THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Retirement Policy and Research Centre

Retirement incomes policy: The future is now[1]

Summary of issues
April 2014:

[1] This paper provides background information for the Forum, 17 April 2014, co-hosted by the RPRC and the Commission for Financial Literacy and Retirement Income, at the University of Auckland.

Background

The RPRC forum: *Retirement Incomes Policy: The Future Is Now* reviews current recommendations for the retirement income policy framework in New Zealand following the release of the three-yearly review from the Retirement Commissioner in late 2013: *Focusing on the Future*.

The following policy documents provide the background of the current proposals:

- The Retirement Commissioner, Diane Maxwell,
    - *Focusing on the Future: Report to Government* (2013), Commission for Financial Literacy and Retirement Income.
- The Financial Services Council (FSC)
    - *Pensions for the Twenty First Century: Retirement Income Security for Younger New Zealanders* (2012)
    - *Building and Protecting New Zealanders' Wealth.* Wellington (2013).
    - *Can we fund a comfortable retirement for most New Zealand employees with a 7% contribution rate?* (2012)
- New Zealand Institute of Economic Research
    - *Fighting Fit? Assessing New Zealand's fiscal sustainability* Wellington. (2013)
- Mercer
    - *Securing Retirement Incomes: New Zealand's Retirement Incomes Challenge*. (2012)
    - *What Next For KiwiSaver: Mercer Deciphers the Debate* (2014)
- Inland Revenue,
    - *Taxation of savings and investment income*. (2012)
- New Zealand Government
    - *Flexible Superannuation Discussion Document.* (2013)

Other relevant publications include:

- Matthew Bell,
    - *The influence of an older population structure on public finances* Commission for Financial Literacy and Retirement Income. (2013)
- Michael Cullen,
    - *The Political Economy of Long-Term Fiscal Planning from a Social Democratic Perspective* Policy Quarterly, Volume 9, Issue 4, (2013)
- Nicola Kirkup,
    - ***The Future Costs of Retirement Income Policy and Ways of Addressing Them***, Policy Quarterly, Volume 9, Issue 4, (2013),
- Geoff Rashbrooke,
    - Institute for Governance and Policy studies, *Flexi-Super: not really such a great idea*, Policy Quarterly, Volume 9, Issue 4, (2013)
- O'Connell, A.
    - *Longevity Trends and their Implications for the Age of Eligibility for New Zealand Superannuation*. Working Paper in Public Finance 3/2014. Wellington, Victoria University.
- Retirement Policy and Research Centre
    - **Various papers on website**

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1. Overview: the current retirement income system

New Zealand Superannuation

The foundation of New Zealand's retirement framework is a universal Tier 1, taxable pension called New Zealand Superannuation (NZS) paid on the basis of age (65 years) and residency (10 years after age 20 with 5 years after age 50).

NZS is indexed for inflation and linked to wages. The NZS legislation specifies that the married person rate is not less than 32.5% of the net average wage. In 2005 this rate was increased to a minimum of 33% by a Coalition agreement.

Table 1. NZS weekly rates (1 April 2014)

	Weekly rate per person	
Category	Gross	Net at M rate
Single, living alone	$422	$367
Single, sharing accommodation	$388	$339
Married person, civil union or de facto relationship	$319	$282
Married, civil union, de facto relationship, non-qualified partner included on or after 1 October 1991	$302	$268

Additional tax-funded benefits that may be available to those over 65 include the Accommodation Supplement, the disability allowance, and needs-based in-home care and support or residential care. The SuperGold Card provides discounts on public transport and other services and products.

The New Zealand Superannuation Fund

In 2001, the Government created the New Zealand Superannuation Fund (NZSF), a 'sovereign wealth fund' designed to partially pre-fund NZS. Tax-funded contrbutions are placed in the NZSF, where they earn investment returns. Drawdowns from the NZSF are anticipated to begin between 2029 and 2032, at which time contributions to the NZSF will cease. The government suspended contributions in 2009 and has said they may resume when surpluses are achieved. If contributions resume from the 2020/21 fiscal year and continue at the rate planned, drawdowns from NZSF are expected to cover about 8% of the cost of NZS in 2050.

KiwiSaver

NZS is expected to be supplemented by private saving. There is no compulsory Tier 2 as applies in other countries, nor since 1990 have private superannuation schemes been tax incentivised.

Since 2007, KiwiSaver has provided an auto-enrolment, opt-out, Tier 3 scheme to supplement NZS. Employers must match employee contributions of 3% of pay. Work-place based KiwiSaver is an individual saving scheme open to all New Zealand residents, administered by private providers, with the Inland Revenue as the clearing house. The Financial Markets Authority has regulatory oversight of KiwiSaver schemes.

An initial government 'Kickstart' of $1,000, and a modest annual subsidy of 50 cents per dollar of member contributions up to a maximum subsidy of $521 applies.

There is a range of information and education programmes under the 'National Strategy for Financial Literacy' available on the CFLRI website.

2. The Political Context

National Party

Prime Minister John Key said today he was not planning a review of superannuation in New Zealand and was "comfortable" with the costs of superannuation. It was currently costing about 4.5 per cent of GDP and there were many countries where it cost in excess of 7 per cent of GDP. At the peak of baby boomers claiming super, it would cost between 8 per cent and 9 per of GDP. Video John Key, 25th February (2014)

With our broad tax base, there are not many candidates for further revenue-raising by broadening tax bases. Therefore it is critical to maintain the revenue raising capacity of our existing tax system. A misguided attempt to direct economic activity by reintroducing cost-ineffective tax incentives into the tax code could severely impair our ability to fund critical government expenditures in the future. Todd McClay (2014)

Labour Party

Labour's strategy is to upgrade the size and focus of our capital markets…. We will make KiwiSaver universal. Every employee will contribute to their KiwiSaver account, not only ensuring financial security for New Zealanders in old age, but also making a significant boost to available capital for investment now. We have seen the success of this across the Tasman. I want to replicate that, and I know I am supported in that goal by many New Zealand businesses. We are also committed to restarting contributions to the Super Fund. This was one of the great successes of the last Labour Government, and it will be so again under the next one. David Cunliffe 14 March(2014)

Labour's plan is to start steadily raising the retirement age, starting by increasing the age of eligibility by two months per year from 2020, reaching 67 years 12 years later. That's a fair and reasonable way to ensure we can pay for our retirement and means that no one currently older than 58 will have to work beyond 65. We will also have an exception for those in labour-intensive jobs that can't work after 65 and need super. David Parker (2013)

We need to deepen capital markets, and reduce our dependence on imported capital, through making KiwiSaver universal. Too many opt out or are on contribution holidays. Once universal KiwiSaver is put in place there is merit in stepping up contributions split between the employee and their employer over several years to reach a level sufficient to fund an adequate income in retirement. 9 % was our target at the last election. David Parker (2013)

[Compulsory KiwiSaver] would apply to all employees exempting only the self-employed and those with hardship, although high earners with sufficient saving will also be exempt. NBR, David Parker March 28 (2014)

The option of extending KiwiSaver to include a basic level of life and income protection insurance, as exists in Australian group superannuation schemes, is again something worthy of further discussion as policy develops over coming months. David Parker (2013)

