

RPRC Update

Retirement Policy and Research Centre

June 2014 | Volume 7, Issue 2 of the quarterly RPRC Update

Retirement Incomes Policy: The Future Is Now

The forum on 17 April, hosted by the RPRC and the Commission for Financial Literacy and Retirement Incomes (CFLRI), brought together international and national retirement industry experts, academics and practitioners. It provided an independent environment for analysis of retirement income policy recommendations that have been put forward by stakeholders and interest groups in the last six months. Major reports have been published by the Retirement Commissioner, the Financial Services Council, Treasury, the New Zealand Institute of Economic Research and Mercer. Some quite radical proposals have been made for change. With the 2014 election on 20 September, it is timely to consider the options and the necessities for sustainable retirement incomes policies.



Recently, New Zealand's simple and successful retirement incomes policy framework has attracted much international interest, particularly from the UK, Ireland, and the USA. Nevertheless, on-going evaluation of New Zealand's policies for fiscal sustainability, transparency, intergenerational acceptability, security and coherence is essential. In *Affording our Futures* (2013) The Treasury writes: "The profile of New Zealand's population is becoming older. Increasing numbers of people in older age groups have implications for the structure of the population... the proportion of people aged 65+ is projected to be between 22% and 30% in 2061, compared with around 14% now."

At the forum, David Harris, MD of TOR Consulting, provided an international perspective. He congratulated us on the current framework of New Zealand Superannuation (NZS) and KiwiSaver, then urged 'grasping the thorny nettle of pension reform' as the USA, the UK, Ireland and Australia are doing. The global financial crisis and demographic change have both contributed to the need for and the urgency of, pension reform. The key message from Natalie Jackson, Professor of Demography, National Institute of Demographic and Economic Analysis, was that future capacity to respond to structural ageing depends in large part on education and older-age employment opportunities. Matthew Bell, Senior Analyst at Treasury, discussed long-term projections and scenarios for NZS, followed by Aaron Bell, of the New Zealand Superannuation Fund (NZSF) who discussed the role and advantages of the NZSF.

Retirement Commissioner, Diane Maxwell, summarised the main points in her [2013 Review](#) of retirement incomes. After Susan St John co-director of RPRC outlined the main features of KiwiSaver, Peter Harris, Head of the 2004 Saving Product Working Group described its origins. David Lowe, Employers and Manufacturer's Association and David Boyle of ANZ's management team gave the employers' perspective of KiwiSaver. Michael Chamberlain, a fund manager, and Peter Neilson, CE of the Financial Services Council, gave insiders' perspectives. Steve Mack described Treasury's view regarding taxing capital, and Adam Hunt, Financial Markets Authority pointed to decumulation as the elephant in the room.



At the closing panel session, the most significant gap in the retirement income environment identified by forum participants is the absence of an annuities market in New Zealand, a weakness that better design of KiwiSaver could have overcome. The April Forum Proceedings, including links to background papers and presentations, are available [here](#).

On 21 November 2014 the RPRC will bring together key experts to brainstorm possible designs for the decumulation phase of retirement saving.

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Tribute to Sir Owen Woodhouse, the “father of ACC”



LtoR: Michael Littlewood, Mark Weaver, Richard Gasikins, Grant Duncan, Sir Owen Woodhouse, Brian Easton, Glenn St John ACC Forum, December 2009

A University research group has paid tribute to Sir Owen Woodhouse, known as the ‘father of ACC’, who died recently. The ACC Group, based at the Business School, is a cross-

university group of researchers with an interest in preserving ACC. Group member Dr Susan St John, Associate Professor and Co-Director of the Retirement Policy and Research Centre, said they were “deeply saddened” by his death. “He was a stunning figure, an exceptional thinker and visionary.”

Sir Owen completed his LLB in 1940 at what was then known as Auckland University College. After becoming a Crown Solicitor and a Judge of the (then) Supreme Court, he was later President of the Court of Appeal. Sir Owen headed a major enquiry into personal injury compensation in New Zealand, producing in 1967 the [Woodhouse Report](#) which recommended the ‘no fault accident compensation scheme’. The scheme was adopted. It has had an enormous impact on life in New Zealand and continues to attract international attention.

Sir Owen retired from the bench in 1986, and has since contributed generously to ACC Group events. In December 2007 in conjunction with the Law School, the ACC Group held an event called ‘Forty years on’ and asked the University to digitise Sir Owen’s famous 1967 report. It is now available here to students and researchers.

In 2009 the Group held a forum on the merits of alternative methods of funding ACC, which Sir Owen attended and contributed to. He also spoke at the 2011 ACC Group event held with the Retirement Policy and Research Centre at the Business School. The focus was “Is New Zealand in danger of losing both what is best about the ACC scheme and our place as a world leader in accident compensation? What can be done?”

