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Superannuation Task Forces in the 1990s and The Political Accord

By

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RPRC Monograph

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[1] This monograph has been compiled by the Retirement Policy and Research Centre, with the assistance of RPRC researcher M.Claire Dale, from Jeff Todd's presentation at the RPRC Symposium on Retirement Income Policy, "Looking back and looking forward", 16 April, 2008, University of Auckland Business School.

The Retirement Policy and Research Centre

The Symposium "*Looking back and looking forward*", held in April 2008 at the new University of Auckland Business School, was an opportunity to share and document some critical moments in the history of New Zealand's retirement policy, and to honour some of those who were key players in developing that policy.

Jeff Todd, whose distinguished career in accounting culminated in the role of Chairman of the PriceWaterhouse Board, was a major contributor to that symposium, reflecting his very significant role in superannuation development in the 1990s. He was Chair of the 1992 Task Force on Private Provision for Retirement, which provided a major review of New Zealand's retirement incomes policy. Following the 1992 Task Force's Report, Jeff was a key player in bringing the politicians together in the signing of the Accord in 1993. His earlier success led to his appointment as Chair of the 1997 Periodic Report Group.

The 1990s was an exceptionally turbulent time in New Zealand's superannuation history, earning one judgement from abroad:

"A full description of all the reforms, proposed reforms, counter-reforms and about-turns read like an implausible script for a farce."[2]

In the election year of 2008, New Zealanders are rediscovering the lessons of the 1990s. Without political consensus, superannuation policy all too quickly becomes a political football. The certainty and security that should come from stable and consensual long-term policy-making is easily undermined.

This monograph, based on Jeff Todd's presentation at the 2008 RPRC Symposium, also contains some of the best cartoons published during the 1990s. The RPRC extends its thanks to the cartoonists: Bob Brockie, Laurence Clark, Malcolm Evans, David Fletcher, Frank Greenall, Tom Scott, Chris Slane and Malcolm Walker; and the newspapers and periodicals, including the New Zealand Herald, the Dominion, the Sunday News, the New Zealand Listener, and the National Business Review, for permission to reproduce these cartoons. The cartoons often provided wisdom and insight from the citizen's perspective into the issues of superannuation, in addition to humour. Also, as is shown by the images included here, Jeff Todd himself seems to have inspired some of the cartoonists' wittiest work.

Susan St John

Dr Susan St John
Co-director, RPRC

Michael Littlewood

Michael Littlewood
Co-director, RPRC

[2] Johnson, P. (1999). *Older Getting Wiser*. London: Institute for Fiscal Studies.

Superannuation Task Forces in the 1990s and The Political Accord

Introduction

During the 1990s New Zealand re-constructed and developed its simple two part system for providing income in retirement based on public provision of a basic pension: New Zealand Superannuation, and voluntary private savings. Retirement savings were tax-neutral compared with other forms of financial savings. Jeff Todd was Chair of the 1992 Task Force on Private Provision for Retirement, and the 1997 Periodic Report Group. This monograph, which includes some of the most memorable cartoons published on the topic during the 1990s, is a formal record of his presentation at the RPRC Symposium "*Looking back and looking forward*", in April 2008 at the University of Auckland Business School.

The Task Force on Private Provision for Retirement

The 1990s began with radical changes to national super announced in the 1991 budget that would have converted the pension into a welfare benefit. Public outcry forced the government to backtrack and seek a new solution. The retirement policy debate was driven by politics, not economics or demographics.

Announcing the formation of the Task Force on Private Provision for Retirement in October 1991, the New Zealand Herald's Simon Collins reported that the eight-member task force "will consider requiring New Zealanders to contribute to compulsory private pension schemes". The task force was also to consider tax incentives for retirement saving, regulation of superannuation schemes and compulsory retirement ages. The group was to report to a joint cabinet-caucus committee chaired by the Prime Minister, Mr Jim Bolger, with the Hon WF (Bill) Birch as the principal government contact.

