FISCAL SUSTAINABILITY IN AN AGEING POPULATION: ADAPTING UNIVERSAL PROVISION

AFFORDING OUR FUTURES CONFERENCE
10TH 11TH DECEMBER 2012

SUSAN ST JOHN*

*Co-director of the Retirement Policy and Research Centre, University of Auckland Business School. Paper is work in progress and comments invited to s.stjohn@auckland.ac.nz
Executive summary

- 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.
- Recipients of NZS, especially if aged close to 65, may still be in well-paid work, and/or have other large private incomes and assets.
- Approximately 40% NZS recipients have virtually no cash income apart from NZS. The next 20% have on average only 20% of their income from non-governmental sources. However 35% of all older New Zealanders have more than half of their income from non-governmental sources. For couples aged 66-75, around one half have more than 50% of their income from non-governmental sources.
- Income for those over 65 is likely to be understated. Income in managed funds taxed under the Portfolio Investment Entity regime, or retained in trusts or companies may not be included as income, and there is no imputed income for assets such as second homes or cars, or for owner-occupied housing.
- In the 1980s, the retention of NZS by the top income earners was only 34% (with a top tax rate of 66%). Now it is 67%, or more with tax planning. The ratio of the highest income earner’s net NZS to net NZS for those with no other income is over 75%.
- The rates for married, single and living alone should be aligned and high accommodation costs for low income people met by a separate payment.
- If NZS was removed from the top decile of superannuitants alone, 10% of the gross cost could be saved. However “Targeting is more easily done in theory than in practice” (Rodway 2012, p 13). The challenge is to design a means-test that achieves worthwhile savings with least pain.
- The Australian means test is unlikely to appeal to New Zealanders. Under a New Zealand standard welfare test, a couple would retain only an extra $80 a week between them before facing an effective marginal tax rate of 89.2% (with ACC levy, tax and benefit loss). History suggests this is untenable.
- The surcharge has political baggage.
- A negative income tax approach could be used or NZS could be paid as a ‘NZ Superannuation Grant’ (NZSG) as a weekly non-taxable payment. Then, for any additional earnings, a separate tax scale would apply with the tax rate called here ‘the NZSG tax rate’. Effective marginal taxes are modest and comparable to the rate faced by many others in the workforce.
- 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.
- There must be integrity in the targeting approach. For example, income in PIEs and trusts, and rents (actual and imputed) from owning property should be included.

Questions
1. Does the panel think there is merit pursuing some kind of high level targeting (affluence testing) as envisaged here?
2. If so, what are the critical design features?
3. What is the role, if any, of a separate asset test?
1. Introduction

To ensure the future fiscal sustainability of New Zealand Superannuation (NZS), all options and combinations that affect future spending should be examined. Raising the age of eligibility for NZS is widely seen as necessary for fiscal sustainability, and was highlighted for urgent consideration by the Retirement Commissioner in her last two annual reviews (Retirement Commission 2007; Retirement Commission 2010). Yet this 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: the qualifying age, the level and the degree of targeting may be preferable.

Targeting may use income or wealth as the measure of need, or a proxy for need, such as age, place of residence, work status, or living arrangements. When taxable income or measured wealth is used for the means test, the integrity of the measure is paramount to its acceptability. Simplicity, compliance, and minimising disincentives to work and save are also key considerations. This paper specifically examines the way in which increasing the degree of income-targeting might contribute to reducing the fiscal cost while also addressing some of the perceived intergenerational inequities of NZS.

2. Background

Among developed countries, New Zealand takes a unique approach to the provision of retirement income by putting a universal basic pension at the centre. As a basic income, provided on residency grounds, not contributions or work periods, it has been outstandingly successful in helping prevent hardship among those over 65.\(^1\) In 2008, the over 65 year-olds had the best living standards profile of any age group in New Zealand with very low rates of severe and significant hardship (Perry 2009)\(^2\).

In part, low material deprivation reflects a high level of home ownership and therefore low accommodation costs. It may also reflect the increased income over 65 year-olds derive from paid work, especially since 1996 as discussed further below. In a report for the Retirement Commissioner’s Review in 2010 the Ministry of Social Development (2010) noted that:

> research shows the majority of older New Zealanders have sufficient income and assets to provide a reasonable standard of living. Although there is evidence of a small group of older New Zealanders (between 4 and 9 per cent) whose living standards are very restricted, the hardship rate for older New Zealanders is lower than for any other age group.

The World Bank (2012) describes a basic income as a zero pillar and notes the international uniqueness of the New Zealand approach\(^3\):

> Targeted (or means-tested) schemes are found in various countries, basic (pensions for all residents above a certain age) in a few others. In fact, Canada, Denmark, Iceland, and the UK have both targeted, and basic zero pillars. New Zealand is the only country with only a basic pension system (it does not have pillars 1, and 2). There are 3 countries (Italy, Austria and

---

1. New Zealand’s over-65 poverty rate appears high at 22% when measured by the standard EU median household poverty line (60% before housing costs) Perry (2012, p 136) but small changes in the median can affect the measure, and do not reflect the lower costs of housing of this group. In 2011, the 60% After Housing Costs fixed line poverty rate for the 65+ age group was 7%, compared with 14% for 45-64 year olds, 15% for 18-44 year olds, and 21% for children (aged 0-17 years) (Perry, 2012, p 20).

2. Nevertheless data show that equivalised NZS rates relative to the equivalised median household incomes has been falling steadily since the mid-1990s, suggesting average wage indexation alone may not maintain relativity to broad growth in living standards Perry (2012, p 135).

3. Countries that provide a basic pension to the elderly with no test other than citizenship, residence and age: Bolivia, Botswana, Brunei, Kiribati, Kosovo, Maldives, Mauritius, Namibia, Mexico City, New Zealand, Nepal, Samoa, and Timor-Leste (Pallares-Miralles et al 2012)
NZS does not discourage saving or working since it is not income- or asset-tested, and there is no retirement test. The number of people aged 65+ in the labour force has more than quadrupled since 1991 to reach about 130,000 in 2012 (Statistics New Zealand 2012). The increased numbers reflect both population ageing and increased participation. There are a number of factors: the raising of the age of eligibility for NZS, no compulsory retirement age, removal of the income test provided by the surcharge (from 1998), no age-based insurance obligations for employers and legislation against workplace discrimination (Ministry of Social Development 2010). It is expected that this trend will continue: while 1 in 5 of those over 65 in 2012 were in the labour force, projections show this will increase to 1 in 3 by the mid-2020s (Statistics New Zealand 2012).

The residency test is liberal requiring 10 years only of which at least 5 are to be after the age of 50. A less liberal aspect however is the operation of section 70 of the Social Security Act 1964 that deducts entitlement to any overseas state pension dollar for dollar from NZS, including any excess from a spouse’s NZS entitlement. This policy is based on the intent to reduce the possibility that someone with an overseas basic pension might be better off than someone who had lived all their life in New Zealand. As a targeting process to achieve fairness, it has many problems (Dale, St John et al. 2011). Dale & St John (2012) have suggested that raising the residency requirement for NZS to 25 years is a possible way forward to achieve greater simplicity and fairness. In 2010 around 10% of NZS/VP recipients had a deduction of, on average, $3,742 per annum, setting an upper bound of the costs of increased entitlement under this policy change at $200 million. This cost would be offset by the loss of entitlements of those immigrants who fail the residency test. Another option suggests an apportionment of NZS for year of residency when there is entitlement to a basic pension in another country (Dale and Littlewood 2012). This aspect of NZS becomes increasingly important as populations become more mobile.

**Fiscal costs of NZS**

Table 1 shows the number of recipients of NZS (and Veterans Pension VP) indicating a high take-up rate of the pension.

**Table 1 Numbers in receipt of New Zealand Superannuation and Veterans Pension**

<table>
<thead>
<tr>
<th>Numbers over 65</th>
<th>Actual pop*</th>
<th>NZS** 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>564,500</td>
<td>555,646</td>
</tr>
<tr>
<td>2011</td>
<td>582,700</td>
<td>571,000</td>
</tr>
<tr>
<td>2012</td>
<td>605,800</td>
<td>600,000***</td>
</tr>
</tbody>
</table>

* Statistics NZ population estimates (2012)
** MSD administrative data and Statistical Report (2011)
*** estimated number of New Zealand Superannuation/VP recipients as at 31<sup>st</sup> March 2012

---

4 Requirement to retire from work.
5 Veterans Pension (VP) which can be an alternative to NZS for some veterans.
The fiscal cost of NZS in net terms, even ignoring GST, is relatively low at around 3.8% of GDP today rising to just around 6.8% in 2060 (Rodway 2010). While this appears to be a modest increase and is less dramatic compared to other countries (see OECD 2011) there are associated fiscal pressures from an ageing population, including healthcare costs, that make this picture less benign.

While the crude numbers aged over 65 are predicted to rise from 606,000 today to between 1.3 and 1.6 million mid-century, the age distribution will be very different. The number of people aged 85 and over is 76,000 in 2012: about 1 in 8 of all people aged 65+. Projections show this is expected to change significantly so that by 2036, depending on mortality assumptions, there will be between 180,000 and 210,000 people aged 85 and over, and between 290,000 and 430,000 by 2061 (Statistics New Zealand 2012). Longevity has continued to increase beyond even the highest estimates (Jackson 2011) and healthcare costs are greatest in the older age group, whether via ageing in place policies or institutional care.