Jacinda Ardern MP championed an inquiry into New Zealand's overseas pension policy to address anomalies that National did not support at committee stage, see Stock (2013)

Green Party

Maintain universal New Zealand Superannuation for all New Zealanders 65 years and older, adjusted annually in accordance with movement in the Consumer Price Index, and within the [current] constraints. Green Party (2013)

Automatic enrolment in KiwiSaver (with an option to opt out). In light of the Saving Working Group's recommendations and similar moves in Australia, the Green Party will create a public *option KiwiSaver fund to lower costs and boost people's nest egg on retirement.… To achieve the necessary economies of scale, the fund will be managed by the Guardians of the New Zealand Superannuation Fund… The front-end provider could be Kiwibank or the IRD, as recommended by the SWG, depending on where the most efficiencies of scale can be located. The public KiwiSaver option will be one of seven default providers. When KiwiSaver is reviewed in 2014, we will examine the option of making the public fund the sole default provider.* Green Party (2013)

Restrict the dollar for dollar abatement regime on overseas pensions to apply only if the overseas pension is paid from overseas government schemes funded through taxation (similar to New Zealand benefits). Treat income from contributory overseas pension, superannuation and savings schemes no differently from other income for benefit abatement purposes. Green Party (2013)

NZ First:

Compulsory KiwiSaver. Keep the state pension age at 65. *Raising the pension age is a quick fix to a 'crisis' created by those promoting the private pensions industry. At only 4.1% of GDP, NZS is far more affordable than many OECD countries.* Winston Peters (2013)

Winston Peters told NZ First's annual conference in Christchurch yesterday that the party wanted to effectively nationalise KiwiSaver by putting it "on the same footing as the New Zealand Super Fund". That meant "world-class, government-commissioned savings fund management. We'll call it the KiwiFund." Money put into the fund would be state-guaranteed and because of economies of scale and "the elimination of hordes of ticket clipping fund managers", costs would be reduced. Bennett (2013)

SuperGold card extensions: *Three free visits to a local doctor, 10% discount on winter power bills from May to October* (NZ First 2013).

Immigration: *Abandon section 70 and extend the principle of proportionality to all so that entitlement to NZS for all pensioners is proportional to the years spent in New Zealand between ages 20-65 years.* NZ First (2013)

Maori Party

It is critical that KiwiSaver is made universal as soon as possible… The Maori Party agrees that the age to be eligible for superannuation should be lowered but the rate should not be reduced…too many of our people currently fail to make the golden age by which they are eligible to receive superannuation and they are therefore deprived of that universal right. Maori Party (2013).

Mana Party

Compulsory KiwiSaver. Maintain national superannuation [sic] as a universal payment for everyone aged 65 and over. Mana Party (2013)

United Future

[Compulsory Kiwisaver] *will increase the saving rate of New Zealanders, deepen the investment pool and provide financial security and certainty in retirement.* United Future (2013)

Give people the option of choosing to receive New Zealand Superannuation at reduced rates down to 60 or increasingly enhanced rates if they hold off until between 66 and 70. United Future (2013)

The provisions of Section 70 should only apply where the overseas pension in question has been fully funded from general tax revenues. United Future (2013)

Other minor parties

Our policy is no tax on the first $25,000 which means that super payments would no longer be taxed. Our view is that only NZ citizens should automatically be entitled to government assistance where required. Residents however need to pass qualifying tests. Conservatives (2014)

3. Context of fiscal pressures

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. Currently, around 66% of the population is in the 15-64 age group. In 2061, that proportion might be more like 58%. On the other hand, the proportion of people aged 65+ is projected to be between 22% and 30% in 2061, compared with around 14% now. The Treasury's *Affording our Futures* (2013a, pp. 6 - 7)

Table 2. Government spending as a percentage of GDP : Source (New Zealand Treasury 2013a)

% of nominal GDP	2010	2020	2030	2040	2050	2060
Healthcare	6.8	6.8	7.7	8.9	9.9	10.8
NZ Super	4.3	5.1	6.4	7.1	7.2	7.9
Education	6.1	5.3	5.2	5.2	5.1	5.2
Law and order	1.7	1.4	1.4	1.4	1.4	1.4
Welfare (excluding NZ Super)	6.7	4.8	4.4	4.2	4	3.8
Other	6.5	5.6	5.7	5.8	5.9	6.1
Debt-financing costs	1.2	1.8	2.5	4.2	7.1	11.7
Total government expenses	33.4	30.8	33.4	36.9	40.6	46.8
Tax revenue	26.5	28.9	29	29	29	29
Other revenue	3.2	3	3.2	3.2	3.3	3.6
Total government revenue	29.7	31.9	32.2	32.2	32.3	32.6
Expenses less revenue	3.6	-1.1	1.2	4.6	8.3	14.3
Net government debt	13.9	27.4	37.1	67.2	118.9	198.3

The ageing of the population has implications for the affordability of NZS, which already comprises a significant proportion of crown expenditure at $10.2 billion gross, representing 14% of total core crown expenses of $71.6 billion (New Zealand Treasury 2013b, pp.115 - 116). Table 2 shows that gross expenditure on NZS under current policy settings is projected to almost double from 4.3% of GDP in 2010 to 7.9% of GDP in 2060. The net cost gives a clearer picture of the burden of NZS on taxpayers, and the 2010 net cost was about 3.7% of GDP and in 2060 will be about 6.6% of GDP.

Increasing longevity:

Today's new superannuitants stand to receive NZS for over 20 years (men) and over 23 years (women) on average. Successive cohorts are expected to live increasingly longer, so that today's 25-year-old men live for over 25 years after age 65 on average and women for over 27 years. (O'Connell 2014, p. 1)

The increase in longevity affects NZS costs. Additional fiscal pressures also arise from increases in projected health spending (as shown in Table 2) due to both the increase in longevity at older ages as well as the demographic shift to an older population. However, these predictions of changing demographics and increasing longevity can be framed in different ways. A retired, inactive 65 year old is likely to impact the economy differently to one who is working in paid or unpaid capacities.

In March 2013, "20.3% of people aged 65+ were participating in the labour force", including 25% of males and 14% of females aged 65 or over" (Office for Senior Citizens 2013). Of the 85,000 aged over 65 who worked at least one hour a week in 2006, 57% of men and 35% of women worked at least 30 hours (Littlewood 2012).

