Submission to the 2007 Retirement Commission’s Review of Retirement Incomes Policies in New Zealand

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The Retirement Policy and Research Centre would like the Review to pay particular attention to the following issues and will be happy to speak to these issues with the Commission

1. **The potential implications of KiwiSaver**

The Budget 2007 signalled a major shift in New Zealand’s retirement system. Rather than a simple 2 tier system comprising a straightforward, adequate basic, universal pension and voluntary unsubsidised TTE private saving, New Zealand has been catapulted into tax-incentivised saving regime, implying a future ETE regime. The implications are significant for the shape of the retirement income system over the next 20 years and there are many questions for the review to consider: eg

- What processes were followed in development of this policy?
- What is the underpinning Treasury research?
- What is the connection of the new policy to underlying goals of:
  - Increasing national saving?
  - Increasing retirement saving?
- What might be the expected outcome over the long term for the universal state pension, New Zealand Superannuation?
- What are the implications for the decumulation phase (can taxpayer subsided private saving remain lump-sum)?

2. **Assessing the 20 year experiment in tax neutrality and saving**

We are concerned that what had seemed to be a unique experiment in national retirement income policies has been abandoned and we suggest that the review should attempt to understand the reasons:

- Was it showing signs of being successful?
- What were the problems?
- Was housing the Achilles heel?

3. **Monitoring the experiment**

New Zealand is in a unique position of introducing the world’s first national auto-enrolment, workplace-based retirement saving scheme. It is also, uniquely, introducing tax incentives and “soft compulsion” for employer’s contributions on a national basis. All of these initiatives represent sudden policy changes for a formerly voluntary, unsubsidised system. The outcomes will therefore have both national and international significance.

There will be considerable interest in the outcomes and we need robust data to illustrate any impact of the changes over the coming decades:

- Will the new regime increase private savings or simply shift it around into a different form?
• How might the incentives for retirement saving accumulation affect household balance sheets? What, if any are the parallel increases in debt levels as accounts in KiwiSaver schemes build?
• Was the process of consultation, select committee scrutiny, adherence to multi-party agreements adequately followed?
• What are the lessons to be learned from the process of change (and their outcomes)?

It is critical that the Retirement Commission insist that adequate data is collected to enable an assessment of how much new saving there is and who is actually doing that new saving (if there is any):
• Are current surveys adequate for this?
• What is the role of SoFIE?
• What is the role of the net wealth survey? The Household Saving Survey was reported in 2002 – the next results are not due until 2012. Is this appropriate now? Should this survey be repeated in 2007 so that we have a benchmark from which to measure changes?

4. Tax incentives

There will be an estimated $1.2 billion a year of tax money flowing into KiwiSaver schemes, given conservative assumptions about likely membership. There is a further degree of tax subsidisation underpinning the PIE tax rate reduction to 30%, the low income earners’ rate in PIEs of 19.5% and the tax-free nature of the employer’s contributions to KiwiSaver (and associated “complying funds”):
• What are the distributional implications:
  o For households?
  o For individuals?
  o By age group?
• What are the intergenerational equity implications?
• What are the implications for women and caregivers?
• How is the value of these tax subsidies best measured and what is the accountability for them?

5. Employment related saving

There will momentous changes to superannuation schemes: Existing workplace schemes have $18.2 billion of assets (Government Actuary’s report, 2006)
• How many existing superannuation schemes will close? What value of assets is involved?
• What are the implications of KiwiSaver for employers’ wage bargaining?
• To what extent will a “total remuneration” approach by employers with regard to the compulsory contributions undermine the government’s objectives?
6. **Use of trusts and “portfolio investment entities” (PIEs)**

Increasing use of tax-paid funds makes the collection of income data difficult. This has implications for the gathering of statistics at a national level to inform future debates on public policy.

- What are the avenues for tax avoidance under the new regime?
- How are trusts (including superannuation and family trusts) being used?
- What are the implications for other aspects of government policy including income-tested arrangements such as student loans, Working for Families and child support obligations. This should touch on the use of “salary sacrifice” as a way of getting employers to contribute to superannuation schemes.

7. **The decumulation phase of retirement saving**

The development of KiwiSaver to date has failed to consider the decumulation phase.

- What product development is necessary in order to give longevity protection to retirees?
- Can the form of KiwiSaver withdrawals now be prescribed? Is the introduction of compulsory employer contributions the time to implement some compulsion over annuitisation of the KiwiSaver balances?
- What is the appropriate use of home equity release?

8. **The role of housing**

Having a debt-free home by retirement age is an important objective for all New Zealanders. There has been much public debate about housing tenure and apparent fall in owner-occupied tenures.

The government has signalled through KiwiSaver’s first home deposit and mortgage diversion that it is a matter of concern.

- How robust is the information we have on this topic?
- How might KiwiSaver developments affect private behaviour?
- What is the impact of the growth in family trust ownership on national statistics?