Table 2 Expenditure on Transfers 2012-2016: Source: New Zealand Treasury (2012)

<table>
<thead>
<tr>
<th>Transfer payments and subsidies $m</th>
<th>2012</th>
<th>2014</th>
<th>2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand Superannuation</td>
<td>9,587</td>
<td>10,867</td>
<td>12,369</td>
<td>+29</td>
</tr>
<tr>
<td>Family tax credit</td>
<td>2,111</td>
<td>2,065</td>
<td>2,062</td>
<td>-2</td>
</tr>
<tr>
<td>Domestic Purposes Benefit</td>
<td>1,818</td>
<td>1,841</td>
<td>1,919</td>
<td>+6</td>
</tr>
<tr>
<td>Invalid's Benefit</td>
<td>1,326</td>
<td>1,327</td>
<td>1,353</td>
<td>+2</td>
</tr>
<tr>
<td>Accommodation Supplement</td>
<td>1,203</td>
<td>1,271</td>
<td>1,310</td>
<td>+9</td>
</tr>
<tr>
<td>Unemployment Benefit</td>
<td>888</td>
<td>849</td>
<td>737</td>
<td>-17</td>
</tr>
<tr>
<td>Sickness Benefit</td>
<td>774</td>
<td>803</td>
<td>858</td>
<td>+11</td>
</tr>
<tr>
<td>Student allowances</td>
<td>649</td>
<td>532</td>
<td>494</td>
<td>-24</td>
</tr>
<tr>
<td>Disability allowances</td>
<td>403</td>
<td>360</td>
<td>365</td>
<td>-9</td>
</tr>
<tr>
<td>Other social assistance benefits</td>
<td>2,532</td>
<td>2,659</td>
<td>2,737</td>
<td>+8</td>
</tr>
<tr>
<td>Total social assistance grants</td>
<td>21,291</td>
<td>22,574</td>
<td>24,204</td>
<td>+14</td>
</tr>
</tbody>
</table>

The importance of NZS in the context of total transfers in New Zealand and expected future gross payments is set out in Table 2. The growth of expenditure on NZS compared to other categories of transfers reflects both demographic change and the more favourable indexation of NZS.

In this context of demographic ageing, an intergenerational tussle for resources is likely. The immediacy of the protracted recession has thrown into sharp relief the relatively secure position of the aged compared to the young, and especially compared to students and low income families. Moreover, recent policy changes to aspects of indexation and eligibility for student allowances and loans (IRD, Budget 212) and to indexation and abatement rates for Working for Families (Budget 2011) introduce a tighter degree of targeting for young populations. This is reflected in the reduction in nominal spending in these categories in Table 2. The underlying policy changes have been enacted.

---

6 To understand the actual cost of NZS the gross cost should be adjusted both for income tax and GST. Otherwise a tax shift, such as the GST/income tax shift in 2010, can make the net cost of NZS look greater than it actually is.

7 NZS is linked to the average wage so that the net couple rate never falls below 66% of the net average wage.
without consultation or warning, with either immediate effect or a rapid phase-in, highlighting again the different treatment of the old and the young.

Incomes and Assets of the 65+ population
Recipients of NZS, especially if aged close to 65, may still be in paid work, and/or have other large private incomes and assets. This suggests that raising the age is a possible way to target NZS more closely to need. However, raising the age is a relatively crude way to save costs as discussed below.

Based on the Household Economic Survey (HES) for 2009-10, Perry (2012) showed that compared to the total population, the equivalised\(^8\) after-tax income distribution for individuals over 65 years of age was much more compressed with most between about 50% and 60% of the median (see Figure 1). This reflects both the dominance of NZS which is set at about 50% of the median and that there is a large proportion of this population with very little additional cash income.

Figure 1. Before Housing Costs (BHC) Household income distribution for older New Zealanders relative to the rest of population, HES 2010: Source Perry, (2012, p 133)

Income for those over 65 comes from three main sources: government transfers (98% from NZS or VP); work income, and investment income and private superannuation. Approximately 40% have virtually no cash income apart from NZS. There also may be small amounts of other transfers such as the accommodation supplement and the disability allowance, but outside of transfers, income of less than $30 per person, per week, is reported (Perry, 2012, p 139).

The next 20% have on average only 20% of their income from non-governmental sources. Figure 1 however also shows that some of the 65+ are represented in higher income ranges. Perry notes that 35% of all older New Zealanders have more than half of their income from non-governmental sources. Couples on average have higher per capita non-governmental income than singles: the top decile of the over 65+ distribution is mainly couples and they have 83% of income from other

---

\(^8\) In order to compare individuals’ incomes for those in households of differing sizes, household income is equivalised by dividing by a scale factor, with 1 as the factor for an individual alone. Using the Jensen equivalised scale, the factor for a couple is 1.54. Thus for a couple on $20,000 each member has an equivalised income of approximately $13,000 (Perry, 2012, p. 28).
sources. For couples aged 66-75 around one half had more than 50% of their income from non-governmental sources (Perry, 2012, p 139).

Perry notes that for younger couples (aged 66-75) “there has been a strong and sustained increase in income from non-governmental sources in the decade 2001 to 2010”. This reflects a growing share of income from employment and a smaller rise in the share from investment, especially after returns fell in 2009 (Perry, 2012, p 139).

For purposes here it is of interest to see how much extra income accrues across the deciles of the over 65 distribution. Table 3 is adapted from Perry, (2012, p 142), to show how much more couples have extra per week per capita compared to singles. Using a relative weighting of individuals in couples to singles of 3:2 in the population of those over 65, there are about 364,000 partnered and 242,000 single recipients of NZS or VP. This suggests that 72,600 singles and about 199,800 partnered recipients have more than around $150 a week extra income. About 24,200 singles and 72,800 partnered have more than about $650 extra each a week.

<table>
<thead>
<tr>
<th>Deciles</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>one person</td>
<td>mean</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>30</td>
<td>100</td>
<td>240</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td>upper boundary</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>15</td>
<td>55</td>
<td>155</td>
<td>325</td>
<td>675</td>
</tr>
<tr>
<td>Individuals in couple</td>
<td>mean</td>
<td>0</td>
<td>3</td>
<td>25</td>
<td>62.5</td>
<td>140</td>
<td>242.5</td>
<td>277.5</td>
<td>545</td>
<td>787.5</td>
</tr>
<tr>
<td></td>
<td>upper boundary</td>
<td>0</td>
<td>12.5</td>
<td>37.5</td>
<td>92.5</td>
<td>192.5</td>
<td>285</td>
<td>450</td>
<td>642.5</td>
<td>1022.5</td>
</tr>
</tbody>
</table>

It must also be noted however that the HES measures regular income. Effective income in managed funds taxed under the PIE regime, or retained in trusts or companies may not be declared (or even thought of) as income, and there is no imputed income for non-productive assets such as second homes or cars, or for owner-occupied housing.

There is not much detailed information available for those in the top decile. In a TV3 programme ‘Pensions for Millionaires’ aired on 10th December 2011, information requested from the IRD revealed that, while 503,300 superannuitants have taxable incomes less than $50,000, 52,400 have incomes between $50,000 and $250,000 pa. A further 1,100 have incomes between $250,000 and $500,000, and 200 between $500,000 and $1m pa. The top 100 have more than $1m with average incomes of $2.3m pa.

The payment of NZS to millionaires in the top decile suggests that there is scope for income and/or asset testing to remove it from this group at least. It is also clear, however, that taxable incomes do not always record the true income position of those in top income brackets. The use of managed funds and trusts is widespread and the rules surrounding their taxation complex. The Reserve Bank reports $75 billion in managed funds as at June 2012 and this is expected to enlarge with KiwiSaver.

---

9 See [http://www.3news.co.nz/Pensions-for-millionaires/tabid/423/articleId/236053/Default.aspx](http://www.3news.co.nz/Pensions-for-millionaires/tabid/423/articleId/236053/Default.aspx)

growth and income diversion. Measuring access to resources in retirement either requires a broader view of all income flows, or some other way to allow for the income stream from accumulated saving.

If the top decile of superannuitants alone did not get NZS, approximately $960 gross (2012), ie 10% of the gross cost could be saved. However as Rodway (2010, p 13) notes: “Targeting is more easily done in theory than in practice”.

**Figure 2. Median and mean net worth value: Source, Cheung (2007)**

There is little recent, detailed information about the distribution of net wealth by age bracket for those over 65. Based on the Survey of Family, Income and Employment (SoFIE) conducted in 2003/04, Figure 2 shows that one half of those aged 65-74 had more than $150,000 in net worth, but that the mean net worth is much higher. Many accumulated this wealth via tax-free capital gains in a booming real estate market. This is also the group likely to have gained substantially from the income tax /GST shift in 2010 and the lowering of the PIE top tax rate and company rate of tax to 28%. Others may also have income and assets sheltered in trusts, the use of which have grown markedly (Law Commission 2010).

