and against

- Presence of any 'Basic Pension' an 'all-or-nothing' test
- 'Months of non-residence' may not relate to Basic Pension accrual
- 'Months of non-residence' a more exacting test (evidential requirements)
- Each immigrant will have a different NZS (unlike with Option 1) but that is what happens now with section 70/DPP

Claire Dale - chair

Reform Options 1 and 2 – open debate