(Tom Scott, The Dominion, July 1991)

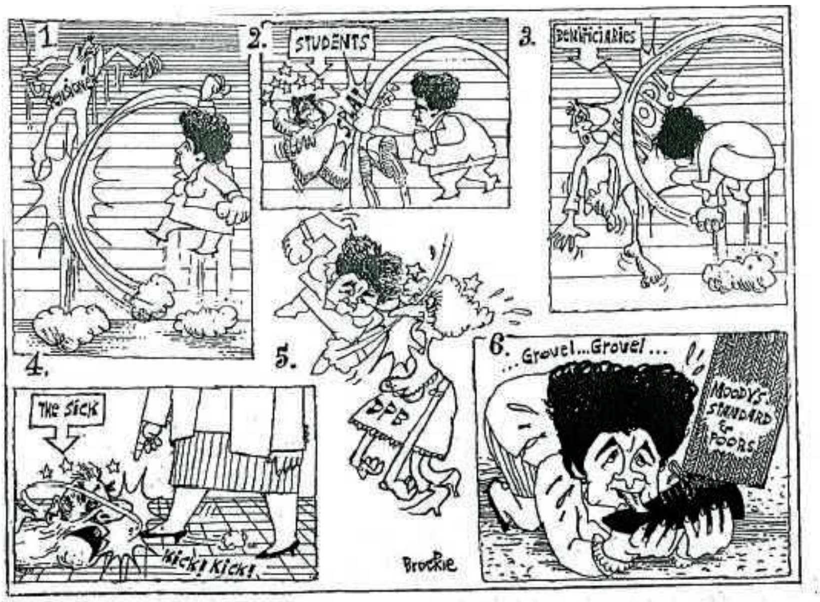
When the Prime Minister announced the formation of the Task Force, he issued a Press Statement proclaiming: "The Government wants a Bipartisan Approach to Super", and that he was "ready to enter into discussions with the Labour Opposition leader Mike Moore". Bolger said: "I welcome the news that the Labour caucus has been considering my request for their participation in an effort to produce a bipartisan solution that will give New Zealanders certainty about their income in retirement. Provided they are serious in their response and are not seeking to impose preconditions that are fiscally and politically impossible, I am prepared to enter genuine discussions with the Leader of the Labour Party about the basis on which a bipartisan policy on superannuation can be developed."

(Frank Greenall, NZ Herald, July 1991)

In his 1998 autobiography, *Bolger, A View from the Top*, Bolger wrote: "superannuation had bedevilled New Zealand politics for the past quarter century. After the problems I had encountered in promising to axe the surtax [sic - actually a 'surcharge'] and then failing to do so, I concluded that a non-partisan approach to the problem was needed. Prior to the 1993 election I set up a task force led by Auckland accountant Jeff Todd."

The "non-partisan approach" the Prime Minister had referred to was reflected in the composition of the Task Force. Michael Littlewood[3], chairman of the Association of Superannuation Funds of New Zealand (ASFONZ); Falcon Clouston, consultant on investment and financial markets and Angela Foulkes, recently appointed secretary of the Council of Trade Unions, comprised the original private sector members. Later, Patricia Schnauer, an Auckland lawyer and eventually an ACT MP, was appointed to the group.

Public sector officials appointed to the Task Force represented the Department of Social Welfare (David Preston and later David Simmers), Treasury (Kaye Barwood), State Services Commission (Peter Leniston) and Department of Prime Minister and Cabinet (Peter Rodger). Also critically important to the success of the Task Force was the work of Angela Ryan,[4] Secretariat Manager, who was working for Treasury on secondment from The Treasury, Australia. After her return to Australia in October 1992, she was replaced by Peter Rodger who added the role of Secretariat Manager to his other significant Task Force responsibilities.



(Bob Brockie, National Business Review, July 1991)

[3] Now co-director, with Susan St John, of the Retirement Policy and Research Centre.
[4] Now Angela MacRae.