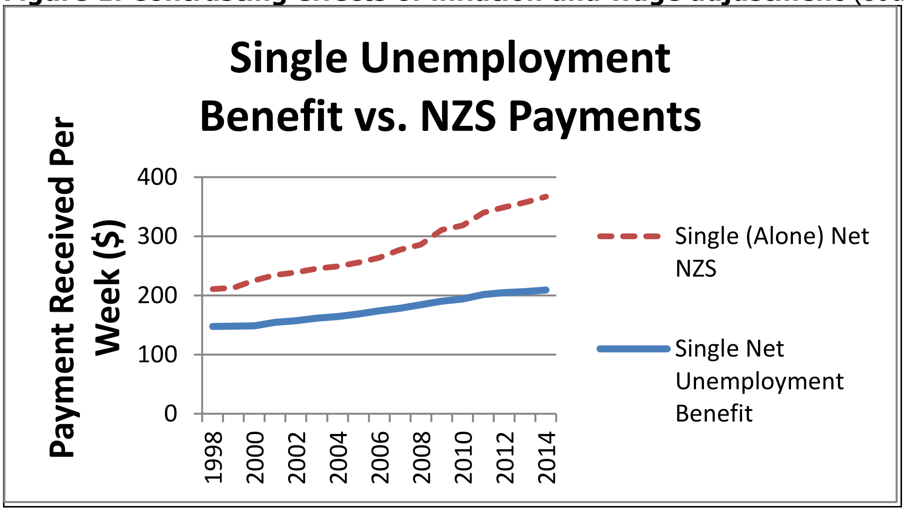
Fiscal pressures and equity

When facing these inevitable challenges and changes, it is imperative for NZS to preserve its role as insurance against "living too long" (O'Connell 2014, p. 2). But increases in projected spending on NZS and health raise issues of equity as well as sustainability.

Under current settings, current and projected expenditures on welfare and education are falling as a percentage of GDP as shown in Table 2, and the diminished support for those of working age is unlikely to be acceptable. Unlike NZS, welfare benefits are indexed only to the CPI, access to family tax credits is becoming more restricted as thresholds for abatement fall and abatement rates rise, and student loans are increasing.

Figure 1 contrasts the way that a person of working age on an unemployment or sickness benefit has been treated over time with that of a recipient of NZS which is indexed to wages. This kind of divergence in net payment is unlikely to be sustainable or acceptable and current policy settings are bound to change in the future.

Figure 1. Contrasting effects of inflation and wage adjustment (source: RPRC)



There are two contrasting views of what is meant by intergenerational equity, leading to two different policy recommendations:

- The first requires that 'each generation pays its own way' and leads to calls to make the current working age generation save more today as they will get more than they are asked to contribute as they live longer than their forebears (Coleman 2014).
- The second says that the only issue that matters is whether there is a fair sharing of resources between generations at a point in time. This leads to addressing working age group poverty and indebtedness and recognises the injustice of forcing low income people to save, especially when they as individuals will not experience the longevity gains of the wealthiest and healthiest (St John 2013).

The next sections reflect the contrasting policy recommendations for NZS and KiwiSaver from different stakeholders (outside of the political parties and NZS recipients) including:

- **The Commission for Financial Literacy and Retirement Income (CFLRI)**
- **The Financial Services Council (FSC)**
- **New Zealand Institute of Economic Research (NZIER)**
- **The Guardians of the New Zealand Superannuation Fund (NZSF)**
- **The Retirement Policy and Research Centre (RPRC)**

4. New Zealand Superannuation

Age of eligibility

Arguments for not changing the age of eligibility include:

- The fiscal pressures do not justify it;
- There are serious equity considerations for those who cannot work past 65;
- NZS provides a basic income from which people can have choices to contribute in different ways including valuable unpaid work.

The arguments for raising the age include:

- Fiscal pressures;
- The ability of older people to work longer with better health;
- Increasing longevity means a relatively longer time is spent in retirement

The Retirement Commissioner (CFLRI)

Internationally, "19 out of 34 countries for men and 23 for women" are increasing the pension age (Maxwell 2013, p.37). Currently there is a lack of understanding regarding longevity, with the majority of New Zealanders underestimating their likely lifespan. Remarkably, "only 14% of New Zealanders consider how long they will live for in retirement. If people better understand 'we are all living longer', the rationale for raising the age of eligibility may become easier to bear." (Maxwell 2013, p.39)

> *The increase in costs of public pensions is primarily driven by permanently ageing population structure. [However,]… In comparison to other countries' public expenditure on pensions, NZS is an inexpensive scheme. Even if the gross costs of NZS were to reach 7.9% of GDP in 2060, it will be less as a proportion of GDP than the OECD average in 2010.* (Maxwell 2013, p. 41)

Reflecting the first view of intergenerational equity in which today's cohorts should fund their longer retirement, the CFLRI proposes that, while still considering other factors, "the core principle … as the basis for setting the schedule of increase is to maintain the current proportion of adult life spent receiving NZS" (Maxwell 2013, p.37). No country is automatically linking pension ages to life expectancy, and nor does the CFLRI propose a formulaic link of eligibility age to average life expectancy. Rather, the CFLRI recommends giving "transparency and adequate notice of eligibility age changes" and introducing a review process where the age increase would start ten years from now, rising gradually to age 68 for those born in 1988 (Maxwell 2013, pp.37 - 38).

The Financial Services Council (FSC)

The FSC proposes to keep the shape of NZS as is (Financial Services Council 2013,p.9), but proposes to "move out the age of eligibility as longevity increases" (Financial Services Council 2012, p. 8). The FSC models different situations of an increased age of eligibility when considering its "KiwiSaver Plus" scheme (Financial Services Council 2012), discussed in the following section.

Based on projections in a Lancet article (Christensen, Doblhammer, Rau and Vaupel 2009) the FSC suggests longevity is on the "trend of around two more years each decade" (Financial Services Council 2012, p. 15). The FSC also notes "Scientists believe there may be constraints on longevity growth, such as the number of times cells can replicate themselves, but anti-ageing research continues" (Financial Services Council 2012, p. 14).

If the Lancet predictions of longevity are correct, the FSC expects the gross cost of NZS as a percentage of GDP will be over 12% by 2060, up from the current 4% to 5% (Financial Services Council 2012, p. 16)

> *One way of dealing with this cost issue would be to gradually move out the age of eligibility for NZS as longevity increases. NZS would continue to be available without income or asset testing, but at a later date. Income tested social security benefits like unemployment and sickness benefits*

would continue to be available for those unable to work because of sickness or unemployment up until they were eligible for NZS. There would still be the option of continuing to retire at age 65 for those who save during their working lives to fund an adequate income from age 65 until they became eligible for NZS. Moving in that direction by increasing the rate of contributions to KiwiSaver and having KiwiSaver cover all employees would allow future generations to continue to retire at 65 without increasing the cost of NZS for future generations of taxpayers. (Financial Services Council 2012,p.16)

NZS 'wage band' indexation

Rates of NZS are increased with effect from April each year using the "wage band" indexation formula that is set out in legislation. Essentially this formula performs two functions: it adjusts the pension for any increases in the cost of living, as indicated by rises in the Consumers Price Index (CPI), and it can also increase the pension amount when average weekly earnings in the economy rise faster than the cost of living. (Hurnard 2013, p. 2)

Inflation is typically lower than wage growth, therefore indexing NZS to the CPI could reduce its cost.

The Retirement Commissioner
The CFLRI acknowledges "…even with current indexation to wages, a large number of New Zealanders are hovering close to relative poverty levels" (Maxwell 2013, p.44). Despite this, the CFLRI propose that indexation could be "based on the average of CPI and Wages, leading to annual savings of approximately 1% of GDP" by 2035"(Maxwell 2013, p.45). These "savings", redirected to avoid increases in income poverty as a consequence of lifting the eligibility age, would achieve:

…redistribution of some current expenditure on NZS away from those who are doing well in retirement to those who are doing less well and most at risk of falling into poverty … A change of this nature would promote more equity within the retired generation and go some way to avoid the 'winners and losers'. (Maxwell 2013, p.45).