When working age families are taxed to pay universal pensions set at a rate higher than the adult unemployment benefit, (see Table 4), to many who may be much better off, including being in well-paid full-time work, intergenerational equity issues can be expected to arise.

**Table 4 Net rates of New Zealand Superannuation and the Unemployment and Sickness Benefit, from 1 April 2012: Source WINZ 2012**

<table>
<thead>
<tr>
<th>New Zealand Rates of NZS</th>
<th>NZS Net $pw no other income</th>
<th>NZS Net $pw High income Tax rate=33%</th>
<th>UE Benefit-Net $pw</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Living alone</td>
<td>349</td>
<td>268</td>
<td>205</td>
</tr>
<tr>
<td>Single sharing</td>
<td>322</td>
<td>245</td>
<td>205</td>
</tr>
<tr>
<td>Married</td>
<td>268</td>
<td>202</td>
<td>171</td>
</tr>
</tbody>
</table>
The issue of ‘Sponging boomers’ is beginning to receive attention internationally, for example, see the Economist (Sept 29th, 2012). These kinds of debates are likely to intensify in times of recession and with the extra pressures of demographic change. More intra-generational sharing in which the better-off in the older age group help support the needs of the older less well-off may improve perceptions of intergenerational fairness.

Improving the affordability of NZS requires immediate debate as the large baby boom cohort reaching age 65 between 2010 and 2030 has already begun to receive NZS. The argument for cost containment may also become more compelling as increasing numbers of baby boomers reach retirement with ever larger subsidised KiwiSaver lump sums (Retirement Policy and Research Centre 2009; St John, Littlewood et al. 2010). Alternatively, it may be possible to design the decumulation of KiwiSaver in ways that promote intragenerational sharing as discussed briefly in section 8.

### 3. Options for reform

While lifting the age of eligibility for NZS is often discussed as if it were the only option to reduce the costs of the baby boomers’ retirement, there are two other main levers: the level of payments; and means-testing.

**The age of eligibility**

The conventional wisdom is that any rise in state pension age needs to be well-signalled, a concern that the Retirement Commission has reflected in its very modest proposal to raise the age from 65 to 67 in 2-months-a-year increments from 2020 to 2033 (Retirement Commission 2010). Raising the age with such long lead-in times will not achieve immediate savings, and savings will be minimal until almost the end of the baby-boomers’ entry into retirement (2010-2030). It also contrasts with the planned increase in Australia, to 67, over only six years from 2017 to 2023.\(^1\) Beginning in 1992, the age of eligibility in New Zealand was raised by 5 years over a 10 year period with little lead-in time and yet with a high degree of acceptability.

Moreover, raising the age slowly does not address the immediate intergenerational inequities and fiscal pressures that arguably result from the top 20-25% earners of the over 65 year-olds accessing a universal benefit at the same time as their income tax rates are low.

It has been suggested that there should be flexibility in the age at which NZS is accessed. The National-United Future confidence and supply agreement included an agreement to produce a discussion document about flexi-super. Those who take the pension at age 65 could receive an actuarially-adjusted lower level than those who waited to age 67 or later.\(^2\) Potentially, this might encourage some to stay in the workforce for longer while maintaining choice for others. However there are currently few impediments to people continuing to work and arguably people have as much choice as they need about when to retire and whether to work full or part-time. This is one of the great advantages of NZS being universal and Table 5 shows how employment in the older age group has already increased significantly (Statistics New Zealand 2009).

---


\(^2\) The US Social Security scheme offers options regarding age of pension take-up with actuarial adjustments for early payment (ages 62-65) and late payment (ages 65-70).

Using data from the NZLSA longitudinal study, Gorman, Scobie, & Towers (2012) show that in 2010, 42% of those aged 65-70 and 20% of those aged 71-74 are still in the labour force, with 23% and 14% respectively still working full-time. A rise in the age does therefore imply a degree of targeting in that those still working in well-paid jobs cannot access the universal pension until the later age of eligibility. But, an offsetting disadvantage is that many people with physically demanding jobs are disabled or sick by age 65, and should not be expected to work past this age. If the age is tied to increasing average longevity, anomalies arise for subgroups of the population who may not enjoy such gains. The cost saving from raising the age would have to factor in the costs of supporting people who could not work past 65 and require another kind of benefit.

Table 5: Labour Force Participation - population aged 65 years and over (Source: Statistics New Zealand (2009))

<table>
<thead>
<tr>
<th>Census year</th>
<th>Population aged 65+ in the labour force</th>
<th>Labour force participation rate of all age 65+</th>
<th>Proportion of the total labour force aged 65+</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>Increase</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>21,828</td>
<td>-</td>
<td>6.4%</td>
</tr>
<tr>
<td>1991</td>
<td>22,632</td>
<td>804</td>
<td>6.0%</td>
</tr>
<tr>
<td>1996</td>
<td>37,719</td>
<td>15,087</td>
<td>9.2%</td>
</tr>
<tr>
<td>2001</td>
<td>50,745</td>
<td>13,026</td>
<td>11.6%</td>
</tr>
<tr>
<td>2006</td>
<td>82,545</td>
<td>31,800</td>
<td>17.1%</td>
</tr>
</tbody>
</table>

In equity terms, Table 4 shows that the net married rate of the unemployment benefit and sickness benefits is just 64% of the married rate of NZS\(^3\). The married unemployment benefit has a very low threshold of additional earnings ($80 pw for the couple combined) before a 70% abatement of the net benefit cuts in, making earning extra income pointless. Those who cannot work past 65 are trapped in a system that may leave them in a financially precarious state by the new age of eligibility for NZS.

The level of NZS
The second lever is the level of NZS. Projections show that fiscal savings from indexing the annual payment to inflation rather than wages would lead to significant long-term savings (The New Zealand Treasury 2009 p, 57-58). However, the baby boomers now aged 45-65 are very diverse in both health status and resources. Many are not well-off, and many have lost money in the financial meltdown and leaky home fiasco. Others have suffered through divorce and ill health. The level of NZS should be high enough to prevent hardship and it does that for most, though some clearly still struggle. Therefore, reducing either the level of NZS or the relativity to wages over time may undermine the desirable achievement of low poverty for the over 65 year old group. Nevertheless as the Retirement Commission has suggested, if wages grow strongly there is a case for a moderation of the indexation formula (Retirement Commission 2010).

There are three different rates for NZS (shown for 2012 in Table 6): a married rate, a single sharing rate at 60% of the married rate, and a single living alone rate at 65% of the married rate (Ministry of Social Development 2010)\(^4\). As the Periodic Report Group (1997) said, the differences are hard to justify. Their existence is historical and they are unsuited to a modern world of flexible living

\(^3\) While the 2010 GST/income tax adjustments have increased the gap between NZS and other social welfare benefits, the issue here is more that these other benefits have been left behind, not that NZS is too high.

\(^4\) For purposes here, those who few receive the Veterans Pension (see Table 3) are subsumed into the NZS figures.
arrangements and relationships. It is hard to see that single sharing is much different in terms of economies of scale to married or defacto sharing, or that giving all who live alone a living alone payment is well targeted for need. The Retirement Commissioner’s 2010 Review again endorsed the alignment of the single sharing and married person rates, but in the interests of simplicity suggested that the living alone rate remain unchanged (Retirement Commission 2010).

Table 6 Rates of New Zealand Superannuation as at 1 April 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Annual rate</th>
<th>Annual Net</th>
<th>Annual Net</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NZ$ (gross)</td>
<td>(Primary Tax)</td>
<td>(Tax at 33%)</td>
</tr>
<tr>
<td>Single, living alone</td>
<td>$20,804</td>
<td>$18,144</td>
<td>$13,940</td>
</tr>
<tr>
<td>Single, sharing</td>
<td>$19107</td>
<td>$16,748</td>
<td>$12,810</td>
</tr>
<tr>
<td>Married person or partner in civil union or de facto relationship (each)</td>
<td>$15,725</td>
<td>$13,957</td>
<td>$10,542</td>
</tr>
</tbody>
</table>

Perry (2012) notes that hardship rates among the 65+ group are higher for those on their own than for couples. For example in the HES 2011 the rates were 11% and 5% respectively for those over 65.

Table 7 Recipients of New Zealand Superannuation and Veterans Pension

<table>
<thead>
<tr>
<th>Rate type</th>
<th>NZS</th>
<th>VP</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Individuals in a married, civil union, or defacto couple both qualify</td>
<td>135,616</td>
<td>177,152</td>
<td>2,227</td>
</tr>
<tr>
<td>Single sharing accommodation</td>
<td>49,671</td>
<td>22,823</td>
<td>941</td>
</tr>
<tr>
<td>Single living alone</td>
<td>103,867</td>
<td>43,370</td>
<td>2,912</td>
</tr>
<tr>
<td>Non-qualified partner in a married, civil union, de facto relationship</td>
<td>11,122</td>
<td>1,364</td>
<td>263</td>
</tr>
<tr>
<td>Total</td>
<td>300,276</td>
<td>244,709</td>
<td>6,343</td>
</tr>
</tbody>
</table>

Using administrative data in Table 7 and adding the non-qualified partner numbers to the married/defacto category, around 59.5% receive the married rate, 27.2% receive the living alone rate and 13.3% receive the single sharing rate. For the year ended 31st March 2013, the average NZS population over 65 (Table 1) can be taken to be around 620,000. At the 2012 gross rates (Table 5) this implies a gross cost for the year ended March 2013 of $10.34 billion. If the married rate alone applied, the gross cost would be $9.75 billion, saving about $590 million.