As well as the Prime Minister, Rt Hon Jim Bolger and the Hon Bill Birch, the Ad Hoc Cabinet/Caucus Committee on Private Provision for Retirement that the Task Force was to report to, which was actually chaired by Hon Ruth Richardson, included from Cabinet the Hon Jenny Shipley and Hon Wyatt Creech, and back-benchers, Peter Gresham, Roger Sowry, Bill English, Bruce Cliffe and Alex Neill. Public provision was the specific responsibility of this group - the addition of backbenchers was widely held to be in response to a revolt from back-benchers to the 'Mother of all Budgets'.

Terms of Reference

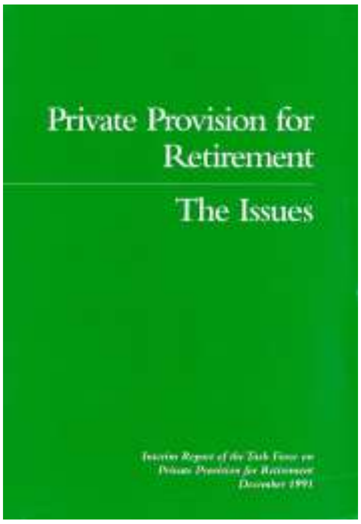
After the debacle of the 1991 'Mother of all Budgets', which made dramatic cuts to all benefits and welfare support, the Government had agreed on four broad principles in relation to private provision for retirement. These were: encouragement of greater self-reliance of retired people; promotion of inter-generational equity; promotion of economic efficiency in resource allocation; and promotion of fiscal sustainability.

The terms of reference of the Task Force required it to look at:
- The tax treatment of various types of savings;
- Compulsory savings schemes;
- Regulations pertaining to superannuation;
- The interface between state and private provision for retirement;
- Saving through home ownership and investment in business;
- Policies/regulations which impede savings;
- The harmonisation of retirement income regimes between New Zealand and Australia.

Like the rest of the Western world, the nation was facing a major challenge: how to provide a satisfactory quality of retirement for all New Zealanders in an environment of increasing life expectancy and uncertainties about economic growth. Based on population projections, by the middle of the twenty-first century, both the proportion and the absolute number of over 65-year-olds in the population would have doubled. The aging of our population would cause an increase in the numbers claiming a pension and would also increase dramatically the resources needed by the elderly in key social services, especially health care. Increasing the role of private provision for retirement would become important as demographic and economic pressures increased over time.

The Ad Hoc Cabinet/Caucus Committee on Private Provision for Retirement was invited to re-design National Superannuation (as it was known in 1991), while the Task Force was directed mainly at long term solutions to retirement issues. For those in or near retirement, there was some evidence of political consensus that there should be no further major policy changes. However, those in their "middle years" may have some flexibility, depending upon their individual circumstances, to adapt to policy changes; and those in their 20s and 30s had the time and ability to make provision for their retirement, and also the independence to determine for themselves their personal circumstances in retirement.

The Work Programme of the Task Force



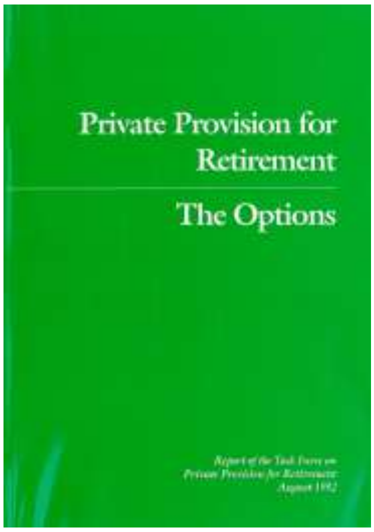
Interim Reports

The three main options for increasing private provision were: voluntary, compulsory, and tax concessions. The first interim report from the Task Force, *The Issues*, published in October 1991, provided context for the discussion which was to follow, and introduced the idea of a comparative study of those three main options. *The Issues* aimed to increase awareness of retirement issues, to highlight the complexities and to take the spotlight off the political debate and focus on the long term so that sustainable decisions could be made. It provided a framework for public discussion on the development of those options but once people were ready to move on from the issues to a comparison of the options more detailed information was required.