Nevertheless the CFLRI recognises the need for greater investment to investigate and monitor the actual "impacts on living standards and wellbeing among older New Zealanders" (Maxwell 2013, p.45) should any change to indexation take place. This would ensure that the redistribution is serving its purpose and that poverty levels were not increasing as a result.

The CFLRI further identifies two potential concerns. First, that future governments would not feel bound to spend the money saved from NZS on other areas that protect the wellbeing of older people. The solution to this would be a three-yearly review process although details of this review process are not fully outlined. The second concern is that such indexation may be seen to be unfair on those who have saved for their retirement. However, this perception might be lessened with the increase in KiwiSaver balances, so that "disadvantage suffered by better-off cohorts would to some extent be cancelled out" (Maxwell 2013, p.45).

The Financial Services Council does not discuss the option of changing the way that NZS is indexed.

Income and asset testing

Means-testing is an often-suggested but unpopular method to improve the sustainability of NZS. Unlike other welfare benefits that are income-tested and adjusted in relation to inflation, NZS is universal and both indexed for inflation and linked to wages, with the married person rate set at not less than 33% of the net average wage. NZS has always been given on an individual basis, while welfare benefits are jointly income tested.

The Retirement Commissioner
The CFLRI does not favour means-testing NZS because it would discourage private savings, and "undermine the principle of a citizenship dividend" (Maxwell 2013, p.46). Moreover, the

introduction of means-testing may be seen as inequitable, punishing those who have already saved for their retirement. Nevertheless, the CFLRI does note that potential benefits achieved through changing indexation as a form of "cohort means-testing", may have similar economic impacts on living standards of higher income groups as means-testing the NZS.

> *As the new form of indexation of NZS took effect, KiwiSaver balances would also be growing, with higher income earners accumulating greater levels of retirement savings. Thus any disadvantage suffered by better-off cohorts would to some extent be cancelled out. The inclusion of KiwiSaver in the mix adds further weight to the need to maximise the scheme's membership, level of engagement and connection to the overall retirement income framework. Ideally, the rate of growth of KiwiSaver funds would match the rate at which change happens in NZS.* (Maxwell 2013, p45)

The CFLRI argues that if changes to indexation are used to constrain annual increases in NZS, NZS could remain universal and not lose its place in contributing to social unity and cohesion:

> *A person's 'citizenship dividend' is their automatic entitlement to a public pension once they reach the age of eligibility (and as long as they meet residency requirements). It's not a dividend in the traditional sense of a return on investment or contribution; it's paid no matter how long the person has worked, paid taxes and served in their community. Because everyone is entitled to a citizenship dividend, it delivers benefits in social cohesion and national identity, which in turn build trust and other elements of social capital that contribute to economic growth and national wealth.* (Maxwell 2013, p.19).

The Financial Services Council

The FSC does not advocate means testing NZS directly. However the FSC-commissioned report *Can We Fund a Comfortable Retirement for Most New Zealand Employees with a 7% Contribution Rate?* 2013, evaluates two scenarios of NZS with offsets. Under the first scenario which applies a 50% abatement rate, the individual essentially "…needs to save enough to fund two extra pensions, but after the means-test on KiwiSaver the individual gets the benefit of only one of them… the required contribution rate needs to rise to 26%" (Stroombergen 2013, p.10).

A second scenario applies a shorter life expectancy and a lower abatement rate of 25%, thus savings required by age 67 to achieve a total pension that is equal to twice the value of NZS are 1.33 times NZS, and: "as a consequence the required contribution rate for decile 2 is 17.8%" (Stroombergen 2013, p.10).

Neither of these scenarios addresses the distortionary effects of means-testing in this manner, especially the ways it could affect private savings rates; and neither option is explicitly advocated by the FSC (Financial Services Council 2012).

The Retirement Policy and Research Centre

The RPRC believes that if cost is the issue, this third lever should not be overlooked.

> *Raising the age of eligibility for New Zealand Superannuation (NZS) is not the only policy lever available to improve affordability, nor is it necessarily the most equitable. A subtle mix of the three possible parametric changes (age, level and means-testing) may be preferable.* (St John 2012)

This third lever has been inadequately examined. Paying NZS at the net rate for a married person as a basic income grant and taxing each earned dollar on a special NZS rate would avoid harming lower income groups. It may also take the pressure of using the age or indexation as the means to save costs.

> *Various combinations are possible. If a combination of 20% on the first $15,000 and 40% thereafter is chosen, the weekly losses for low income superannuitants are minimal.* (St John, 2012)

Flexi-Super

The New Zealand Government proposed the idea of Flexi-Super in August 2013 to enable New Zealand residents to control their retirement lifestyle and income with greater flexibility, and at the same time preserve fiscal neutrality. This proposal, it is claimed:

> *… gives New Zealand residents the choice to take superannuation at reduced rates earlier than age 65, or at increasingly enhanced rates after the age of 65…* (Dunne 2013, p.10).

Under this proposal, current NZS residency requirements, indexation and superannuation payments would continue. Changes relate to the options regarding the age when collection of NZS can begin. Earlier receipt of NZS (prior to age 65) entails a reduced relative rate of NZS, with a higher rate if receipt is delayed. The amount of NZS received after commencement would continue at that relative rate[2] for the rest of the superannuitant's life.

Various problems with this suggestion have been noted (Rashbrooke 2013; St John 2013). The logic of Flexi-Super can be disputed on three main grounds: poverty alleviation, fiscal neutrality, and market failure. Firstly, while the rate of NZS is "intentionally above that which might be considered necessary to alleviate poverty", the implementation of Flexi-Super may run the risk that amounts payable at younger ages may not be high enough to ensure this (Rashbrooke 2013, p.2).

Rashbrooke predicts that a substantially lower relative rate paid to deferred NZ superannuitants is required instead of the illustrative "cost neutral" example provided in the discussion documents. Enthusiasm for deferral with this more realistic figure "would be considerably muted" (Rashbrooke 2013, p.8). He argues fiscal neutrality would difficult to achieve if people are expected to behave rationally: adverse selection would arise from individual's subjective opinion of their life-expectancy.

Other related considerations discussed within the flexible superannuation proposal are KiwiSaver and SuperGold card treatments. The New Zealand Government affirms that Flexi-Super would not change SuperGold Card age eligibility regardless of the age at which someone first received NZS. However, the age of eligibility to freely withdraw from KiwiSaver "would have to be considered in the detailed policy work if this proposal were to be pursued" (Dunne 2013, p.13).

The Retirement Commissioner

The CFLRI raises several concerns with the Flexi-Super proposal, including the risk that it provides the opportunity for ill-informed retirees to make short-sighted decisions with earlier retirement. In addition: it could "reduce fairness within the system as a whole… (and also) bring about an undesirable level of increase in complexity" (Maxwell 2013, p.46).