The savings from aligning the rates is offset by the likely need for many who live alone for compensation for the loss of the living alone rate. It is noted that 30,310 or 5.5% of the over 65 population already receive an average of $54 per week from the Accommodation Supplement (Ministry of Social Development 2010). Nevertheless, the $590 million is poorly targeted, and if income testing of NZS itself is adopted, it could be used to offset losses in the lower deciles of the NZS population (see section 5).
Means testing

The third lever is means-testing. As discussed, there are no immediate savings from raising the state pension age if an appropriate lead time is given; it may also be a blunt tool with equity consequences. And, apart from aligning the rates of NZS, there appears little justification for saving costs by lowering the level of annual payments. Even the alignment of the rates needs care for those who live alone. This leaves the ‘third rail’ of superannuation policy: some kind of means test to reduce NZS for those with high incomes and/or substantial assets. This has been a politically unattractive option because of New Zealand’s history, summarised below. Yet there are ways to do it that may be acceptable and perceived as fair so that this option should not be dismissed without consideration. But first the contemporary history of means-testing in New Zealand should be understood.

4. The history of NZS for high income people

Under the National government in the 1970s, there was much talk about the generosity of the state pension. Between 1977 and 1985 National Superannuation (as it was then called) was fully universal, as now, and while the relativity to the average wage was reduced from its initial 80% gross for a married couple, it was always higher than for ‘welfare’ benefits.

However, while there was no income test, the top personal income tax rate was then 60%, and even as high as 66% in the early to mid-1980s. This meant that top income retirees could retain only a net 34% of the gross pension—the tax system effectively clawing it back in large part from those who were still in well-paid jobs, or in receipt of substantial other income.

In 1985, in a very controversial move and despite its election promise not to reduce the pension, the Labour government imposed a surcharge of 25% on other income over an exempt amount, falling later to 20%. The parameters and dates of changes to the surcharge are set out in Table 8. A complex calculation ensured that the surcharge ceased once all the pension was effectively clawed back.

Then in 1990, the newly elected National government, although it had promised to repeal the surcharge, instead effectively intensified means-testing of the pension with the changes announced in the 1991 Budget. From 1992 National Superannuation was to be made into a welfare benefit, with a strict income test as applied to other welfare benefits. However, the policy was deeply unpopular and was abandoned before it began surcharge (St John 1992; St John 1999).

In a policy U-turn that repealed the 1991 budget night legislation, the surcharge was again reinstated at 25%, but operating from a much lower exemption base (see Table 8). The surcharge exemption was again raised significantly in 1997/98. By that year, only 16% of people were affected and only the top 5% of earners had all of their net NZS clawed back.

---

15 ‘Touch it and you die.’ The phrase ‘third rail’ is a metaphor in politics to denote an idea or topic that is so ‘charged’ and ‘untouchable’ that any politician or public official who dares to broach the subject would invariably suffer politically. The third rail in a railway is the exposed electrical conductor that carries high voltage power. Stepping on the high-voltage third rail usually results in electrocution. The use of the term in politics serves to emphasise the ‘shock’ that results from raising the controversial idea, and the ‘political death’ (or political suicide) that the unaware or provocative politician would encounter as a result. (Wikipedia).

16 For a full review of the history see Preston 2008

17 It should be noted however that all top income people were subject to the highest rate of tax, not just pensioners.

18 In some cases, the surcharge was avoidable for those not on a salary.

<table>
<thead>
<tr>
<th>Income year ending March</th>
<th>Amount of surcharge assessed ($million)</th>
<th>Number assessed (thousand)</th>
<th>Percentage of subject to surcharge (%)</th>
<th>Exemption threshold for single person ($p.a.)</th>
<th>Exemption threshold for couple ($p.a.)</th>
<th>Rate of surcharge (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985/86</td>
<td>167</td>
<td>107</td>
<td>21.9</td>
<td>6,240</td>
<td>10,400</td>
<td>25</td>
</tr>
<tr>
<td>1986/87</td>
<td>175</td>
<td>106</td>
<td>22.4</td>
<td>7,202</td>
<td>12,012</td>
<td>24.5</td>
</tr>
<tr>
<td>1987/88</td>
<td>209</td>
<td>136</td>
<td>28.3</td>
<td>7,800</td>
<td>13,000</td>
<td>18</td>
</tr>
<tr>
<td>1988/89</td>
<td>257</td>
<td>147</td>
<td>30.3</td>
<td>7,800</td>
<td>13,000</td>
<td>19</td>
</tr>
<tr>
<td>1989/90</td>
<td>314</td>
<td>171</td>
<td>34.7</td>
<td>7,202</td>
<td>12,012</td>
<td>20</td>
</tr>
<tr>
<td>1990/91</td>
<td>306</td>
<td>136</td>
<td>26.9</td>
<td>7,202</td>
<td>12,012</td>
<td>20</td>
</tr>
<tr>
<td>1991/92</td>
<td>287</td>
<td>129</td>
<td>25.5</td>
<td>7,202</td>
<td>12,012</td>
<td>20</td>
</tr>
<tr>
<td>1992/93</td>
<td>347</td>
<td>152</td>
<td>31</td>
<td>4,160</td>
<td>6,240</td>
<td>25</td>
</tr>
<tr>
<td>1993/94</td>
<td>311</td>
<td>141</td>
<td>29.5</td>
<td>4,160</td>
<td>6,240</td>
<td>25</td>
</tr>
<tr>
<td>1994/95</td>
<td>289</td>
<td>134</td>
<td>28.5</td>
<td>4,160</td>
<td>6,240</td>
<td>25</td>
</tr>
</tbody>
</table>

Estimates and forecasts

<table>
<thead>
<tr>
<th>Income year ending March</th>
<th>Amount of surcharge assessed ($million)</th>
<th>Number assessed (thousand)</th>
<th>Percentage of subject to surcharge (%)</th>
<th>Exemption threshold for single person ($p.a.)</th>
<th>Exemption threshold for couple ($p.a.)</th>
<th>Rate of surcharge (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995/96</td>
<td>320</td>
<td>145</td>
<td>31.5</td>
<td>4,160</td>
<td>6,240</td>
<td>25</td>
</tr>
<tr>
<td>1996/97</td>
<td>324</td>
<td>145</td>
<td>32</td>
<td>4,550</td>
<td>6,825</td>
<td>25</td>
</tr>
<tr>
<td>1997/98</td>
<td>222</td>
<td>72</td>
<td>16.1</td>
<td>10,296</td>
<td>15,444</td>
<td>25</td>
</tr>
<tr>
<td>1998/99</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>Surcharge abolished</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 3 shows the projected gross and net cost of NZS as seen in the 1997 Taskforce report. Of interest is first the divergence between the gross and the net from the 1980s. From the mid 1980s this large gap reflects the impact of the surcharge and a progressive tax system that had a top tax rate of 66% until 1986 when it was reduced to 48%. The top tax rate reduced to 33% from 1988 but there was a steepening of the surcharge effect in the early 1990s as set out in Table 8, and then the removal of the surcharge in 1998 is shown as a smaller gap at least until 2010. Projections show a widening effect out to 2050, reflecting an assumption of unchanged tax rates and thresholds.

Figure 3: NZ Superannuation (National Superannuation) gross and net % GDP projections 1997: Source (Periodic Report Group 1997).
For those who were not in receipt of work income, the surcharge provided the incentive for tax planning to thrive. Even though few were affected, feelings of being singled out for punitive taxation ran high. Added to this was the complexity of the surcharge itself, with few who were caught by it understanding how it worked.

The gross National Super amount was first taxed and then other income over an exemption was ‘surtaxed’ so that the combination of tax and ‘surtax’ provided a counter flow to the gross pension. This was all to maintain the fiction that National Super itself was not touched, only other income. At the time Professor Gary Hawke, Chair of the New Zealand Planning Council, wrote:

The Inland Revenue Department booklet which explains the present system takes 26 pages to do that using quite technical language. Of course this is only one factor in the opposition to the surcharge, but it is hardly surprising that many retirement people become intensely irritated at having to deal with these intricacies. If the surcharge does remain in existence in whatever form, then there should be a way of applying it which causes less confusion. (St John 1991)

The surcharge had been agreed by the three major parties in the 1993 Accord. While the surcharge had been complicated and contentious, it performed a useful function. Some better-off retirees did not bother claiming the pension, while most of those still in high-paid work received nothing. The fiscal saving from abolishing the surcharge in 1998 was estimated to be $400m or 10% of the net cost of NZS (Periodic Report Group 1997). Should something similar be in place today, a cost saving of 10% represents about $670m, reducing the current net cost of super from 3.7% to about 3.3% of GDP.

The 1993 Accord could be seen as providing the glue holding the left and the right together after the attack on the pension in the 1991 budget. The Alliance party had been convinced that the surcharge could be justified by the wording in the Accord that there might be a surcharge or a progressive tax regime with similar effect. As the Accord fell apart after the 1996 coalition agreement with National in which Winston Peters held the balance of power, Labour suggested that the raising of the top tax rate when they next came to power could substitute for the surcharge, and so they too acquiesced in its abolition by National.

