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Retirement Policy and Research Centre

A commentary from the Retirement Policy and Research Centre

The New Zealand Superannuation and Retirement Income Act 2001 requires the Retirement Commissioner to carry out a Review of Retirement Income Policies every three years. Their Government of the day sets the terms of reference for the Review. The Retirement Commissioner advises on options to ensure that all New Zealanders, both now and in the future, have a good standard of living as they age. The 2019 Review was overseen by Interim Retirement Commissioner Peter Cordtz. In addition to contributions by the staff of his office, the Commission for Financial Capability (CFFC), external experts were contracted to contribute independent research. The final report was delivered to the Minister of Commerce and Consumer Affairs, Hon. Kris Faafoi, in December 2019, tabled in Parliament in January 2020, and made public soon after.

The RPRC contributed two independent research reports to the Review, and continues the discussion with this series of PensionCommentaries.

PensionCommentary 2020-03

The Kiwis falling through the KiwiSaver cracks

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Many low income New Zealanders can't afford KiwiSaver contributions, and growing numbers are withdrawing their funds for hardship reasons. This vulnerable group needs options that will lift their incomes when they retire.

As it stands, those who can't afford KiwiSaver miss out on employer and Government contributions. They also miss the compounding benefit of saving even a small amount of money in KiwiSaver. This exacerbates the wealth gap over time.

The importance of addressing the needs of this group was a welcome inclusion in the Retirement Commissioner's 2019 *Review of Retirement Income Policies 2019 Facing the Future* which was made public in January.

The recommendations of this Review strongly emphasise effecting behavioural change of "target savers" toward habitual saving. This group covers those who are not saving enough to maintain standards of living in retirement, and non-employees who do not have KiwiSaver contributions taken out of their pay, including people who are self-employed as well as beneficiaries, and those who take time out of employment for caregiving. However, we suggest the recommendations may have unintended and adverse consequences.

To promote the habit of saving among these vulnerable New Zealanders, the RRIP recommends: "*Target the Government contribution to incentivise voluntary contributions by non-employees.*"

Almost 15 percent of the New Zealand workforce is self-employed. Nearly two-thirds don't contribute to KiwiSaver, and those that do are contributing the minimum three percent.

Surveys by the Commission for Financial Capability (CFFC) suggest the lack of KiwiSaver contributions is due weak incentives, lack of awareness of existing incentives, lack of knowledge around voluntary contributions, and KiwiSaver is not perceived as a valuable investment.

As well as recognising a need for improved information about KiwiSaver, the Review argues for specific initiatives to promote membership and support a long-term savings habit. It proposes changing the Government incentive from payroll to voluntary contributions, paying $2 directly to KiwiSaver for every $1 member contribution, to a maximum of $2,000 per year for 12 years.

This capped contribution would amount to $24,000 reflecting the current Government contribution of $521.43 for up to 47 years which totals just over $24,000. The new incentive would establish a bigger KiwiSaver pot more quickly with gains from compounding interest.

However, this proposal is expensive and regressive. High income and better resourced KiwiSavers will find an extra $1,000 easy to contribute and a 200 percent return too good to forego. On the other hand, low paid workers and others struggling to maintain their three percent contribution would likely be unable to save an extra $1,000 and will miss out on the current Government contribution of $521.43. An additional problem would emerge in defining what amount of the member's fund was eligible for a hardship withdrawal.

To address unaffordability of KiwiSaver contributions by beneficiaries, the RRIP recommends: "*Auto-enrol beneficiaries in KiwiSaver through a Government Contribution*".

This proposal entails adding a three percent Government KiwiSaver contribution to each beneficiary's KiwiSaver account. If all beneficiaries are included, the total annual cost to the taxpayer would be around $150 million. However, beneficiaries would probably prefer to use any extra funds to meet existing expenses of rent, food and electricity. Further, they may be quizzed by Work and Income if they are managing to save.

In an adequate welfare system, the proposed Government contribution could promote a savings culture. Perhaps the more pressing issue is for the state to raise core benefit rates significantly as the Welfare Expert Advisory Group advised.

A further problematic recommendation from the Review is to: *"introduce Care Credits to reduce the risk of being penalised for time taken out of employment to provide caring."*

Many New Zealanders, mainly women, leave or suspend employment to care for children or frail, elderly relatives and therefore stop or minimise KiwiSaver contributions. Rather than penalising these carers who support our communities' health and wellbeing, under Care Credits the Government provides a portion of the KiwiSaver contribution previously paid by the carer's employer. This would partly compensate carers who forego their careers and income and risk wellbeing in retirement. The problem here is that many doing equally important caring duties don't have the required employment history.

While these recommendations may appear to provide solutions to real problems, they raise other equity issues for low-paid workers who are struggling to support their family and pay their rent. This group is also unable to either begin or maintain KiwiSaver membership.

Research from Massey University for the 2019 RRIP found at least 15 percent of the population have experienced significant material hardship by the time they reach age 65, the qualifying age for New Zealand Superannuation (NZS). That hardship may include lack of employment, short hours and low pay, high costs of living, injury, accident, illness, or caring responsibility for children, parents or other family. Compounding risk factors include being female, single, Māori or Pacific, in poor health or being made redundant.

An additional major factor of material hardship and inability to save is the high cost of rents. A report from StatsNZ in June 2019 showed 12.6 percent of people who owned their home, freehold or mortgaged, spent 40 percent or more of household income on rent and other housing costs, compared to 27.9 percent of renting households.

The extra financial burden carried by renters is harsh and heavy. They do not have enough income to set aside savings for a rainy day or for retirement. To single out beneficiaries and caregivers for special treatment may create more problems than it solves.

Truly ”facing the future” would involve increasing welfare benefits to adequate levels, ensuring relevant legislation guarantees safe and secure rental options and massively increasing the availability of affordable home ownership.

The additional bonus of adopting these changes would not only be the very urgent and necessary reduction in child poverty, the stated priority of the Government, but also the reduction in the numbers coming into retirement already experiencing severe hardship.

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