



# Overseas pensions

## *Options for reform*

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## This session:

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

## Previously issued:

- **WP 2007-2: *Passing the buck***, reviews the DDP's origins, rationale and impact on those receiving an overseas pension.
- **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 two reform options.
- **Smith, A. (2009). *New Zealand's Social Security Conventions: Merely Double Taxation Agreements In Reverse?*** Wellington: Victoria University of Wellington.

## Launched today:

- **WP 2010-2 Reforming New Zealand Superannuation for a mobile trans-Tasman population**, explains the specific difficulties that currently apply in both New Zealand and Australia and how those might be resolved through reform option 1.
- **WP 2010-3: *New Zealand Superannuation and Overseas Pensions: Reform option 2*** explains the apportionment approach to replace the DDP based on residence in New Zealand between ages 20-65.

(Available on the RPRC website)

## People receiving overseas pension by country:

	2004	2009	% change
Australia	914	6,051	562%
Canada	306	952	211%
China	166	461	178%
Fiji	45	108	140%
Germany	87	217	149%
Ireland	91	179	97%
Netherlands	2,400	3,444	44%
Switzerland	82	181	121%
UK	37,754	42,671	13%
USA	98	397	305%

## Main types of pension issues

- Australian anomalies
- Marital discrimination
- Special treatment for Pacific nations
- *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 the DDP**

- Financial hardship
- Physical health is compromised
- Ability to work is impaired
- 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 “analogous” to NZS and therefore deductible**

# Which are “analogous” 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.” (WP 2009-2 p. 27)
- **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**

Co-director, Retirement Policy and Research Centre

# **Reform Option 1 – raising residency test**

## Option 1

# Locates the problem in the low residency requirement

- Used to be 25 years  
(and required 'good moral character and sober habits')
- 1940 universal super required 20 years
- Currently **only 10 years** required with 5 after age 50

## Option 1

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

- Where 25 years' residence is satisfied (**without totalisation**), any other 'basic pension' entitlements ignored, other than for tax purposes
- 85% of those caught by the DDP have lived in New Zealand more than 30 years-MSD



# Under social security agreements

- Totalisation may be allowed
- If totalisation used aim is to secure one basic pension only

eg

Australia

UK

Canada

US

## If 25 year residency test not met

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

## Option 1

- Simplification and fairness improves
- But transitional issues
- Social security agreements may have to be redrawn
- Establishing 25 year residency record not much more complex than the present requirement for ordinary New Zealanders applying for NZS
- People who 'live in caravans' may need special provisions



**Michael Littlewood**

Co-director, Retirement Policy and Research Centre

**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**

Research Fellow, Retirement Policy and Research Centre

**Reform Options 1 and 2  
– open debate**