

RPRC Update

Retirement Policy and Research Centre

December 2011 | Volume 4, Issue 4

After the dust has settled: the implications for KiwiSaver

Forum: 8 December 2011, Decima Glenn

Presented by The University of Auckland's Retirement Policy and Research Centre, a panel of speakers analysed the merits of promises about KiwiSaver in the 2011 election campaign, and other related issues.



The panel discussed whether any of the political promises should be on the agenda for the coming three years and what the future is likely to be for KiwiSaver. A summary of the presentations is available [here](#).

Presenters: **Jonathan Eriksen**: actuary - Eriksen and Associates; **Rob Stock**: journalist - SundayStar Times; and Susan St John & Michael Littlewood: Co-directors, RPRC. The session was chaired by M.Claire Dale - Research Fellow, RPRC.



In summary, KiwiSaver 5 is on the way. Constant change is the problem, imposing enormous costs on scheme providers and employers, and creating uncertainty for members. A multiparty accord is required.



KiwiSaver 1: Could be described as a modest, but interesting experiment in behavioural finance. As enacted in 2006, KiwiSaver 1 added a tax break on employer contribution.

KiwiSaver 2: Changes introduced 6 weeks before the July 2007 implementation included three new elements. Firstly, a tax credit to savers to match their contributions. Secondly, compulsory matching employer contributions were to be phased in, starting at 1%. Thirdly, the Government would provide employers with a tax credit to largely reimburse their contributions.



KiwiSaver 3: In April 2009, the fee subsidy was abandoned; the minimum employee contribution was reduced to 2%; the compulsory employer contribution was capped at 2%; and the Employer Tax Credit was abolished.

KiwiSaver 4: Began in mid-2011 with the maximum Member Tax Credit halved to \$521; and employer contributions will no longer be tax exempt. The minimum member contributions (and required employer contributions) will be increased to 3% of pay from 1 April 2013.



KiwiSaver 5: Where will we go now? What is the thinking amongst the political parties?



- **National:** compulsory auto enrolment/opt out of non-members;
- **Act:** remove tax concessions;
- **New Zealand First:** KiwiSaver should be compulsory;
- **Maori:** review KiwiSaver with an aim of making it compulsory;
- **Labour:** KiwiSaver compulsory; employer contributions to 7% of pay;
- **Greens:** 'public option' KiwiSaver default provider.

A copy of the RPRC's Working Paper 2011-2, "KiwiSaver: four years on", provided as a background to the discussion, is available [here](#).

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Other events and publications

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Symposium: International Experiences of Universal Pensions.

**第三屆
全民退休保障社會論壇
全民養老金的國際經驗**

主禮：陳章明教授, B.B.S. J.P.
安老事務委員會主席
致謝：李健正教授
香港理工大學應用社會科學系系主任

日期：2011年11月27日(星期日)

| | |
|--|---|
| <p>第一節 題目：「全民養老金的國際經驗」 主持：何承謙先生 前衛生福利局副局長 講者：Dr. Larry Willmore, Research Scholar International Institute for Applied Systems Laxenburg, Austria Mr. Michael Littlewood, Co-director Retirement Policy and Research Centre The University of Auckland, New Zealand 洗麗敏女士, 前香港中區及臺灣 風險與金融業務部總經理/ 前世界銀行社會保障部全球養老金部總監 時間：上午10時至下午1時 地點：香港理工大學李嘉誠樓16樓M1603室</p> | <p>第二節 題目：「香港推行全民退休保障的策略」 主持：鍾國華博士 香港理工大學社會政策研究中心主任 講者：何承謙先生, 前衛生福利局副局長 方敏生女士, B.B.S. J.P. 香港社會服務聯會行政總裁 吳德光博士 香港大學統計及精算系名譽副教授 黃永先生, 資深傳媒人 評論：黃洪博士, 香港中文大學社工系副教授 時間：下午2時至下午5時 地點：香港理工大學TU201室</p> |
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查詢及報名：3499-1975/ 3400-3491 電郵：forall@pensionforall.org.hk

Michael Littlewood, co-director RPRC, presents on Hong Kong's pension problems

Venue: Hong Kong Polytechnic University 27-28 November

Michael Littlewood and Larry Willmore, both editors of *PensionReforms*, were keynote speakers at this Hong Kong conference on Universal Pensions. Littlewood presented material on behalf of the RPRC, drawing on abstracts from *PensionReforms* on universal pensions and on China:

Abstracts that cover China include:

China's new rural pension scheme: can it be improved? (2010) [more](#)

Providing Greater Old-Age Security in China (2010) [more](#)

Social security reform: Does partial privatization make sense for China? (2004) [more](#)

Pension Reform in China: The Need for a New Approach (2007) [more](#)

Social Security Reform in China: Issues & Options (2005) [more](#)

Pension Reform in China: Progress and Prospects (2007) [more](#)

Michael also provided a snapshot of New Zealand and New Zealand's successful Universal Pension:

New Zealand – a snapshot:

In summary, New Zealand is relatively young (for a developed country); the cost to taxpayers of pensions (both public and private) is relatively low and, although that cost is expected to rise by 3% of GDP in the next 50 years, is less than what many developed countries pay now in total (including costs of tax incentives). Apart from KiwiSaver, New Zealanders are currently neither forced, nor encouraged through tax incentives, to save privately for retirement.