Through March and April 1992 the Task Force conducted a nationwide programme of seminars for community and business leaders in twelve centres through New Zealand. Among the 500 people who attended were business and union leaders, farmers, representatives of ethnic and women's support groups, national superannuitants and people with disabilities. Media representatives attended most of the seminars and Task Force members took that opportunity to take the message to a wider audience. The initial hostile reaction we received from many who attended these seminars disappeared when we explained what we were trying to do - explain the issues not discuss the problems of the past (mainly with politicians) or the solutions for the future.

Surveys were used to collect information and gain an understanding of attitudes towards retirement and retirement provision:

- 2,000 randomly selected, geographically-dispersed respondents were tested;
- 20 providers of retirement savings products were interviewed;
- A questionnaire was sent to treasuries and regulatory authorities in 13 countries;
- The Task Force met with ASFONZ (Association of Superannuation Funds of New Zealand) to gain insight into the employers' role and the place of employment-based superannuation in private provision.



The second report, *The Options* (published in July 1992), was designed to meet the need for more detailed information. The approach in that report was to decide on the strongest candidate or 'ideal' system from the vast range of possible specific options within each of the three broad categories. The process of selecting the various features of each 'ideal' option was explained in terms of the advantages and disadvantages as perceived by the Task Force.

The Task Force conducted a second, more extensive round of public discussions on the options, including:

- A series of seminars for community leaders in 14 centres around New Zealand;
- Three youth forums;
- Two seminars for financial services providers;
- A hui with Maori leaders;
- A seminar for the National Council of Women;
- A Pacific Island forum;
- Numerous presentations for industry and community groups.

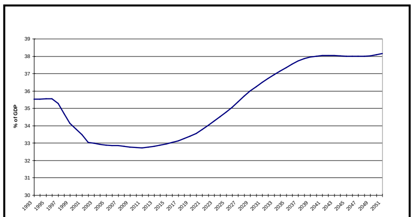
While they did not formally ask for submissions, the Task Force received numerous letters and submissions, and encouraged people and groups to write to them if they wished to comment on the work. The submissions were generally well researched and the Task Force responded to most of them.

Modelling long term affordability

The terms of reference of the Task Force required them to consider 'the promotion of fiscal sustainability' in all the issues within their brief. Government told them not to extend their work too far into the area of design of public provision (National Superannuation) but to identify interface issues, assuming continuation of current policy.

(David Fletcher, New Zealand Herald, August 1992)

Frustrated by the absence of a model which they could use in their work, the Task Force secretariat set about building one designed to support decisions on the long-term fiscal affordability of National Superannuation. The model produced, shown above, was affectionately called "The Wavy Blue Line". The modelling suggested that the modified superannuation system introduced in 1992 was broadly sustainable but subject to significant risks which needed to be reduced, monitored and managed.

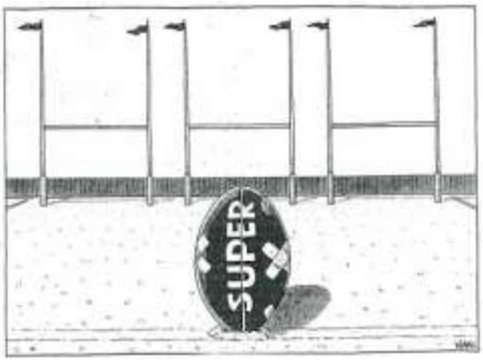


"The Wavy Blue Line"

Final Report - The Way Forward (15 December 1992)

While the Task Force's final report, *The Way Forward*, was much more than a declaration of the voluntary option as their preferred choice, most of the media interest was focussed on whether they would suggest re-introduction of compulsory retirement savings after the Labour Government's aborted attempt to do so in the mid 1970s.