Susan says: “Whenever asked, even in his mid-90s, Sir Owen always rose to the occasion. At the 2011 forum, he was given a standing ovation after his address by the more than 100 people attending. An incredible debt is owed by New Zealanders for his contributions, and we must protect his legacy for future generations.”

Sir Owen Woodhouse died on 15 April 2014.

[Read more about Sir Owen Woodhouse.](#)

PensionBriefing 2014-2: A universal pension proposal for Australia

An Australian report: [Sustaining us all in retirement – the case for a universal pension](#) by David Ingles and Richard Denniss, suggests that the Age Pension at Tier 1 should be universal and that the cost of removing the means-tests should be met by removing tax incentives for compulsory and voluntary retirement savings. However, the compulsory Superannuation Guarantee at Tier 2 would remain.

In the short-term, the report suggests that the changes will reduce the overall cost of retirement income arrangements to taxpayers by 30% but the main advantages will be a fairer regime that reduces the favours currently conferred on the highest earners and re-distributes those to the lowest earners. Over the long-term, the cost to taxpayers is expected to be revenue neutral as the ageing population increases the cost of the Age Pension and as superannuation balances reduce in relative terms.

The report suggests a 25% increase in the newly-universal Age Pension. That will then look quite like New Zealand Superannuation (NZS) and the report suggests it “could be expected to virtually abolish poverty amongst the aged” (page 19 of the report).

The proposed changes should also reduce tax-planning as wealthier Australians currently make extensive use of the very favourable tax environment for retirement

saving. They should increase labour force participation rates of those aged 55 to 65 as Australians tend to retire before the state pension age to maximise entitlements to the Age Pension (so-called ‘double-dipping’); and also reduce the complexity of the current regime.

The Social Security Agreement between New Zealand and Australia means that ‘residence’ in either country counts for the tests to qualify for either NZS or the Age Pension. That poses significant potential fiscal risks for New Zealand. If an Australian resident with either New Zealand or Australian nationality loses entitlement to the Age Pension through the means-tests, there is an economic incentive to retire here. NZS is payable in full even if applicants have spent their working lives in Australia, so the fiscal risk is not limited to former New Zealand residents now working in Australia. If the Age Pension looks more like NZS, as the report proposes, that long-term fiscal risk to New Zealand from ‘welfare tourists’ disappears.

Given the scale of the Australian superannuation industry, we must expect unfavourable reactions to the report’s proposals. From a New Zealand perspective, it is at least gratifying to see some of the lessons we have learned being tested in a very different retirement incomes’ environment.

The *PensionBriefing* is available [here](#).