The Financial Services Council

Mercer, in a variation on FSC's proposal and the Government's Flexi-Super, proposes a plan to encourage people to delay the start date of receiving NZS. They add that "additional entitlements should only be a proportion of NZ Super entitlements foregone in the deferral period, given the individual would have had the opportunity to earn employment income in that time"(Mercer 2012,p.6) A recent report also supports an increase in flexibility of access to NZS (Mercer 2014).

PAYGO versus SAYGO basis of NZS

The Retirement Commissioner

> *[A]lthough the NZS is a 'generous' pension in terms of the income it provides… many other countries also have a long-standing 'second-tier' in their overall framework to top up retirement income… The great majority of older New Zealanders (aged 66+) are very dependent on NZS and*

[2] The relative rate received is dependent on how much earlier/later the individual decides to collect their NZS compared to receipt of NZS beginning at age 65. For example, if someone decides to collect Flexi-Super at age 61 for a reduced amount, they will receive this relative rate for the rest of their life.

other government transfers for their income: 40% have virtually no other income source. (Maxwell 2013, pp. 26 - 28).

The CFLRI acknowledges that both SAYGO and PAYGO have their merits, but opposes cutting back NZS and transitioning entirely to a SAYGO scheme. Specifically: "a PAYGO scheme can help mitigate the risks to individuals of poor returns,… and SAYGO can reduce the risks that increases in longevity pose to the Government budget", thus "a mix of SAYGO and PAYGO is required" (Maxwell 2013, p.54). The CFLRI proposes a SAYGO system which could include funds managed through independent governance and accountability arrangements like the NZSF; however, a full analysis of the relative benefits of PAYGO and SAYGO is needed to determine the the mix required (Maxwell 2013).

Further justification of the CFLRI's rejection of a pure SAYGO scheme draws on one of Barr's (2002) "myths" regarding the SAYGO vs. PAYGO debate: that pre-funding will resolve adverse demographic changes. The CFLRI recognises that:

> *…whether retirement income comes from a PAYGO or SAYGO approach, it has to be paid out of the future economy. Savings are not 'cans of beans' that are stored in the pantry for later consumption. Rather, money saved is used in the present day and there is an expectation that in the future someone will pay it back. The ultimate guarantor of retirement income is a healthy economy.* (Maxwell 2013, p.53)

The Financial Services Council

The FSC does not support the notion of transitioning to a pure SAYGO scheme, however it advocates changes that in time would mean people depend more equally on a combination of NZS and a KiwiSaver contribution. This would shift the current pension system towards the SAYGO end of the spectrum with greater levels of pre-funding (Financial Services Council 2013).

Diamond's (2009) economic insights underpin the FSC's suggestion of a shift to increased pre-funding: "Provided the earnings rate on our savings was greater than the growth rate of the economy,[3] then saving … would be more efficient than directly paying for pensions from taxation" (Financial Services Council 2012, p.28). Estimating workforce and labour productivity growth at 0.25% per annum and 1.5% per annum respectively, compared to a forecasted 3% return from asset accumulating funds under a SAYGO scheme, the FSC suggests that greater efficiency in delivering retirement incomes would arise from a greater level of pre-funding (Financial Services Council 2012, p. 28).

Equity issues

State pension schemes inclined towards the SAYGO end of the spectrum rely more heavily on personal savings and contributions, often from earned income. Consequently they are less redistributive, potentially allowing inequities to arise.

The Retirement Commissioner

The CFLRI highlights inequality with a case illustration on gender. With generally lower earning power and a greater amount of time out of the workforce due to family related matters, on average, the "weekly income gap is 36.4%" between women and men (Maxwell 2013, p.59) resulting in women's reduced ability to accumulate a sufficient KiwiSaver fund. In conjunction with the fact that women have a longer life span on average, the inequities surrounding such a SAYGO scheme become self-evident (Maxwell 2013).

New Zealand Superannuation Fund

The NZSF was established in 2001 to partially pre-fund future NZS payments. Tax money from Government budget surpluses has been given to the Guardians to manage in commercial investment markets.

[3] Economic growth is defined here as dependent on workforce and labour productivity growth rates.

By doing this the Fund adds to Crown wealth, improves the ability of future Governments to pay for National Superannuation (sic), and ultimately reduces the tax burden on future New Zealanders of the cost of superannuation. A long-term, growth-oriented investor, the Fund has more than $25 billion in assets, including $3.6 billion invested in New Zealand. The Fund is managed by a Crown Entity, the Guardians of New Zealand Superannuation.[4]

The question is whether this is an appropriate way to recognise the near-doubling of the cost of NZS:

An analysis in a 'total accounting context' would probably have precluded the Fund's introduction in 2001 because the Fund is effectively 100% leveraged and taxpayers are unlikely to be compensated for assuming that risk. Over the six years to 30 June 2009, the Fund diminished the net worth of the government by about $2.6 billion and, even if it recovers those losses, is unlikely to make any significant future contribution to the security of payments of New Zealand Superannuation. In fact, it raises financial risks for taxpayers and may increase the long-term cost of New Zealand Superannuation. (Littlewood 2010, p. 91)

Although contributions to the NZSF were suspended in 2009 as fiscal deficits began to emerge, substantial assets have been accumulated: $25.52 billion at 28 February 2014.[5] A recently proposed amendment to the Retirement Income and New Zealand Superannuation Act 2001 intends to clarify the status of the NZSF in the government's balance sheet: "(2) The Fund is not an entity separate from the Crown."[6]

Retirement Commissioner

Since its inception, the NZSF has paid $3.3 billion in tax to the New Zealand Government. This tax is included by the Guardians in their reporting on the Fund's performance because they consider it to be a return to the Crown. The Retirement Commissioner's report (2013, p. 55) to Government notes that the requirement that the Fund pay tax in its home jurisdiction is unusual among its peers in the international sovereign wealth fund community. In addition, neither ACC nor the Earthquake Commission are required to pay New Zealand tax on their investment funds. Recommendation 9 in the 2013 report states: "That the Government exempt the New Zealand Superannuation Fund from the requirement to pay tax on the Fund's investment returns." (Maxwell 2013, p. 91)

The Financial Services Council

The FSC does not discuss the NZSF.

[4] See: http://www.nzsuperfund.co.nz/.
[5] Ibid.
[6] See: New Zealand Superannuation and Retirement Income Amendment Bill, available at: http://www.legislation.govt.nz/bill/government/2013/0166/latest/DLM5708813.html?search=ta_bill_N_bc%40bcur_an%40bn%40rn_25_a&p=1.

5. KiwiSaver

KiwiSaver is an auto-enrolment, opt-out scheme for employees, the self-employed, and the unemployed. Despite the opt-out provision, it is mandatory for employers to contribute a minimum 3% for their member-employees, who also are required to contribute 3%.

KiwiSaver and Compulsion

OECD comparisons of pension wealth reveal that, although the current New Zealand retirement income scheme, primarily NZS, is generous in providing a good replacement rate for low income deciles and thus removing poverty, it does poorly in providing adequate replacement rates for middle and higher income groups (OECD 2011, p. 56). New Zealand is below the OECD average replacement rate of retirement incomes primarily because New Zealand lacks a compulsory Tier 2 pension, which would provide a supplementary income to NZS to ensure the continuance of pre-retirement living standards and income replacement rates.

