Direct Deduction & NZ Superannuation

MINISTRY OF SOCIAL DEVELOPMENT
Te Manatū Whakahiato Ora

MSD Vision – an inclusive New Zealand where all people are able to participate in the social and economic life of their communities

Direct Deduction

- New Zealand benefits and pensions are reduced by the value of an overseas state pension
- The policy has been in place since 1938
- People getting New Zealand Superannuation are the largest group affected by this policy

Some Statistics

- 25% of all NZS recipients are born overseas
- Around 12% of superannuitants receive an overseas pension
- Just over half of those born overseas do not receive an overseas pension
- 75% of overseas pensions are from the UK
- New Zealand pays most of the state pension amounts received by overseas pensioners

NZ Superannuation

- Payable to people
  - aged 65 or over
  - ordinarily resident in New Zealand
  - who have been resident and present in New Zealand for ten years since the age of 20, five years must be since the age of 50
- Paid from general taxation
- Indexed to wages

NZ Superannuation Continued…

- Advantages:
  - Entitlement criteria easy to understand
  - Scheme is easy to administer
  - Provides gender equity
  - Flat rate ensures that the majority of people know their entitlements
  - Rate not tied to working age residence or contributions
  - People can choose to continue to work

NZ Superannuation is Unique

- In most overseas countries
  - state old age pension amounts are based on periods of contributions (and/or residence) during working life
  - it may take between 30-50 years to get the full pension amount
  - pension amounts not generally paid for periods of absence or non-payment of contributions
- Where a person has lived or contributed in two overseas countries, proportional pensions generally equate to one state’s pension

One State Pension

- A person is only entitled to one state pension
- New Zealand uses direct deduction for New Zealand Superannuation
- Other countries use proportional payments to achieve one state pension

Example for Two Other Countries

- How residence in the Netherlands and Canada may be assessed to achieve one state pension for their Old Age Pensions
  - Netherlands 12 years = 12/50ths
  - Canada 30 years = 30/40ths
  - On retirement, the combined pensions equal around one full pension

New Zealand’s Approach to One State Pension

- New Zealand Superannuation payable after 10 years residence
- Residence is not tied to working age
- Direct deduction effectively means:
  - New Zealand Superannuation is only reduced where you or your partner earned a state pension from another country

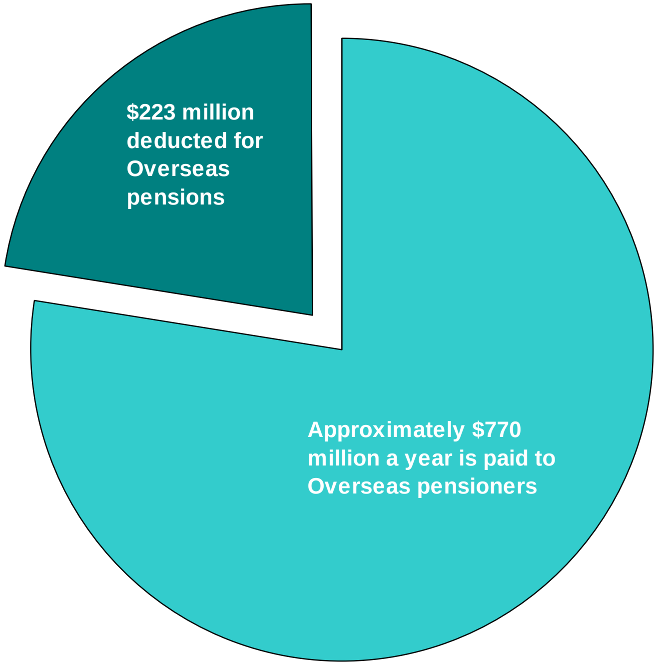
Section 70 New Zealand Social Security Act 1964

- Section 70 (S70) generally requires the dollar-for-dollar deduction of the amount of any overseas pension if the overseas pension:
  - forms part of a programme providing benefits and pensions for any of the contingencies for which New Zealand benefits may be paid; and
  - is administered by or on behalf of the government of the country paying the overseas benefit or pension
- Must meet both criteria

2007 Review Findings

- Agreed with one state pension per person
- Agreed that s70 is reasonably sound given the difficulties of interfacing the New Zealand system with those of other countries
- Did not favour options for making NZS proportional because it would:
  - Lead to inequitable payment rates
  - Require new hardship payments
  - Make NZS more complex

What NZ Pays



- New Zealand is paying approximately three and half times more to overseas pensioners living in New Zealand

Conclusion

- The current government has said it supports the direct deduction of overseas pensions
- We will work on improving the information available
- If you have concerns about your situation please ring Senior Services on freephone 0800 777 227

END

Couples

- NZS treats couples as one entity
- Rates are set for a couple and they are paid half each
- Overseas pensions from one partner can affect the other partner's NZS