Thus by the end of the 1990s, the pension was again fully universal and for a brief time, the better-off paid only a maximum of 33% tax on it. When Labour was elected in 1999, the top tax rate was raised to 39%, but even so, the top earners retained 61% of the gross NZS compared to the 34% retained in the mid-1980s. Then, on 1 October 2010, National reduced the top personal rate back to 33%.

Using a Negative income tax approach

When the National Government campaigned in the 1990 election on removing the surcharge, with the hidden agenda of making the pension a welfare benefit, a rationalisation of the surcharge under a negative income tax approach (NIT) might have been the answer. St John (1991) outlined such an approach, noting that when the surcharge was introduced the top marginal rate of tax was 66%, so that with a 33% rate in 1991 “the removal of the surcharge would result in large gains by the very highest income households and seem untenable unless replaced by some other income test” (p2).

---

19 Though the increasing prevalence of tax avoidance in the decade following the increase in the top marginal personal tax rate suggests that many top income earners would have retained more than 61%. For a discussion of this trend See Inland Revenue Department (2008). Briefing for the Incoming Minister of Revenue Wellington, The Inland Revenue Department.
Figure 4 illustrates how the existing flows between the IRD and the individual worked under the surcharge and Figure 5 shows the NIT as a possible rationalisation.

**Figure 4 Flows with the surcharge 1991**

![Diagram showing flows with the surcharge 1991.]

**Figure 5: NZS as a NIT to replicate the surcharge (1991)**

![Diagram showing NZS as a NIT to replicate the surcharge.]

Under a NIT rationalisation the IRD would be the only department involved and there would be one flow either from the IRD (arrow up) or to the IRD (arrow down) as shown in Figure 5. A net standard rate of NZS ($7480) would be paid as a negative tax and diminish after an exempt amount of other income is earned until the breakeven point of earned income ($18,300). From that point, extra income would result in positive flows back to the IRD, until at the cut-out point of $35,000 there would be no advantage to being a superannuitant.
For those earning less than $12,000, an estimate would be provided at the beginning of the year so the NIT flow could be set with an end of year square up. Most earning above that amount would opt to take the NIT as a rebate at the end of the year (remember they pay no tax on earned income). Of course the system’s parameters could be tweaked to give whatever degree of targeting was required. St John (1991, p 8) noted that an average NIT tax rate of 46% up to breakeven point and 52% beyond that effectively replicated the current operation of the surcharge. The marginal tax rates may have seemed high, but they were just as high under the surcharge and comparable to the EMTRs of families on Family Support. It was also noted that

*The special treatment of superannuitants in the tax system is not a new departure. They already have their own tax code, their own special treatment under the tax rebate for low earners and their own space for calculations of surtax and provisional tax. (St John, 1991, p 7)*

The NIT approach may have encouraged a different perception of treatment: instead of seeing themselves as the most highly taxed citizens, the NIT makes it clear that superannuitants are paying less tax than everyone else up to breakeven point. Beyond that, if they had elected to be on the NIT tax scale, they would get a refund at the end of the year. Many of the highest earners at 65 would simply elect to remain on the normal tax scale.

**Current treatment of high income recipients**

One measure of the progressivity of the system is the ratio of the net NZS when it has been taxed at the primary rate and NZS after tax at the top rate. This gives a measure of the degree to which the tax system itself provides a means test. In the second decade of the 21st century once again the retention of NZS by the better off is as high as 67% and the ratio of a high income to a low income person’s receipt of NZS is over 75%. As discussed above the wealthiest super annuitants in 2012 are better off by more than the net unemployment benefit for a single person (Table 4). In addition they may also have benefited from the 2010 GST/income tax shift and the lower company tax rate, the PIE regime, no capital gains tax, no death duties, no gift duties and no inheritance tax. High income NZS recipients, many still working, enjoy other universal advantages such as the Super Gold Card and subsidised health care. If the bulk of retirement savings is held in in managed funds and superannuation scheme, NZS may be the only ‘taxable’ income for IRD purposes and thus attract tax at only the primary rate.

**Means testing for Long-term care costs**

In contrast to the treatment of NZS, the older age group have faced a highly stringent means test for Long Term (residential) Care subsidies. Appendix B outlines the nature of this test. For all residents in long-term care facilities, most of NZS is taken to contribute to costs. Failing the asset test means that residents must find the capped amount of their care from either income or selling assets. Once the asset test is met the resident must contribute any income up to the capped amount. Government subsidies apply for those whose assets and income are low and for those with means who pay the full capped amount, any additional money required for care is also paid by the state.

On 1 July 2012, the asset threshold was CPI-adjusted to $213,297 for single people or a couple where both are in care. For a couple where only one is in long term care, an alternative asset test can be chosen that excludes the family home, car and a pre-paid funeral of up to $10,000 and has an asset threshold of $116,806.
5. Reducing NZS for high income people

In the analysis below, the married rate of NZS is used on the basis as discussed above that the other two rates cannot be justified. Of course any alignment of these rates would need to be phased over time so that no-one had a reduction in their nominal pension. Any extra supplement for living alone would be part of the welfare system.

Figure 6 shows the 2012 disposable income of a superannuitant compared to an ordinary taxpayer. If there is no other income, the gross amount of NZS is taxed at the lowest tax rate and net disposable income is around $14,000 for a married person. For a superannuitant with enough other income to be in the top tax bracket, the net amount of NZS after tax at 33% increases disposable income by $10,500. The top line remains higher by $10,500 and parallel to the disposable income line for other taxpayers at all income levels above a total gross income of $70,000.

![Figure 6: The current situation: disposable income with NZS](image)

What kind of means test?

Australia operates a means test on the Age Pension with the details set out in the Appendix. Australia is unusual in having both an asset and an income test.

Australia also now has a mature second pillar of compulsory private saving along with many kinds of expensive tax concessions to private saving for retirement. The super tax concession is one of the largest and fastest growing areas of total government spending costing AU$24.6 billion in 2008-2009, close to the AU$26.7 billion annual cost of the age pension (Ingles Feb 2009, p.1). Tax concessions in Australia are highly skewed to high income people. Thus a means test on the age pension may be rationalised as one way of preventing better-off retirees from getting ‘two bites of the tax-funded cherry’. New Zealand’s choice to abandon all such concessions in the late 1980s...
means there is less of a rationale in NZ for wanting to reduce the state pension for higher income people.

The Australian income test appears stringent, applying at a rate of 50% to income above a small exemption (e.g., $76 per week for a single person), but it must be remembered that the clawback is made in the context of a zero band of income tax to $18,000. Kudrna and Woodland (2011) describe the incentive effects and conclude that the means test presents a disincentive for some older Australians to work. However under work bonus arrangements in place since 2009, there is now an exemption for the first $125 per week of earned income with a provision that any unused exemption up to a maximum of $6,500 may accrue in an Employment Income Concession Bank (Centrelink 2012).

A second consideration is that New Zealand’s very different background and history to means testing make it difficult to see how an Australian type of means test would be acceptable to New Zealanders. The joint income test in Australia would be unattractive to women who have received NZS without reference to a partner’s income, and subject to tax as an individual. Even when the surcharge applied, it applied only to her own income and thus only her own income could reduce her net NZS payment. The Australian means test operates through the welfare system and is very complex offering opportunities for avoidance or minimisation, for example by using up other funds for early retirement prior to the age of eligibility for the age pension, or to repay debt and mortgages (CPA Australia 2012).

In light of New Zealand’s history it is not practicable to consider a welfare income test. The 1991 experience was a salutary warning to those who would treat NZS as if it was just a welfare payment (St John 1992; St John 1999). A welfare means test requires that a lack of resources needs to be demonstrated for eligibility. In the current welfare system additional income is treated harshly with implications for work and saving disincentives. Under such a standard welfare test, a couple would retain only an extra $80 a week between them before facing an effective marginal tax rate of 87.2%. While some benefits (e.g., the Domestic Purpose Benefit) have a slightly more generous abatement regime, a welfare approach requires a different philosophy for eligibility. NZS prevents poverty but access has never been conditional on having a lack of resources. If there are grounds for reducing it as other income accrues, as this paper argues, the tax system already provides a means of doing this.

Using the tax system to finding a way to make the two lines meet (Figure 6) by reducing the generosity of net NZS at the top end and swivelling the top line down could provide an equitable way to save costs. It may reduce the need to raise the state pension age or reduce the rate of payment. As suggested above, both of these last two mechanisms may impact unfairly on those least able to manage.

**Designing the clawback: The New Zealand Superannuation Grant**

In designing an ‘affluence’ test, therefore, it is imperative to do it in a non-stigmatising way, and the tax system offers that possibility. The design of such a test should minimise the effect on those with limited ‘other’ income and the incentives to evade and avoid should be as low as possible.