The RPRC notes that the OECD comparisons of pension wealth provide an incomplete estimation of the actual well-being of retirees, and such comparisons are an inadequate basis to justify compulsory KiwiSaver. 'Pension wealth' (everything that can be drawn on to support income needs in retirement) is a sub-set of 'financial wealth' which is itself a subset of retirement wealth (all assets, including the family home and other 'lifestyle' assets). KiwiSaver is only a small part of the total aggregate assets that can be used for retirement.

Retirement Commissioner

The CFLRI rejects calls for compulsion on various grounds. First, that making KiwiSaver compulsory could be perceived by members as an additional tax and undermine the principle of individual responsibility and choice. Second, there are issues of equity with a "proportionately greater burden [falling] on those with low incomes" while higher income earners may substitute KiwiSaver for other forms of saving. (Maxwell 2013,p.66).

Third, compliance costs can be expensive, while incentives may still be necessary. Fourth, there would be a reduction in competitive pressures, and little incentive to reduce complexity and improve transparency. Fifth, if increased membership is needed there are other means such as an auto enrolment day and improved financial education. But the sixth big problem for the CFLRI is:

> *Finally, the 1992 Task Force on Private Provision for Retirement (The Todd Task Force) noted a likely outcome of a compulsory savings system would be the introduction of means testing for NZS. This would represent a fundamental change to the system of retirement income that has served New Zealand so well over several decades.* (Maxwell 2013,p.66)

The Financial Services Council

> *Where New Zealand is very unusual is that unlike most developed countries it does not have the mandatory second tier which enables the majority of citizens to enjoy a comfortable retirement.* (Financial Services Council 2012)

The FSC advocates making KiwiSaver compulsory to provide a supplementary income to NZS and a second tier within New Zealand's retirement income scheme, particularly for those in middle income deciles for whom NZS does not provide an adequate income to ensure the continuance of economic status and access (Financial Services Council 2012).

> *To enable every employee in New Zealand to retire on at least the level of the NZS from 65, and most people to achieve a retirement income close to two times the level of NZS, contributions from employees and employers will need to grow to equal 10 to 12 per cent of their earnings going into a retirement account. In Australia, employers currently contribute nine percent of earnings to each employee's compulsory superannuation scheme. There is cross-party support in Australia for the* contribut*ions to increase to twelve per cent from the current nine per cent between now and 2020. Expanding enrolment into KiwiSaver to cover all employees and stepping up the contribution year*

by year until it reaches 10 to 12 per cent of earnings is probably the best way to phase-in additional retirement savings. We have called this KiwiSaver Plus. (Financial Services Council 2012).

KiwiSaver Plus

The Financial Services Council

The FSC proposes a modification to KiwiSaver called "KiwiSaver Plus", in response to future fiscal pressures arising from demographic change and increasing costs of NZS. KiwiSaver Plus primarily aims to preserve the option of retiring at the age of 65 and allow people to maintain their pre-retirement socio-economic status and living standards (Financial Services Council 2012). Some key differences, drawn from the full outline of how KiwiSaver Plus would differ from KiwiSaver found on pages 32 -33 of the FSC's 2012 report: *Pensions for the Twenty First Century: Retirement Income Security for Younger New Zealanders*, are:

- ***Contribution Rate Increase***

__The FSC__ proposes increasing the current contribution rate to KiwiSaver to a total of 10% of pay. This increased contribution is to be shared between both the employee and employer and it will still be a voluntary scheme.

- ***Cash up date***

From age 65 or later when bigger pension would be possible.

- ***Government guarantee***

A government guarantee behind KiwiSaver funds would serve to increase the confidence of those contributing and also secure the funds against significant macroeconomic shocks. The cost is about "0.1% of your income".

- ***Compulsion to Purchase an Annuity***

KiwiSaver balances must be used to replace NZS with a term annuity between age 65 and the new state pension age if KiwiSaver Plus is used for early retirement. The FSC proposes that government may tender for gender-neutral fixed term pensions. A top up will be there for those who have insufficient funds to buy a pension as high as NZS.

The FSC acknowledges two main issues faced by women: increased longevity, and decreased time in the workforce which often results in female retirees accumulating insufficient retirement savings from contribution-based schemes.[7] Under KiwiSaver Plus, taxpayers would "top up the retirement savings account of anyone who has contributed but who does not have sufficient savings to fund a pension equivalent at NZS at 65" (Financial Services Council 2012, p.46).

> *This approach means that everyone who participates has the option of retiring at 65 and that the arrangement is fair for women and the low paid. As is currently the case if a couple was to separate or divorce the combined value of the KiwiSaver Plus account balances would be split evenly between the separating parties.* (Financial Services Council 2012, p.46)

There is evidence linking life expectancy with material well-being and income. As Maori are disproportionately in receipt of lower incomes, some researchers "have argued for a lower age of eligibility for NZS as they pay taxes but are less likely to get to 65 or enjoy a long retirement" (Financial Services Council 2012, p. 47). A further increase in age eligibility for the NZS would exacerbate this problem of access.

> *As your KiwiSaver Plus retirement savings belong to you, if you die prematurely the balance in the account goes to your estate to benefit your family as do pension payments for the remaining years of your fixed-term pension.* (Financial Services Council 2012, p. 47)

[7] RPRC also notes that women are paid an average of almost $4.00 less per hour than their male counterparts which has a further negative effect on their potential to save for retirement.

Default scheme issues[8]

Retirement Commissioner

The CFLRI found that: “At 31 March 2012, 24% of KiwiSaver members were in a default fund and most (93%) members in an employer-chosen scheme were in the default option of that scheme.” (Maxwell 2013, p.63) This accords with equivalent overseas research, and suggests that individuals are not actively involved in the way their money is being invested. In the wider context, at 31 March 2013, about 20% of all KiwiSaver assets were in those default funds’ default strategies (Financial Markets Authority 2013b).

Some have suggested that the objectives of default schemes and default investment strategies need discussion. Currently new employees are auto-enrolled into default schemes but can choose to change. In the absence of any decision, they are also given the default investment strategy (broadly 25% in shares/property and 75% in cash/bonds).

> *While it may be true that a less conservative option or a life-cycle fund is more appropriate in many cases, this is for the members themselves to determine.* (Maxwell 2013, p.70)

Retirement Policy and Research Centre

The RPRC notes that the most suitable or appropriate retirement investment strategy for an individual depends on many factors. For example, in addition to age, the degree of dependence on KiwiSaver and NZS as the individual’s retirement income is critical. Age alone is not enough to determine the ‘right’ type of scheme particularly in view of the first home deposit option. The government’s latest appointments of default providers included a requirement that default providers provide help to members in this regard:

> *As a requirement of their appointment, the KiwiSaver default providers will also offer investor education to encourage people to make this active choice. This reflects the Government’s commitment to build on KiwiSaver’s contribution to developing a savings culture and lifting New Zealanders’ confidence in our financial sector.* (Foss 2014)

Annuitisation

The Financial Services Council

The FSC advocates compulsory annuity purchase as part of KiwiSaver Plus (see FSC 2012, p. 16). **Mercer** advocates requiring KiwiSaver members to partially convert their balance at retirement to an annuity, and also “believes there is an opportunity for the Government to step in and develop an annuities market”(Mercer 2012, p.4).