RPRC in the media and public presentations and contributions

- 25 March, UK Financial Times, [Some employers are waking up to the benefits of bigger pensions contributions](#), Ian Smith interviews Susan St John.
- 8 April, New Zealand Herald, [\\$278b - our lost pot of superannuation gold](#), Tamsyn Parker interviews Michael Littlewood.
- 8 April, Sustainable Business Network, 'Secrets of our success' event, M.Claire Dale on Nga Tangata Microfinance.
- 11 April, Oliver Marc Hartwich-Blog, [If only we had saved, we might be rich \(or not\)](#), quotes Michael Littlewood.
- 11 April, National Business Review, [Fury grows over state 'stealing' immigrants' savings](#), Rob Hosking quotes Michael Littlewood in front page story.
- 11 April, The Wireless, RadioNZ youth website. [Cracking down on loan sharks](#), Nina Fowler quotes M.Claire Dale.
- 13 April, Sunday Star Times, Business News, [Informal loan rates high](#), Rob Stock quotes M.Claire Dale.
- 14 April, RadioNZ, *The Basic Income idea*, Jim Mora interviews Susan St John.
- 16 April, TVOne, Seven Sharp, Mike Hoskins interviews M.Claire Dale on consumer legislation & predatory lending.
- 24 April, Stuff.co.nz, [NZ Super Fund still beating benchmarks](#), Eloise Gibson quotes Michael Littlewood.
- 25 April, SciBlogs, [Pensions: another thing we've got right?](#) Donal Curtin reviews the RPRC's Retirement Incomes Forum.
- 29 April, New Zealand Herald, [Labour KiwiSaver plan could hit savers, warn experts](#), Tamsyn Parker quotes Michael Littlewood.
- 30 April, RadioLive, [Labour's 'Variable Saving Rate'](#), Marcus Lush interviews Michael Littlewood.
- 30 April, NewsTalkZB, [Labour's policy from retirement perspective](#), Susan Wood interviews Michael Littlewood.
- 2 May, National Business Review, [Pensioner outrage falls on deaf ears](#), Rob Hosking quotes Michael Littlewood.
- 2 May, Daily Blog, [Let them eat cake](#), by Susan St John.
- 3 May, Rotary District Conference, Tongariro National Park, Keynote: *'Without Families and Communities the Economy Means Nothing'*, by Susan St John.
- 4 May, RadioLIVE, [The future of the retirement age](#), interview with Susan St John.
- 5 May, RadioLIVE, [Implications of Australia's pension changes](#), Duncan Garner interviews Michael Littlewood.
- 5 May, WhaleOil blog, [Even the Left thinks Labour's 'big tool' is useless](#), Cameron Slater quotes Susan St John.
- 7 May, New Zealand Herald, [Don't let glow vanish from golden years](#), OpEd by Susan St John.
- 8 May, New Zealand Herald, [Super strain on Generation X will become too much](#), OpEd by Susan St John.
- 9 May, New Zealand Herald, [Private pensions for the lucky few](#), OpEd by Susan St John.
- 11 May, Sunday Star Times, [Perils in compulsory savings plan](#), Rob Stock & John Anthony interview Michael Littlewood.
- 11 May, Dominion Post, [Perils in compulsory saving plan](#), Rob Stock & John Anthony quote Michael Littlewood.
- 12 May, Dominion Post, [Super for the rich](#), Olivia Wannan interviews Susan St John.
- 12 May, WhaleOil blog, [Means testing Super is getting cold shoulder](#), Cameron Slater quotes Susan St John.
- 15 May, Dominion Post, [Budget no place for retirement issues: expert](#), Tim Hunter quotes Michael Littlewood.
- 17 May, TV3 News, [Parents risk retirement buying property for kids](#), Suzie Nordqvist interviews Michael Littlewood.
- 19 May, UoA Auckland Microfinance Initiative, M.Claire Dale co-judges Elevator Pitch competition.
- 20 May, Dominion Post, [Can we use census data on home ownership?](#) OpEd by Michael Littlewood.
- 21 May, Labour Party Press Release, [National Government does not want to collect data](#), quotes Michael Littlewood on flaws in the census data on home ownership.
- 28 May, UoA Auckland Microfinance Initiative, M.Claire Dale guest lectures on Microfinance in New Zealand.
- 3 June, The Guardian, [Don't copy our welfare cuts, NZ experts warn Australia](#), Bridie Jabour quotes Susan St John.
- 15 June, NZCentre for Political Research, [Are home ownership rates really falling?](#) OpEd by Michael Littlewood.
- 17 June, NewsTalkZB, [Labour's KiwiSaver policy under fire](#), Frances Cook interviews Michael Littlewood.
- 17 June, Book launch at Fale, University of Auckland, Boston & Chapple's *Child poverty in New Zealand*, Panel discussion participant, Susan St John.
- 18 June, RadioNZ, [Labour's compulsory KiwiSaver scheme not seen as a vote grabber](#), interviews Michael Littlewood.
- 18 June, FACETV, [Child poverty series, Incomes and child poverty](#), Catriona MacLennan interviews Susan St John.
- 19 June, Victoria School of Governance Conference: Causes and consequences of inequality, ['What would we do if we really cared about child poverty and inequality'](#), paper by Susan St John.
- 24 June, Aorangi Club, Ellerslie Race Course, Guest speaker Susan St John, *Looking after the old and the young, can we do better?*
- 25 June, AUT Briefing Papers: How is the public interest being served? ['What Should Be Done About Child Poverty?'](#) by Susan St John.
- 26 June, New Zealand Herald, [How robust is that \\$350k target?](#) OpEd by Michael Littlewood.
- 29 June, stuff.co.nz, [KiwiSaver exceeds expectations](#), Niko Kloeten quotes Michael Littlewood.

Conferences and invited presentations

St John, S., Rotary District 9920 Conference, Tongariro National Park, 3 May 2014. Guest speaker: *'Without Families and Communities the Economy Means Nothing'*. St John took as her title and theme this quote: *Without families and communities, the economy means nothing. It has no life of its own. Its only purpose is to enable us to live, to care for one another and to raise our children to take our place. If we lose the power to do that, no matter how fast the GDP rises or how much the budget surplus grows, we will have no future worth working for.*" Else, A., *False Economy*, 1996, p. 159.

Like Marilyn Waring's *Counting for Nothing*, 1989, Else makes the point that the vast but largely invisible support structures on which the paid economy depends are only valued when they are 'marketised'. Time-poor and income-poor, many families struggle to manage housing and other debt rather than enjoy and invest in their children while they are young. At the same time, in response to the ageing population, these same families are meant to be saving for their retirement. We protect the current aged population against poverty. We need to ensure the same protection for the next generations.