They knew that in deciding which of the three options for increasing private provision to promote: voluntary, compulsory, or tax concessions, their choice would have a significant effect on the political stability of retirement income policy for many years, perhaps decades, to come as there were very strong views held by parties of the left against compulsory retirement savings. The prospect of



(Laurence Clark, NZ Herald 22 August 1992)

reaching a lasting consensus on retirement policy was more likely to be built on the voluntary option than either of the others or any combination including elements of the others.

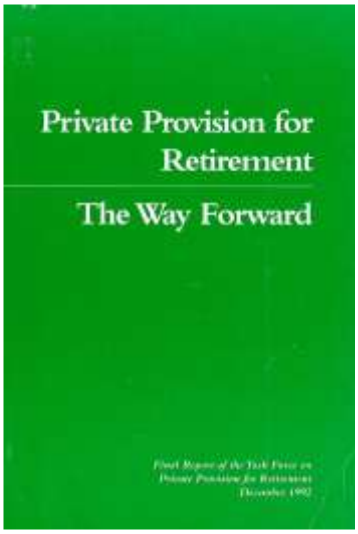

Super report backs voluntary savings

(Dominion 16 December 1992)

Firstly, the members of the Task Force needed to reach consensus among themselves. The members were deliberately not asked to declare their position until their work was completed. They all agreed the recommendations of the Task Force would carry much greater credibility if they were unanimous in their support of *The Way Forward*. For some members, reaching a conclusion had not been easy; and some, firmly committed to compulsion at the beginning of the process had been "converted" by the weight of argument to strong commitment to the voluntary option. Even at the end, some members were undecided, but they eventually firmed up their choice in favour of the voluntary option, and the Task Force was unanimous in its final recommendations.

The Task Force expressed its preferred option on private provision as four main themes:

- Improved voluntary private provision, and:
- Its integration with continuing public provision paid on an income-tested basis (the "surcharge"), plus:
- Agreed rules for reviewing the preferred regime every six years, reinforced by:
- Public and political consensus and a much improved public understanding of retirement provision issues.



In *The Way Forward*, the Task Force noted that the mix of policies embodied in the preferred regime had the greatest potential for public consensus. The National Government and both the Labour and Alliance Opposition parties agreed with the Task Force's preference for an 'improved' voluntary private provision model.

By 'improved' the Task Force wished to emphasise that the new approach in no way merely preserved the status quo. Significant changes were proposed in the areas of education of savers, disclosure of information about savings products and regulation that would improve the savings environment.

The detailed and comprehensive Task Force recommendations were, in summary:

- An improved interface with public provision, involving stabilising public provision and establishing clarity and public confidence in it. Key rules were proposed for National Superannuation which would apply through to the first 'review' in 1997;
- Public and private retirement policies to be subjected to review in 1997 and six-yearly thereafter. We chose 1997 and six years thereafter so that the reviews would be out of step with the election cycle;
- Better disclosure about savings products, advisors and sellers;

- Support for savers in the new regime through better education to equip people for taking decisions about long-term savings and other aspects of retirement provision;
- The appointment of a Retirement Commissioner to coordinate the public education programme, monitor outcomes of new regulation, information and education, encourage the development of employment-based schemes, and participate in the six-yearly review.

(Chris Slane, New Zealand Listener 1993)

The Task Force noted in its recommendations that "if a lack of response to our suggested changes means that our projections on fiscal affordability of the regime are looking optimistic, then, despite its disadvantages, the Task Force thinks that a compulsory retirement saving regime may need to be considered." Despite his previously stated favour for compulsion, Prime Minister Bolger expressed full support for the Task Force recommendations. His Media Release on 15 December 1992 in response to the release of the final report said:

"I was particularly pleased that the Task Force was able to reach a unanimous recommendation on improved voluntary savings regime, an integrated policy for private/public provision, and the need for a six-yearly review of the operation of this provision. It will now be for all political parties to consider their positions in relation to the report's findings. I have said before that we looked forward to reaching a bipartisan political consensus on this matter and I am confident that, given goodwill on all sides, this is now within our reach… The Task Force has given us clear readings on public viewpoints and on the underlying economics. It has also said quite bluntly that, in its view, none of the political parties had a believable long-term policy on National Superannuation. The Task Force has proposed a process for resolving these differences. Their suggestions amount to an agenda for political consultations."