Michael Littlewood's Hong Kong presentation [here](#), and Interview on Auckland's local Chinese World TV [here](#).



Population Association of New Zealand Conference 2011

School of Engineering, The University of Auckland
28- 29 November 2011

Presentation: New Zealand's Demographic Futures: Where to from here? Spreading the costs of an ageing population.

By Susan St John, co-director RPRC, and M.Claire Dale, Research Fellow, RPRC, The University of Auckland.

Seldom discussed in the New Zealand context is whether the over 65 year olds as a group should both bear more of their own costs, and spread those costs among themselves by means of insurance. This approach to funding puts more emphasis on intragenerational cost sharing, and by so doing may lessen concerns about intergenerational conflict.

Intergenerational tussles over resources



Especially as the older population itself 'ages'

New Zealand may be in a unique position to design new policies which better share the costs.

PensionRelease 20 October 2011

Susan St John queries government decision: 'Yet another version?'



The Government proposes auto-enrolment for non-KiwiSaver members in 2014. That is the fourth major revision of KiwiSaver since it was first announced. Auto-enrolment will only happen if the budget is in surplus as it makes little sense to borrow to save, in either the New Zealand Superannuation Fund, or for an expansion of private KiwiSaver accounts. Susan St John co-director of RPRC says "Why make policy so far out and with such uncertainty?"

The RPRC is concerned about auto-enrolment because:

- New Zealanders not in KiwiSaver often have very good reasons. This policy will either trip them inappropriately into the scheme, or put them to time and trouble to withdraw.
- New Zealand employers already struggle with opt-out provisions and this will add to their administration costs. It is especially of concern when deductions are made and opt-out then requires a paper chase to get them returned.
- There is no free lunch; the extra employer contributions for these new members have to come

from somewhere. The viability of some businesses will decline and/or wage growth will be lower as a result.

- This will increase the inequity between those in the scheme and those who have to opt-out. The ones who can't afford to be in KiwiSaver will have lower wages to pay for employer contributions. They will also pay higher taxes to pay for the subsidies others enjoy.
- These inequities will inevitably lead to the 'solution' of compulsion and that in turn will lead to means-testing New Zealand Superannuation.

St John asks "Why focus KiwiSaver on paid work? Facilitating workplace saving with a one-off kickstart may be fine, but not further subsidies. The more we rely on this form of provision, the more those out of the workforce fall behind. Women and caregivers are most at risk especially if New Zealand Superannuation is undermined."

PensionRelease October 2011 is available [here](#).

PensionBriefing 2011-2, 8 November

Updating the NZSF investment performance numbers to 30 June 2011

In 2010, an RPRC *PensionBriefing* (2010-6, available [here](#)) updated estimates of the amount the New Zealand Superannuation Fund had cost taxpayers since it started. That cost was about \$1.9 billion as at 30 June 2010. This *PensionBriefing* analyses the NZSF's investment performance to 30 June 2011. At that date, the NZSF had passed the 'hurdle rate' for the first time since 2008. However, losses in the three months to 30 September 2011 have left taxpayers out of pocket over the NZSF's lifetime to that date.

This *PensionBriefing* provides an update to 30 June 2011, based on the NZSF's audited accounts for the 2010/11 financial year. At 30 June 2010, for 2010/11, the yield on 10 year government stock was 5.35%. The Guardians' published return for the year was 25.05% and that 'excess' performance over the hurdle rate eliminated the

2010 accumulated deficit. So, by 30 June 2011, the Guardians had returned the government roughly to its financial starting point in 2003 with about \$1.02 billion to spare.

However, this was simply a snap shot position at a point of time. In the three months to 30 September 2011, the markets have suffered significantly. Audited accounts for the period are not available but the NZSF has announced that the \$18.65 billion of assets at 30 June 2011 fell to \$16.63 billion at 30 September 2011. This suggests there is now about \$1 billion to recover before the Guardians return the government to its financial starting point in 2003.

New Zealand Superannuation Fund website is [here](#).
PensionBriefing 2011-2 is available [here](#).