To achieve this end, a negative income tax approach could be used as outlined in section 4. Today, however the picture is a little different, suggesting a different option for consideration. This new approach, would also mimic the old surcharge in effect by making the two lines meet (see Figure 4),
i.e. there would be an income at which there was no net gain from being on NZS, but it would involve a less radical change than the NIT. From age 65, a superannuitant would receive a payment, called here the ‘NZ Superannuation Grant’ (NZSG) as a weekly non-taxable payment. The grant for all superannuitants would be the current married rate of NZS taxed at the primary rate: i.e. $14,000 as shown in Figure 5. Then, for any additional earnings, a separate tax scale would apply. For all superannuitants the NZSG would be non-taxable with each extra dollar of other income taxed on the separate tax scale, called here ‘the NZSG tax rate’.

A cut out point would exist where the NZSG plus extra income earned from work or investment net of the NZSG tax rate is equal to the disposable income of an ordinary taxpayer paying the usual rates of income tax. This point is effectively where the benefit of the NZSG has been clawed back by the NZSG tax.

This, like the NIT, is technically different to the surcharge of 1985-1998 because the NZG payment is not part of taxable income. It is much simpler in concept than the surcharge described above. In this new approach, an individual could either opt for the NZSG and the NZSG tax scale for all additional income, or wait until end of the tax year and take any NZSG due as a rebate. About 40% of retirees who have no additional income would notice very little difference. But it would reduce or remove NZSG for high income earners, many of whom will still be in the workforce, without removing their right to the income floor if needed. The perception of NZSG as a retirement pension (that is, payable in full once employment ceased) would be enhanced.

The cut-out point is very sensitive to the NZSG tax rate chosen, or in the case of a tiered tax schedule, to the highest rate of the schedule. A flat tax at 40% on all other income gives a cut-out point when the NZSG recipient’s other earned income is approximately $70,000 as shown in Figure 7. A recipient of NZSG who earns less than $70,000 would pay a flat rate of 40% tax on all income. If they earned more than $70,000 then it would be rational for them to forego weekly NZSG payments and be treated as an ordinary taxpayer. For a flat rate of 38% the cut-out point is higher at $77,000 of other income.

**Figure 7 NZSG and 40% flat tax an other income**
Given that most NZSG recipients have little extra income, a tiered structure may be useful. Building in an exemption is another approach to give some relief to those with limited extra income. The cut out point for a 2-tiered approach, with rates of 20% for the first $15,000 of other income and 40% on each dollar above that, would be much higher, at approximately $112,500.

In an end of year adjustment, a rebate would arise if an individual earns less income than the cut-out point but did not choose to take the weekly NZS. Many wealthy people would simply not bother to apply for NZS, as happened with the surcharge.

Table 9: Losses in annual disposable income under the NZSG

<table>
<thead>
<tr>
<th>Other Income ($)</th>
<th>40%</th>
<th>20%/40%*</th>
<th>38%</th>
<th>37%</th>
<th>36%</th>
<th>35%</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZSG rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,000</td>
<td>1,124</td>
<td>125</td>
<td>1,025</td>
<td>975</td>
<td>925</td>
<td>875</td>
</tr>
<tr>
<td>10,000</td>
<td>2,250</td>
<td>250</td>
<td>2,050</td>
<td>1,950</td>
<td>1,850</td>
<td>1,750</td>
</tr>
<tr>
<td>15,000</td>
<td>3,375</td>
<td>375</td>
<td>3,105</td>
<td>3,025</td>
<td>2,925</td>
<td>2,775</td>
</tr>
<tr>
<td>20,000</td>
<td>4,500</td>
<td>1,500</td>
<td>4,100</td>
<td>3,900</td>
<td>3,700</td>
<td>3,500</td>
</tr>
<tr>
<td>25,000</td>
<td>5,625</td>
<td>2,625</td>
<td>5,125</td>
<td>4,875</td>
<td>4,625</td>
<td>4,375</td>
</tr>
<tr>
<td>30,000</td>
<td>6,750</td>
<td>3,750</td>
<td>6,150</td>
<td>5,850</td>
<td>5,550</td>
<td>5,350</td>
</tr>
<tr>
<td>50,000</td>
<td>9,034</td>
<td>6,034</td>
<td>8,034</td>
<td>7,534</td>
<td>7,034</td>
<td>6,534</td>
</tr>
<tr>
<td>70,000</td>
<td>10,562</td>
<td>7,563</td>
<td>9,162</td>
<td>8,462</td>
<td>7,762</td>
<td>7,062</td>
</tr>
<tr>
<td>90,000</td>
<td>10,562</td>
<td>8,962</td>
<td>10,162</td>
<td>9,302</td>
<td>8,362</td>
<td>7,462</td>
</tr>
<tr>
<td>100,000</td>
<td>10,562</td>
<td>9,662</td>
<td>10,562</td>
<td>9,662</td>
<td>8,532</td>
<td>7,662</td>
</tr>
<tr>
<td>150,000</td>
<td>10,562</td>
<td>10,562</td>
<td>10,562</td>
<td>10,562</td>
<td>10,162</td>
<td>8,662</td>
</tr>
<tr>
<td>cut out income</td>
<td>70,000</td>
<td>112,500</td>
<td>98,000</td>
<td>122,000</td>
<td>162,000</td>
<td>244,000</td>
</tr>
</tbody>
</table>

- 20% up to $15,000 and 40% beyond that

The breakdown of annual losses at various income levels in disposable income relative to current settings is set out in Table 9 for several scenarios, a flat 40% rate and a 20%/40% two tiered example. Flat rates of 38%, 37%, 36% and 35% are also modelled to show the sensitivity of the cut-out point to the decision about the NZSG rate. In each flat-tax scenario there are losses for people with small amounts of additional income. On a weekly basis, these are small reductions and a transitional process might accommodate these within normal CPI adjustments so there is no nominal loss of income. These losses are minimised in the two-tiered tax approach, but the price is less overall fiscal saving.

If a combination of 20% on the first $15,000 and 40% thereafter is chosen, the weekly losses for low income superannuitants are minimal. If the base rate of the NZSG is raised for example by $1,000 using the $600m saved in the alignment of the rates, losses do not reach $10 a week until about $20,000 of other income but the cut-out point becomes around $127,000.

6. Integrity of the targeting approach

As with any targeting regime, an increase in the degree of targeting may result in some avoidance activity. Opportunities and incentives for tax avoidance were features of the history of the surcharge. Other concerns are that it needs to be carefully packaged so as not to influence the decisions to work and save. The design of the NZSG and the NZSG tax however does not give rise to the kind of high effective marginal taxes seen in the welfare proposal in 1991 or the old surcharge.
Effective marginal tax rates of around 40% compare favourably with those faced by substantial number of other people in the New Zealand tax system. For example, those who are repaying student loans face EMTRs between 31.7% and 47.2%\textsuperscript{20}. If there is a concern about work incentives however, some allowance for employment income may be incorporated in the test as in the Australian ‘Work Bonus’ (Centrelink 2012).

The NZSG would however be a little more complicated in administration than the current universal payment, which is exceedingly simple. The definition of income would pose the major complication. One problem is that PIEs and managed funds such as superannuation schemes are taxed at a top tax rate of only 28%. Treated as tax-paid, income earned in such funds does not form part of the individual’s taxable income. The Prescribed Investment Rate (PIR) determines what rate a provider uses to tax income on behalf of a PIE contributor. It is currently possible for the PIR rate to be only 17.5% for wealthy retirees who have restructured their investments (Retirement Policy and Research Centre 2009). Income retained in trusts, and all tax-paid funds income should in principle be imputed for tax purposes (see for discussion Chamberlain and Littlewood 2010). Alternatively there could be a separate PIR set at the NZSG tax rate for superannuitants.

Recent widening of the definition of taxable income for Working for Families, student allowances and repayment of student loans suggests that the problem is not insurmountable. PIE income for example is explicitly included in the Working for Families income test.\textsuperscript{21} The NZSG is also consistent with any move to adopt either a capital gains tax or a Risk-free-rate method of taxing the equity in housing.

Providing the income from assets is treated appropriately, including the non-cash return from holding assets, there is less call for a separate asset test. Nevertheless a high level asset test may signal to very wealthy people that they should not expect to qualify for any NZS.

7. Discussion

The proposed New Zealand Superannuation Grant as a new way for over 65s to receive NZS has a number of potential advantages:

- **Flexibility**: The choice of tax rates allows flexibility in reaching a desired cut-out point and required fiscal savings.
- **Fiscal savings**: According to modelling by the Treasury, targeting would be one of the most effective ways of achieving fiscal savings (the New Zealand Treasury 2009). The savings depend on the tax rate, but if the degree of targeting was similar to the surcharge savings of the order of 10% or more would be expected. Moreover, these fiscal savings could be achieved relatively sooner than raising the eligibility age if that is constrained by a long lead-in time.
- **Simplifies the design of NZS**: The proposal envisages a single rate of an NZS Superannuation Grant for all – a tax-free grant equal to the net amount now paid to a married person. That will simplify the current payment rates and cut the cost of NZS once phased in.
- **Simplicity in administration** compared to other income tests and the old surcharge.

\textsuperscript{20} Tax, ACC and loan repayment

• **Maintains the level of payments for those in need:** This ensures old-age poverty is kept relatively low.