PensionCommentary 2014-1: Labour's recent policy proposal

This *PensionCommentary* examines the Labour Party's KiwiSaver policy in election year. Public policy changes can have profound and enduring effects on the lives of citizens. Better public policy results from evidence-based consultation and expert analysis, with proper consideration given to possible and probable outcomes, also unintended consequences. This commentary notes with concern that political parties are either ignoring superannuation altogether, or coming up with policies that need consultation and analysis before their announcement.

In releasing its KiwiSaver policy, the Labour Party has followed the long tradition in New Zealand politics of making announcements on saving and retirement income issues without prior public discussion or supporting evidence. RPRC's [A condensed history of public and private provision for retirement income in New Zealand - 1975-2008](#) summarises the chequered history of superannuation 'reforms' in the 30 years to 2008, a history of which New Zealand should not be proud.

The RPRC would welcome a change to that tradition. Labour could have produced its KiwiSaver policy as a discussion paper that would be the subject of a researched debate after the election.

The RPRC also challenges Labour's claim to be 'making KiwiSaver universal'. In fact, Labour proposes to make membership compulsory. That will be done by enrolling all employees who are non-members on 1 October 2015, and removing both the current right to opt-out or take a contributions holiday. Labour's version of KiwiSaver is not 'universal' and to call it that is to devalue the word's meaning in the retirement income context.

New Zealanders deserve a full debate on all issues associated with the financial implications of an ageing population. KiwiSaver must be part of that debate, but cannot be seen as independent of the whole retirement income framework.

The *PensionCommentary* is available [here](#).

FINANCIAL TIMES (UK) [Some employers are waking up to the benefits of bigger pensions contributions](#), by Ian Smith, March 25 2014 (extract)

Employers worldwide face a conundrum when it comes to retirement benefits: the more that governments compel organisations to do, in terms of compliance and contributions, the less pensions are viewed as a potential point of differentiation to attract and keep top employees, pensions experts say.

In his 2007 budget speech outlining New Zealand's KiwiSaver retirement savings scheme, Minister of Finance Michael Cullen said: "There is no doubt that employer contributions will create a greater sense of employee loyalty." In hindsight, this was an "odd contention" given the employer's contribution was mandatory, notes a report from the University of Auckland Business School's Retirement Policy and Research Centre. The country's system of soft compulsion – where workers are automatically enrolled into a pension but have the opportunity to opt out – was a key influence behind a similar scheme being set up in the UK.

And there may be a lesson for policy makers on the other side of the world that seven years in, employers have not been galvanised to go beyond their statutory obligations. Susan St John, co-director at the RPRC, says: "It is fair to say that most New Zealand employers have not yet thought much about how KiwiSaver can be leveraged for employment advantage when the same employer contributions are paid regardless of who is the employer.

Mostly employers see KiwiSaver as a compliance cost. Nevertheless, in areas of emerging skill shortages there may be scope for making staged additional contributions to KiwiSaver as part of a retention and recruitment package," she adds.

A similar dynamic exists in Australia. "Some employers see their employer contributions into 'super' as a tax, hence depleting the retention argument," argues David Harris, MD at Tor Financial Consulting, which advises globally on pensions policy. At the same time, some employers are waking up to the retention power of higher contributions, as part of a wider suite of benefits. "As seen in the mining... sector, to retain engineers ... you may need to pay above the legal minimums," says Mr Harris. "Other retention mechanisms employed in Australia have centred on support for private healthcare, childcare support and car leasing."

Whether an employer offers auto-enrolment out of goodwill or statutory obligation, retirement adequacy is the ultimate test of the scheme.... For employees to value pensions, employers are realising they must go above the bare minimum, and take the staff with them.

See the full article [here](#).



RPRC Forum 21 November: Decumulation Decisions

When: 21 November 2014, 9.15am to 4.30pm, followed by refreshments.

Where: Decima Glenn, level 2, University of Auckland Business School, 12 Grafton Rd

What: Hosted by the RPRC with the Commission for Financial Literacy and Retirement Income, this Forum builds on 2012's [Spending the Savings](#). National and international academics and practitioners will debate first-best solutions to security of income through active, passive and frail retirement, considering inflation, longevity, and unpredictable market risks.

RPRC Forum 5 December: Overseas Pensions Policy - unjust for some?

When: 5 December 2014, 2.00pm to 4.30pm, followed by refreshments.

Where: Case Room 3, level 0, University of Auckland Business School, 12 Grafton Rd

What: In [2010](#), [2011](#) and [2013](#), the RPRC, with the Human Rights Commission, investigated and publicised the inequitable treatment of overseas pensions by the Ministry of Social Development. In 2014, with a newly elected Government, is there hope that acknowledged injustices might be fixed?

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