Many labelled the Task Force's main recommendation as the "do nothing" option. The Task Force on the other hand was at pains to explain that this was probably the most difficult of the three to maintain – hence the recommendation that the Retirement Commission be given the recommended roles and that the process be reviewed every six years.

Toward the Accord

As the Joint Cabinet/Caucus Committee with responsibility for the review of public provision had done nothing while the Task Force had been deliberating on private provision, the Task Force suggested that it widen its brief. This suggestion, enthusiastically embraced by the Committee, meant the Task Force had to get to work on National Superannuation as well.

In *The Way Forward*, the Task Force noted that the three political parties had widely divergent policies on National Superannuation. None of these policies provided a basis for people to make long-term retirement plans. Taking each in order:

PM seeks all-party pact on super

(Dominion 26 February 1993)

- The Government's policy of linking National Superannuation to the CPI without providing any 'floor' to stop its decline relative to the average wage created a potential for the longer term level of National Superannuation to sink to a socially unacceptable and politically unsustainable relativity with wages;
- Labour's proposals to slow the phase in of age 65 eligibility for National Superannuation, to raise the surcharge-free zone and to reduce the surcharge rate, would impose high additional fiscal costs at a time when government finances and economic growth needed strengthening, not pressure;
- The Alliance's policies would, in effect, increase the share of national income received by those over 60 regardless of need, and since the size of this group was increasing substantially, this would impose high and politically unsustainable fiscal costs in both the short and longer terms.

In spite of those criticisms, the Prime Minister wrote a generous letter of appreciation to the Task Force on 22 December 1992 in which he observed:

"Although it is too early to say with any certainty what the final result will be, you and your Task Force have certainly exceeded the expectations of many of those who have wrestled with these issues in the past. To have secured a solid endorsement from the industry and the political parties for your improved voluntary regime is in itself a major achievement. I know you are confident that, with appropriate education and information, widespread public support will follow. However, with my encouragement, you went further and attempted to provide a basis for a lasting consensus on public provision as well. I agree that this must be our long-term objective, and I hope it can be achieved."

1993 *Retirement Income* No. 148

ANALYSIS

Title
Preamble
1. Short Title and commencement
2. Interpretation
3. Act to bind the Crown
4. The Accord

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RETIREMENT COMMISSIONER
5. Retirement Commissioner

Functions and Powers of Retirement Commissioner
6. Functions
7. Powers
8. Discretion in relation to performance and exercise of functions and powers

Terms and Conditions of Appointment of Retirement Commissioner
9. Retirement Commissioner not to hold any other office
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PART II
PERIODIC REPORTS ON RETIREMENT INCOME POLICIES
22. Periodic reports
23. Preparation and terms of periodic reports
24. Delivery and tabling of notices and periodic reports
Schedules

1993, No. 148

An Act to provide, in accordance with an Accord on Retirement Income Policies entered into on the 25th day of August 1993 by the Alliance, Labour, and National Parliamentary Parties,—
(a) For the appointment of an independent Retirement Commissioner:
(b) For the making of periodic reports on the retirement income policies being implemented by the Government in New Zealand [*29 September 1993*

Through 1993, work flowing from *The Way Forward* continued in two main streams. Firstly, a newly-formed Implementation Group put together the important work programmes to bring the Task Force recommendations into practical effect. The most significant piece of work was the development of the Retirement Income Act 1993 which came into force on 1 April 1994. The Act gave legislative form to most of the Task Force's recommendations. In particular, the Act created the role of the Retirement Commissioner, and established the programme and arrangements for the preparation of "Periodic Reports" on retirement income policies. The first of these Reports was required to be prepared by 31 December 1997, and then at 6-yearly intervals thereafter. Other work was done on investor information and this was incorporated into the Financial Reporting Act 1993.