Retirement Commissioner

Although NZS provides a basic annuity for retirees, it does not provide a sufficient replacement of pre-retirement income to middle and high income earners (and was not intended to do that). And currently: “KiwiSaver members who spend their balance soon after accessing it are likely to outlive a significant part of their income.” (Maxwell 2013, p.63) The CFLRI suggests this gap in New Zealand’s retirement income system is addressed by requiring KiwiSaver members to partially or even fully convert their balance at retirement to an annuity (Maxwell 2013).

Equity and morality issues are raised by the possibility of the Government’s imposition of such requirements on KiwiSaver funds. Currently, Government provision of the Member Tax Credit could justify the imposition of some restrictions. However, with KiwiSaver’s current design allowing individuals to opt-out, increased restrictions on the use of KiwiSaver funds may cause a decline in membership rates (Maxwell 2013).

The Retirement Commissioner references a more radical approach to the annuitisation of KiwiSaver is proposed by Cullen (2013). He advocates for compulsory KiwiSaver as an alternative way to increase the fiscal sustainability of NZS. He proposes that with the increased accumulated funds of

[8] Default provider issues are discussed in RPRC’s Working Paper 2014-1 (Retirement Policy and Research Centre 2014).

KiwiSaver, half would be mandatorily annuitised upon reaching the age of eligibility. The Government would then top up annuities for individuals whose balances were not large enough to purchase an annuity of the same value as NZ Super. In doing so, there is essentially a shift from a PAYGO to a SAYGO retirement income framework (Cullen 2013; Maxwell 2013). Cullen further proposes the introduction of a "withdrawal tax on accumulated KiwiSaver savings when a saver reaches the age of eligibility to receive them. The additional revenue collected could be used to fund the future costs of NZ Super, perhaps even by being explicitly tagged to it" (Maxwell 2013, p.75).

Although on face value this would seem to reduce the fiscal sustainability of NZS, a far greater level of economic analysis for such a radical approach is required. Such analysis would need to take into account the morality of such a compulsion by the government, the myth of pre-funded schemes being the panacea to an adverse change in demographics and the inherent market failure of annuity providers among the myriad of other implications such a policy change may have.

The level of caution required to assess these proposed changes to KiwiSaver are further reflected in a concluding note from the CFLRI:

> *KiwiSaver is additive to NZS, not a substitute, and this status must be retained if the overall retirement income framework is to retain its integrity, and if other measures proposed in this document are to be effective.* (Maxwell 2013, p.46)

6. Tax issues

Retirement Policy and Research Centre

The RPRC notes that since 1987 and until KiwiSaver was introduced in 2007, New Zealand (uniquely) offered no tax incentives to encourage private provision for retirement. Savings have generally been treated for tax purposes in the same way as all other income.

KiwiSaver changed that. At least initially, there was a modest 'kickstart' of $1,000 and $40 a year to pay for membership fees. That changed dramatically on the eve of KiwiSaver's introduction with the introduction of the member and employer tax credits (also compulsory matched employer contributions). However, the employer tax credit and fee subsidy were abolished in 2009 and in 2012 the member tax credit (MTC) was halved (St John, Littlewood and Dale 2014). What remains is a subsidy of 50% of member's contributions up to $1,042 a year and the $1,000 kickstart.

Separately, the 'portfolio investment entity' (PIE) tax regime taxes the investment income of superannuation schemes (including KiwiSaver) on a more favourable basis than had that income been received directly by members, especially for those on the top tax rate.

Tax incentives are not only a fiscal cost to the government through forgone taxes, they also create distortions that may pull investment away from areas which might have been more economically beneficial. They are also expensive, complex and regressive. In the case of Australia, tax incentives have been estimated to cost the government even more than the actual cost of the Age Pension (Ingles 2009). As a consequence, increased private savings are offset by the rise in public debt resulting in no overall change in national savings. (St John, Littlewood et al. 2014)

Retirement Commissioner

Using the Laffer curve as the primary tool of analysis, the NZIER expresses the potential in New Zealand for tax increases – especially labour taxation (NZIER 2013). The CFLRI corroborates the view of the NZIER, but says that New Zealand "has a relatively wide tax base and the government has ample room to increase taxation rates" (Maxwell 2013, p.49). However it is important to also take into consideration the tax distortions that may arise from such policy.

The CFLRI states that "incentives provided by taxation divert disproportionate amounts of money away from desirable activities such as saving and investment in the share market into areas such as housing – particularly rental housing" (Maxwell 2013, p.51). These distortions have been perhaps most noticeable with the house price bubble that has persisted for the past two years. However there is no evidence of increasing rates of rental occupation (down from 30.3% in 1976 to 28.8% in 2013) and the Census numbers for home ownership rates have very large gaps in them. The most recent data for private rental investments is from SoFIE: $48 billion or 5.7% of household's gross assets in 2006 (Retirement Policy and Research Centre 2010).

The CFLRI reports that, of current KiwiSaver members, "around 25% of members who were eligible for the MTC had not made contributions to their account (these were mostly people with no income) and more than half did not contribute enough to gain the full tax credit" (Maxwell 2013). Members without income cannot take full advantage of the concessions so incentives are largely lost on this group. Hence, although an intention of KiwiSaver was to provide a supplementary income to lower and middle income[9] groups by incentivising saving, tax incentives based on contributions are unlikely to have the desired effect on those who cannot afford to save, and are likely to be regressive. Moreover they would add significantly to government costs without achieving an equivalent benefit.

However, drawing on the Savings Working Group research, 2011,[10] the CFLRI also recommends that the tax on the inflation component of interest on simple savings products (e.g. bank deposits) be removed. The CFLRI also suggests that the FSC's proposals outlined below warrant serious consideration (Maxwell 2013, p. 52).

The Financial Services Council
The FSC suggests that KiwiSaver schemes face an uneven tax playing field, and existing tax concessions should be re-designed.

> *In effect we are saying if we cannot fix the comprehensive income tax base we should fix the tax rates on locked-in savings like KiwiSaver to ensure there is no barrier to sensible saving behaviour.*
>
> *Clearly any reduction to the tax rate on financial instruments or KiwiSaver type scheme would have a fiscal cost. However if necessary, work commissioned by the Financial Services Council demonstrates that most of any fiscal cost could be met by removing the current government funded incentives for KiwiSaver…Over time it is estimated that the KiwiSaver incentives could be used to fully pay in (net present value terms) a flat KiwiSaver tax rate of 6.38%.* (Financial Services Council 2013,p.9)

7. Other issues

Health & Long-term Care

The Treasury
The bulk of health care costs occur in the last three years of life, and regardless of age at death, more than a quarter of all acute health care costs occur in the last year of life (Cornwall and Davey 2004). So with the increase in the numbers of retired from the baby boomer cohort, the number incurring these high health care costs will increase. The fiscal pressure this will exert on the Government budget is further compounded by the relatively smaller working population bearing these costs. The Treasury's *Affording our Future* report (2013a) on New Zealand's long term fiscal position reflects these concerns.