RPRC in the media

01 October NZ Herald Andrew Laxon quotes Susan St John in: 'Gareth Morgan's big tax idea' [here](#)

28 October RadioNZ Kerry McDonald, Michael Littlewood & Chris Cunningham discussion: 'raise the pension age' [here](#)

29 October NZ Herald Brian Fallow in: 'Plenty of support for compulsory KiwiSaver' [here](#)

09 November The Dominion Post Michael Littlewood quoted by James Weir in: 'Super fund 'window dressing'' [here](#)

14 November www.Kiwiblog.co.nz Michael Littlewood posts response to 'RPRC' on NZ Super Fund' [here](#)

19 November www.stuff.co.nz Eloise Gibson quoted Michael Littlewood in: 'Saving us from super suffering' [here](#)

2 December Financial alert Susan St John quoted in Post-election changes for KiwiSaver [here](#)

7 December The Dominion Post Michael Littlewood suggests the EQC Fund should not be rebuilt.

08 December The Dominion Post Susan St John, 'Bashing the beneficiary basher' [here](#)

16 December The Dominion Post James Weir quotes Michael Littlewood, 'Global financial crisis forces Kiwis to save' [here](#)

20 December TVNZ Breakfast Michael Littlewood interviewed about why he would end KiwiSaver over a 5 year period [here](#).

...congratulates one of its editors, Dr Yung-Ping ('Bing') Chen, University of Massachusetts Boston, USA, who is the 2012 winner of the prestigious John S. Bickley Founder's Award.

Dr. Yung-Ping Chen has had a distinguished career in academe and as an advisor to governments. He is widely recognised for his work on economic security for the aged. His contributions have influenced insurance product development and social insurance policy.

Dr Chen is Professor Emeritus of Gerontology at the University of Massachusetts Boston, where he served as the inaugural holder of the Frank J. Manning Eminent Scholar's Chair in Gerontology from 1988 until his retirement in 2009. Since then, he is a Fellow in the Gerontology Institute in the same university. A founding member of the National Academy of Social Insurance, he is a Fellow in the Gerontological Society of America and a Fellow in the World Demographic Association.

A frequent contributor to scholarly and professional journals and to Congressional hearings since the early 1960s, Chen continues to be active after retiring from academe, presenting his research and views in high-profile presentations and publications.

PensionReforms loads 500th abstract

PensionReforms, sponsored by the then newly formed Retirement Policy and Research Centre at the University of Auckland's Business School, was launched in 2006.

The milestone abstract (the 500th), loaded on 2 November, is about the pension problems faced by China: state and private pensions aren't working so reform is needed. Why not a Universal Pension? Benefit design will determine cost. The pension may improve social/political security and reduce the gap between rural and urban populations [more](#).

Top ten by visitor numbers since 2006:

1. Sri Lanka – Universal Pensions (2008) [more](#)
2. Mauritius – Universal Pensions (2003) [more](#)
3. Saving in the absence of property rights (2006) [more](#)
4. Chile – 20 year review (2004) [more](#)
5. OECD – Pensions at a Glance Asia (2009) [more](#)
6. EC – ageing populations (2009) [more](#)
7. New Zealanders – behaving rationally (2007) [more](#)
9. World Bank re-thinks three pillars (2005) [more](#)
10. New Zealand – why extend KiwiSaver? (2007) [more](#)

For further information on PensionReforms, contact: Michael Littlewood, michael.littlewood@auckland.ac.nz

Other events and new and forthcoming publications:

29 September, the RPRC attended a *Women in Super/Workplace Savings NZ* breakfast presentation: Sue Brown, the new Head of Primary Regulatory Operations for the Financial Markets Authority. Her role is to develop and lead FMA's regulatory strategies and activities relating to the primary and retail financial markets, including financial advisers.

16 December RPRC *Working Paper 2011-2*, St John, Dale & Littlewood: "KiwiSaver, Four years on", [here](#).

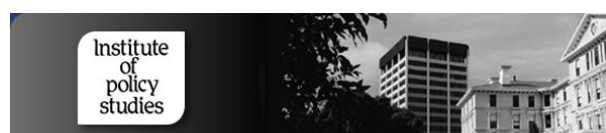
Decumulation project papers in progress:

St John, Dale & Ashton, "Preparing for the health and long term care costs of New Zealand's ageing population";

St John & Dale, "New Zealand's Overseas Pensions Policy: enduring anomalies and inequities" (submitted);

Dale & Hanna, "Long-term costs and care in New Zealand";

St John & Hanna, "An annuity product for New Zealand".



February 2012 (forthcoming) St John, S., & Dale, M.C.: "Evidence-based Evaluation: Working for Families", Institute of Policy Studies Quarterly Review.

The RPRC welcomes new Research Assistant, Judith Hanna, who has just completed her conjoint degree, majoring in Accounting & Tax in Commerce; and in Political Science in Arts. She brings a range of skills that are already proving to be an asset to the Centre. Thanks to the Business School for providing the funding to make this possible.

Thanks to all our supporters in 2011, and Best Wishes for 2012.