The second stream of work began in late February 1993 with a meeting called by the Prime Minister and attended by Mr Bolger, Labour leader Mike Moore and Alliance leader, Jim Anderton. The objective was a National-Labour-Alliance consensus on superannuation.

The Dominion on 26 February 1993 reported:

"Both Mr Moore and Mr Anderton indicated they would parley with Mr Bolger." However, Mr Moore said Labour was "naturally suspicious" of the Government's latest efforts after being ambushed by the 1991 "mother of all Budgets". Mr Anderton believed superannuation should be a tax-funded pay-as-you-go system and that there should be no surcharge. In his view, the age of entitlement could also remain at 60.

The previous attempt "at a multi-party position in April 1991 dissolved in politicking with the opposition parties claiming the Government was only using it to limit the damage from its broken 1990 election promises on superannuation." Grey Power leader, George Drain said, 'It doesn't matter a damn what is in the Todd report. Superannuation rules were always changed after an election. Grey Power believed there must be a multi-party agreement for superannuation to succeed long-term. Agreement should be reached for a minimum of 20 years to ensure all workers had security for the future,' he said."

Mike Moore spoke to the media on 11 March 1993 saying that the Labour Opposition was in principle prepared to enter into discussions with the Government and the Alliance on superannuation. "I am disappointed that the Prime Minister has not seen fit to use the Parliamentary process through a select committee. However a parliamentary group chaired by a minister such as Wyatt Creech, the Minister for Senior Citizens would be acceptable to the Labour opposition."

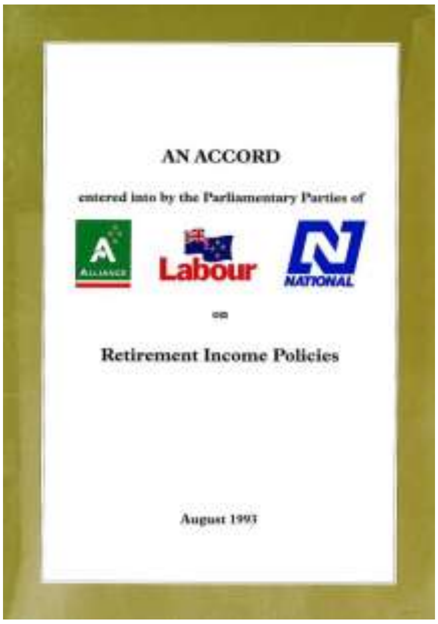
Moore added: "I agree with the Government that Mr Jeff Todd's expertise and experience ought not be lost and he ought to be a senior advisor to the group. However we must not raise expectations too much. I don't believe it is possible for us to agree on all points."

The Parliamentary Group consisted of the Hon Wyatt Creech (Convenor) representing the National Party, the Hon Clive Matthewson and Graham Kelly representing the Labour Party, and Jim Anderton representing the Alliance Party. Gilbert Myles was also a member of the Group representing the Alliance until July when he left the Alliance Party.

Jeff Todd was appointed as an adviser to the Parliamentary Group, which held its first meeting on May 6 1993. The New Zealand Herald reported on 7 May 1993 that "the tripartite superannuation talks got off to a strong start yesterday, with all three parties agreeing to negotiate in good faith and to seek an agreement before the general election."

Before tackling the National Superannuation issues, the Group began by working through the issues concerned with improving the regulatory environment for private savings. The parties met on 14 occasions over the next few months under Wyatt Creech's chairmanship to develop an agreement. On Wednesday 25 August 1993 the leaders of the three parties announced they were ready to publicly sign: "An Accord entered into by the Parliamentary Parties of Alliance, Labour and National on Retirement Income Policies".