Retirement Commissioner
The CFLRI note that current evidence shows that "healthy life expectancy" is increasing (Maxwell 2013, p.36), and people are not only living longer, but are healthier in their old age. This suggests

[9] High income earners are assumed to have saved enough for retirement and not be dependent on NZS or KiwiSaver as their primary source of retirement income.
[10] See: http://www.treasury.govt.nz/publications/reviews-consultation/savingsworkinggroup

that the length of time people will require in long-term care may not necessarily grow, and hence increasing longevity may not be a real cause of concern. Instead, the CFLRI argues that the source of these costs may in fact be: "The ongoing availability of new and more effective treatments, with a corresponding expectation of access to them" (Maxwell 2013, p.43).

Universal vs. means tested long term care

Under existing policy, retiree health care is means tested. Unfortunately though, this means test is flawed. Higher income earners can hide assets in trust funds while middle and low income earners are often left at a disadvantage with personal illiquid assets such as housing often being means-tested away.

Retirement Commissioner

As health is a crucial determinant of overall wellbeing, the primary motivation of long term health care subsidies is to ensure a minimum standard of well-being is maintained for retirees. The relationship between health and income measures for wellbeing are dependent on the level of public provision of healthcare. Should subsidies not adjust and grow proportionally to the retirement of the baby boomer cohort, then health will become more strongly dependent on income. By contrast, if health or long term care is subsidised/fully included and assessed in a means-tested way – which may be an easier task here than other means-testing – then an argument could be made for increasing these services according to need, while simultaneously reducing the NZS (Maxwell 2013).

International Pensions

The RPRC's extensive contributions to this debate are available on the website.

Retirement Commissioner

The 2010 Review of Retirement Income Policy made a number of recommendations on the direct deduction policy (DDP), and these are reiterated in the 2013 report. New Zealand's DDP for residents who qualify for both NZS and overseas age pensions reduces NZS by up to the amount of the overseas public pensions, and in some instances these deductions are made from NZS payments of recipients' spouses or partners (Maxwell 2013, p. 21). The Retirement Commissioner, the Human Rights Commissioner and the RPRC, are aware of the grievances about the DDP among a number of overseas public pension recipients. Some grievances arise from differences in the definition of a qualifying overseas pension, and some arise from deduction of Tier 2 pensions – private retirement savings that should be exempt from the policy.

Recommendations of the 2013 report state:

> *14. That an individual's overseas state pension entitlements should be directly deducted against their own individual entitlement to New Zealand Superannuation and that any excess should not then be offset against the individual entitlement of their partner.*
> *15. That the Ministry of Social Development improve information and advice for recent and prospective migrants and returning New Zealanders on the implications of the direct deductions policy for their future retirement income.*
> *16. That the Ministry of Social Development improve the public availability of decisions on the classification of overseas pension schemes whose pension payouts are subject to the direct deduction policy.*
> *17. That the Ministry of Social Development explain the rationale behind each international pension scheme classification.* (Maxwell 2013, p. 10)

Immigrants

As noted above, New Zealand's DDP for residents who qualify for NZS means that their NZS is reduced by up to the amount of the overseas pension. In some instances these deductions are made from NZS/VP payments otherwise due to the recipients' spouses or partners (Maxwell 2013, p.21).

Another area of debate for immigrants is the eligibility criteria. Under the current retirement income framework, NZS is payable to citizens and permanent residents who have reached the age of 65 and who have been a resident in New Zealand for ten years, including five years from the age of 50. In an effort to increase the fiscal sustainability of the current retirement income framework, there have been suggestions to tighten the residency criteria, effectively reducing the number of individuals eligible to receive NZS. However, such a suggestion must also take into consideration New Zealand's dependence on immigrants and its "impacts on the desirability of this country as a migrant destination in the context of increased labour mobility", let alone the morality and equitability towards these workers with such a change. (Maxwell 2013, p.46 - 47)

Emigrants

Currently, a qualifying recipient of NZS can 'export' their gross pension to another country on emigration from New Zealand. If an emigrant is under state pension age and has not been granted NZS, there is no pension to 'export'.

KiwiSaver is also portable, with some provisos:

> *KiwiSaver members who are permanently emigrating from NZ may apply to withdraw their own contributions, their employers' contributions and the $1,000 kick-start. However they cannot withdraw any member tax credits.* (Maxwell 2013, p.70)

The portability of KiwiSaver extends across the Tasman where there is the ability to consolidate retirement savings into a single account for those who have retirement savings in both Australia and New Zealand. However, because the number of KiwiSaver withdrawals by permanent migrants is very small[11], on face value these do not seem to be of a large concern (Maxwell 2013).

Financial Services Council

> *It is equitable and fair that an individual whom has worked their life in New Zealand and is eligible for NZS should be able to take it with them where ever they choose to go and retire.* (Financial Services Council 2012)

8. Concluding Remarks

Confused objectives

The RPRC notes that there are multiple, potentially contradictory objectives in New Zealand's policy framework. On the one hand there is a concern about individual saving and better living standards in retirement, and on the other objectives of economic growth and decreasing national indebtedness .

It is important to be clearer of the role of KiwiSaver in this mix as policies to enhance living standards may conflict with the greater national saving goal. A clear statement that KiwiSaver is to provide a supplement to those who otherwise would not have a vehicle to accumulate retirement saving is needed (St John, Littlewood et al. 2014).

There are other confusions. The financial services sector has faced "competition from direct investment by savers in real estate, particularly housing", and investment in productive assets more directly linked to economic growth (Maxwell 2013, p.31). KiwiSaver's current rules and regulations regarding the purchase of first homes, and the financial services sector funding a majority of home lending (and ironically creating some of this competition), reinforces the dangers of confusion about the objectives and purposes of KiwiSaver's role in the retirement framework. There are other ways to support first home owners. (St John, Littlewood et al. 2014)

[11] As of 30 June 2012, KiwiSaver withdrawals amounted to less than 0.2% of the total number of KiwiSaver members. (Maxwell 2013, p.70)

Political/Social Stability & Cohesiveness:

In light of the challenges we face ahead and the looming sacrifices that will inevitably come for creation of a fiscally sustainable retirement income framework, the FSC raise a paramount point: there is a need for support and cohesion both across generations and between political parties in order to establish a sustainable lasting system. This is highlighted in the FSC's suggestion for "a 75 per cent level of support in Parliament" to encourage cross party cohesion and consensus on any future changes to retirement income policy (Financial Services Council 2012, p. 40-41).

A similar call for consensus is found in the CFLRI Recommendations:

> *2. That the Government establish, by 30 June 2017, a schedule and review process for New Zealand Superannuation, guided by the principles outlined in this document (see pages 37 to 40).*
> *7. That the Government agree to the Retirement Commissioner convening a broadly representative review to determine the viability of different approaches to the voluntary annuitisation of savings, including KiwiSaver balances on retirement (see pages 74 and 75)*.
> (Maxwell 2013, p. 49)

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