• **Does not unduly penalise extra income, depending on the parameters:** Given that NZS payments comprise at least 80% of total income for the bottom 60% of NZS recipients, the majority of over 65s will face minimal reductions in disposable income. Losses for low income people may be accommodated in a variety of measures. For high income people over 65 who continue to work full-time there may be little disincentive effect. For the bulk of those with extra earned income of around $20,000-$34,000 (total income, including NZS, of under $48,000) the EMTR would rise from 17.5% to the NZSG rate. If this rate was 40% it would provide about the same or lower disincentive as currently faced by many of working age earning under $48,000. For example with the abatement of Working for Families (20%), tax (17.5%) ACC levy (1.7%), and a student loan repayment (12%), the EMTR is 51.2%. Some relief might be given through an exemption for earned income as in Australia.

• **Allows for a smaller increase in the eligibility age:** A smaller increase in the state pension age would reduce the disadvantage for individuals who, given the arduous nature of their employment, may expect to retire from work earlier than others; and avoids the introduction of any retirement test.

• **Improved inter and intra-generational equity:** Perhaps most importantly, the proposed change would decrease the fiscal cost of NZS for younger New Zealand taxpayers through reductions in payments to older, higher income earners.

• **It may also contribute to more convergence in state pension design between Australia and New Zealand** with benefits for Trans-Tasman policy integration. While there is a long way to go to bring the two countries closer together, some income testing of NZS may reduce some of the effects of divergent policy settings (Dale and St John 2012) For example, a retiree from Australia who would not have been entitled to any Age Pension in Australia but currently qualifies under the residency agreement for a full NZS, would now receive less in net terms because of the NZSG tax.

### 8. Role of KiwiSaver

Some of the debate in New Zealand has suggested that with more private provision the pressure on the PAYGO universal pensions can be reduced. Leaving aside other ways of reducing that pressure such as raising the age and changing indexation, some kind of means test applied to NZS would be needed. If there are tax-funded subsidies to KiwiSaver that result in increasingly large lump-sums for retirees at 65 as KiwiSaver matures, there will be more, not less, pressure on the division of current real output between the old and the young. Even if subsidies are reduced or eliminated KiwiSaver will be one of the main supplements to NZS in the future.

In June 2012 the New Zealand Financial Services Council (FSC), formerly the Investment Savings and Insurance Association (ISI) discussed a future shift from PAYGO to SAYGO funding in a report: *Pensions for the Twenty First Century: Retirement Income Security for Younger New Zealanders.* (Financial Services Council 2012). The report records a survey that suggest that New Zealanders think they need retirement incomes of about twice the current NZS. Using the analysis of Feldstein and Diamond (Financial Services Council 2012) the report argues that increasing the contributions to KiwiSaver to 10% of wages“...can be reasonably expected to provide 60 per cent higher benefits for the same level of contributions.”
The FSC suggest that the generation aged under 40 would pay twice in the transition but that such a shift would allow the age of eligibility for NZS to rise by an index of longevity and the KiwiSaver funds could finance either a retirement from age 65 to NZS age of entitlement, or provide a pension that would give retirees about double the income they would otherwise have at the age of NZS entitlement. The arguments depend on some major assumptions including contributions based on working 40 years at the average wage and a real after-tax and costs return of at least 3%.

In contrast [to PAYG], the alternative “save-as-you-go” funding mechanism accumulates capital into an investment fund as the contributions are paid, and the fund and accumulated earnings are used to pay pensions when people retire. As long as the return to the fund is greater than the growth rate of the economy, which has been historically true, this funding arrangement means that in the long run lower taxes or contributions are needed to fund any level of pension, or a greater pension can be funded from any level of contribution. (Financial Services Council 2012)

However the “either PAYGO or SAYGO” scenario is not comparing apples with apples (Barr and Diamond 2008). The argument is that when PAYGO was introduced the first generation benefited from pensions for which they had not contributed. This benefit is ignored when the PAYGO and SAYGO calculus is used. Additionally New Zealand is not in the position of designing pensions from scratch. Any shift to SAYGO away from PAYGO funding necessarily involves the current generation paying twice. It is difficult to accept that as equitable or feasible, especially in light of simmering intergenerational discontent.

The FSC proposes that NZS would remain a Universal Pension but accessed only at an age that steps out with longevity improvements. They propose that an enhanced KiwiSaver might fill the income ‘gap’ between age 65 and the new higher age for NZS. This would require compulsory annuitisation for anyone who wants to retire at 65. The government would top up those who do not have enough. Arguably, this is supposed to let New Zealand catch up with Australia:

[O]ur research has led us to believe that this or a similar structure has many advantages.

- It provides a higher level of income in retirement than could be expected under the current NZS scheme, enabling New Zealanders to meet their retirement aspirations.
- Rather than requiring a large increase in taxes, it uses contributions to a personal account to fund retirement between the age of 65 and the age of eligibility for NZS.
- Because the contributions to a personal account earn a compounding return, the scheme will eventually reduce the total cost of providing retirement incomes for future generations.
- It provides a pension to all, irrespective of gender or income, once the higher age of eligibility is reached.
- If a person dies before the age of eligibility, or before the fund has been exhausted, it would become part of the person’s estate as would the remaining payments of the fixed-term pension.
- It reduces the chance that people left to their own devices to save for their retirement will save an inappropriate amount.
- It reduces the sizeable and growing “pension gap” with Australia, reducing the incentive of future New Zealanders to migrate to Australia to take advantage of their scheme.(Financial Services Council 2012)
It is hard to see how the FSC policy would do other than increase the claims on resources by future cohorts. If through targeting to those with low savings, KiwiSaver Accounts are topped up to allow an annuity of the same value as NZS, the return to extra KiwiSaver saving will be zero.

Other approaches to the role of KiwiSaver have stressed the lack of a decumulation policy. Because there have been tax subsidies in the accumulation process, it would seem that the taxpayer has an interest in these savings being used to meet the costs over the whole of the retirement period and not used too quickly in early retirement leaving insufficient resources to pay for care at the end of life. To achieve a social return some regulations around the annuitisation of KiwiSaver may be required. Furthermore it can be argued that the tax subsidies have been so small that there is a case based on the social return for further subsidisation of the voluntary purchase of annuities.

Coupling an annuity with a long-term care rider has the potential to secure more intra-generational sharing and more intergenerational equity. Compared to the status quo, such annuitisation of KiwiSaver could help make retirement income provision more fiscally sustainable, and by promoting intra-generational sharing improve inter-generational equity (St John, Dale, et al. 2012 (forthcoming)).

Such an annuity could be integrated with the targeting approach discussed above if the annuity is based on a EET or a ETT approach. St John et al (2012) explore how a lump-sum on retirement might fund a limited top-up to NZS – providing say an extra $10,000 pa maximum, purchased from the state. Such a provision might then be priced to include a trebling of the annuity on the diagnosis of the need for long-term care. Such an annuity could be encouraged, for example, with the NZSG, by exempting the annuity from the NZSG tax.

9. Conclusion

Increasing the age of eligibility for NZS is doubtless necessary but it has some equity disadvantages and would yield only a small immediate fiscal saving. It could be supported by use of income testing but introducing a welfare means test for NZS recipients is likely to be very contentious. We have a very different pensions environment to that of Australia and a very fraught history surrounding attempts to introduce such a test in the past.

Nevertheless there is a strong case for a greater degree of targeting. Universal provision of benefits usually goes hand in hand with progressive taxation. Reductions in the top tax rate since NZS was first introduced make it much more generous today to the top end than in the past. If a means test is to be implemented, doing it through the tax system may be the simplest and the least contentious. It is suggested NZS may be progressively removed through a carefully designed tax scale for superannuitants so that there is minimal impact on lower income retirees. In doing so it may be more equitable than a blanket raising of the age or reduction in the level of NZS.

The NZSG approach outlined here provides a mechanism for ‘affluence’ testing with the potential to save 10% of the net cost of NZS with limited work incentive effects. The saving is sensitive to choice of the NZSG tax rate. The need to signal change is less important than for raising the age and so it could allow important immediate fiscal cost savings.
10. **Appendix A: Australia’s Pension System**

There are three components to retirement income provision in Australia; compulsory/mandatory employer contributions (9% of employee’s earnings) to private superannuation savings, the Superannuation Guarantee (SG); voluntary superannuation contributions to private superannuation savings; and a means-tested Age Pension (OECD Mar 2011, p.193). The Australian scheme since the 1970s has emphasised private savings through the SG instead of the OECD-style PAYGO social insurance earnings-related pensions (Bateman and Piggott March 2001).

**The Age Pension**

The Age Pension is payable for men aged 65 and women on a sliding scale to reach 65 for women born after 31 December 1948 and is funded from general taxation revenues.

<table>
<thead>
<tr>
<th>Family situation</th>
<th>Pension rate per fortnight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$712.00</td>
</tr>
<tr>
<td>Couple</td>
<td>$536.70 each or $1073.40 combined</td>
</tr>
<tr>
<td>Couple separated due to ill health</td>
<td>$712.00 each</td>
</tr>
</tbody>
</table>

*Note:* These amounts exclude the Pension Supplement, a fortnightly payment additional to the base pension. The maximum rate of Pension Supplement for singles and for each member of a couple separated due to ill health is $60.60 a fortnight, and for couples $91.40 a fortnight (combined).

It is for those who have resided in Australia for at least ten years continuously, who have been a resident for more than ten years in total and five of those years continuously, or claiming under an international social security agreement (Centrelink, 2012).

The Age Pension’s purpose is to offer a safety net for those who are assessed as not having enough personal resources for retirement (OECD Mar 2011, p.194). Around 56% of pensioners receive the full rate, around 80% rely on the age pension for more than 50% of their income (Clare 2012). Extra targeted benefits maybe paid to age pensioners and include; an Advance Payment of Age Pension, Pensioner Concession Card, Pension Supplement, Remote Area Allowance and Rent Assistance (Centrelink, 2012).

**The Mechanics of the Means-Test**

The Age Pension is means-tested using either the Asset Test or the Income Test except for the permanently blind. Both tests differentiate between couples and single. Where the means-test is applied to couples, income and assets of the couple are aggregated in the determination of benefit levels. The test that results in the lowest benefit payment is the test that is used (Centrelink, 2012).

**The Asset Test Limits as at September 2012**

The first test relates to the assets the individual or couple own, whether partly or wholly and whether held inside or outside Australia. If the individual or couple has assets below the threshold their maximum pension payment will not be abated. Fortnightly pension payment will be abated back by AU$1.50 for every AU$1000 above the threshold (Centrelink, 2012). Although abatement for singles and couples is at the same rate, the individual asset threshold is higher for a single than for...
half the couple. Thresholds vary based on the relationship status of the individual and whether they own a home.

Table B - assets test limits for allowances and full pensions, 2012

<table>
<thead>
<tr>
<th>Family situation</th>
<th>For Homeowners</th>
<th>For Non-homeowners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$192 500</td>
<td>$332 000</td>
</tr>
<tr>
<td>Couple (combined)</td>
<td>$273 000</td>
<td>$412 500</td>
</tr>
<tr>
<td>Illness separated (couple combined)</td>
<td>$273 000</td>
<td>$412 500</td>
</tr>
<tr>
<td>One partner eligible (combined assets)</td>
<td>$273 000</td>
<td>$412 500</td>
</tr>
</tbody>
</table>

Table C - assets test limits for part pensions

<table>
<thead>
<tr>
<th>Family situation</th>
<th>For Homeowners</th>
<th>For Non-homeowners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$707 750</td>
<td>$847 250</td>
</tr>
<tr>
<td>Couple (combined)</td>
<td>$1 050 000</td>
<td>$1 189 500</td>
</tr>
<tr>
<td>Illness separated (couple combined)</td>
<td>$1 303 500</td>
<td>$1 443 000</td>
</tr>
<tr>
<td>One partner eligible (combined assets)</td>
<td>$1 050 000</td>
<td>$1 189 500</td>
</tr>
</tbody>
</table>

Table C shows the cut out point for a part pension. The coverage is broad. As set out in the Australian Government Guide (2012) Assessable assets include:

- any cash or money you have in bank, building society or credit union accounts (including interest free accounts), interest bearing deposits, fixed deposits, bonds, debentures, shares, property trusts, friendly society bonds and managed investments
- any assets you hold in superannuation and rollover funds if you are of Age Pension age
- the value of any real estate, including holiday homes, you own (this does not include your principal home)
- the value of any businesses and farms, including goodwill (where goodwill is shown on the balance sheet)
- the surrender value of life insurance policies
- the value of gifts worth more than $10 000 in a single year or more than $30 000 in a five year period
- the value of any loans (including interest-free loans) you have made to family trusts, members of the family, organisations
- the value of any motor vehicles you own
- the value of any boats and caravans you own which you do not use as a home
- the value of your household contents and personal effects
- the value of any collections you have for trading, investment or hobby purposes
- the value of your entry contribution to a retirement village if it is less than the difference between the homeowners' and non-homeowners' assets limits
- some income stream products
- the attributed value of a private trust or private company where you are a controller of that trust or company
- the value of a life interest created by you or your partner, or upon the death of your partner.

The Income Test

The Income Test applies to actual income an individual receives as well as income deemed to be received from certain assets.
Deeming rules differentiate an individual’s deemed income according to their relationship status. The rule is that for singles, the first AU$44,600 of investment assets will be deemed to derive annual income at a rate of 3% of capital value, and where investments exceed this value, the excess will be deemed at a higher rate of 4.5% (Australian Government 2012c). For couples, where at least one of the members is getting a pension, the first AU$74,400 of combined financial investments will be deemed to have income at 3% and in excess of this amount income will be deemed at 4.5% (Australian Government 2012c). If for example, a single is to get the full pension then their derived income must be less than $152 per fortnight. If the individual has income deriving assets worth AU$110,000 and no other forms of income streams then their fortnightly income would be $150. This individual would qualify for the full pension.

Table D - Income Test for Pensions Sept 2012 (Centrelink, 2012).

<table>
<thead>
<tr>
<th>Family situation</th>
<th>For full pension (pf)</th>
<th>For part pension (pf)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>up to $152.00</td>
<td>less than $1,669.20</td>
</tr>
<tr>
<td>Couple (combined)</td>
<td>up to $268.00</td>
<td>less than $2,597.60</td>
</tr>
<tr>
<td>Illness separated (couple combined)</td>
<td>up to $268.00</td>
<td>less than $3,258.40</td>
</tr>
</tbody>
</table>

The Single Age Pension rate of AU$712 a fortnight is paid less 50 cents for every dollar of fortnightly income above AU$150. For a couple the reduction is 25 cents in the dollar above a combined income of $268.

11. Appendix B: Means test in New Zealand for Long Term care

Table 1. Exemptions under the asset test for residential care subsidy (Source: Work and Income 2011)

<table>
<thead>
<tr>
<th>Years</th>
<th>Single person</th>
<th>Married couple, one in care</th>
<th>Married couple, both in care</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994 - 1998</td>
<td>$6,500</td>
<td>$40,000 + house and car</td>
<td>$13,000</td>
</tr>
<tr>
<td>1998 - 2005</td>
<td>$15,000</td>
<td>$45,000 + house and car</td>
<td>$30,000</td>
</tr>
<tr>
<td>From July 2005</td>
<td>$150,000*</td>
<td>$55,000* + house and car or $150,000 total assets</td>
<td>$150,000*</td>
</tr>
<tr>
<td>As at July 2012</td>
<td>$213,297</td>
<td>$118,297 + house and car or $213,297 of total assets</td>
<td>$213,297</td>
</tr>
</tbody>
</table>

Note: *Exemption levels were raised by $10,000 each year, commencing July 2006, but from 1 July 2012 will increase by only the CPI.

The spectre of asset-testing of Residential Aged Care (RAC) may also encourage an early divestment of assets (Frawley 1995). The use of trusts as a means of asset protection has expanded markedly in the last 20 years, especially among the baby-boom generation. In a 2010 review of the use of trusts, the Law Commission noted:

...the residential care subsidy... is often credited with creating a significant incentive for people to transfer assets to a trust. The legislation relating to the subsidy allows a settlor to use a trust to reduce his or her assets and income in order to satisfy the eligibility criteria for the subsidy. In the 2009–2010 year the Ministry of Social Development processed approximately

---

22 This section is based on St John, Dale and Ashton: forthcoming 2012
10,000 applications for the residential care subsidy that involved a trust. (Law Commission 2010)

Exacerbating these issues, removal in 2011 of gift duty provided more financial incentives for using trusts to alienate assets that count for the residential care subsidy; and there are no constraints on the use of reverse mortgages to reduce equity in the home to the asset-test threshold. The means test for RAC is still likely to encourage avoidance, even after the raising of the asset thresholds.

For those who require expensive RAC, the current practice of ‘user pays’ can mean that individual estates are quickly depleted, thus diminishing children’s inheritances in an arbitrary way. The capped amount payable by a resident in 2012 varies by district but for Auckland city is $45,740, requiring a single person to find roughly an additional $30,000 from their own resources to supplement the pension.

Perhaps the most important criticism of New Zealand’s approach to financing RAC concerns the implications for intergenerational equity. Those who have taken advantage of avoidance opportunities to protect their assets are better able to provide for their heirs. Subsidising RAC from general taxation redistributes money from the working population to those in care, a burden that will become more acute as the population ages and the proportion of workers in the population declines. If all of the population who are at risk (i.e. all of those aged 65 years and over) were to share more of the costs of the few who turn out to need RAC, the perceptions of intergenerational equity may improve.

References

Clare, R. (2012). Equity and superannuation- the real issues. 20th Annual Colloquium of Superannuation Researchers Securing sustainable retirement savings 12-13th July 2012. CPS Research Group and the School of Risk and Actuarial Studies, UNSW, Sydney, Australia
CPA Australia (2012). Household savings and retirement. Where has all my super gone?, KELLYresearch.


Inland Revenue Department (2008). *Briefing for the Incoming Minister of Revenue* Wellington, The Inland Revenue Department.


Ministry of Social Development (2010). *Description of New Zealand’s current retirement income policies*.


The Economist (Sept 29th, 2012). The next crisis. Sponging boomers: The economic legacy left by the baby-boomers is leading to a battle between the generations. *The Economist* 2012