The Accord formed the basis for legislation introduced to Parliament in September 1993. The Explanatory Notes stated that "This Accord represents the agreed policy position of the Alliance, Labour and National Parties in relation to retirement income. The policies cover both publicly provided retirement income and an improved environment for the provision of private retirement savings." In summary, the Accord provided:


AN ACCORD

entered into by the Parliamentary Parties of

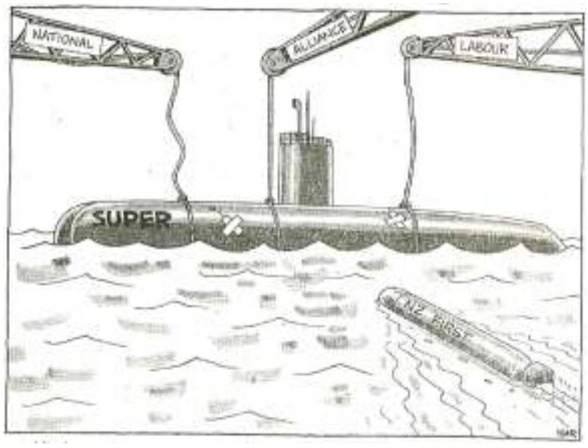
on

Retirement Income Policies

August 1993

- No compulsory savings or tax incentives;
- Private and public retirement income would be "integrated";
- National Superannuation would be called New Zealand Superannuation;
- Rates would be adjusted annually in line with the CPI but maintained within a band to maintain relativity with incomes in the paid workforce;
- Publicly provided income would be reduced as other income increased. Labour and National would continue to use a "surcharge", the Alliance a progressive tax regime that had equivalent effect;
- Age of eligibility would continue to rise until it reached 65 by 2001;
- TTE tax regime would be retained for private provision;
- Legislation to be passed providing for better information for non-expert investors;
- Financial advisors required to disclose qualifications, experience and financial interests;
- Complaints and disputes processes would be reviewed;
- An independent Retirement Commissioner would be appointed to educate, inform, monitor policies and assist with preparation of "periodic reports";
- Periodic reports on retirement income policies would be produced at six yearly intervals with the first to be prepared by the end of 1997.

In his autobiography, Prime Minister Bolger wrote: "The Task Force produced a report that all parties, except New Zealand First, signed up to. In essence the Accord confirmed the steps we had taken to raise the age of eligibility from 60 to 65, to lower the pension as a percentage of the average wage from the original 80 to about 65 per cent, and to retain and strengthen the surtax[5] [sic] arrangements."



(Laurence Clark, NZ Herald 26 August 1993)

[5] The surtax Bolger refers to was actually a 'surcharge'.

While the door remained open for New Zealand First to be a party to the superannuation Accord, Winston Peters declared that he was not interested in joining "a cosy little conspiracy". He did acknowledge the benefits of consensus when he announced that "a New Zealand First government would reach a consensus on retirement through consultation with the elderly, rather than producing some 'in-house' agreement." New Zealand First would also stipulate that consensus could only be changed with a 75 per cent majority of Parliament.

The front page Headline of the New Zealand Herald on 26 August 1993 proclaimed: "The Accord ends decades of super upheavals... Its main achievement is that, after 20 years of upheaval, it takes super off the political agenda. Only the New Zealand First party remains outside it." The paper's editorial that day noted that "the superannuation accord should survive because it agrees to the most sensible formula for state paid old-age pensions."

The Independent reported the Bankers' Association as saying that "it was important to build on the accord's foundations. Bankers saw the voluntary provision principle entrenched in the accord providing flexibility and the opportunity for savers to take advantage of the efficiencies of the market, on the one hand, and the great good sense of individual New Zealanders who were going to come up with much more effective savings policies than any group of politicians anywhere, any time."

(Body Language, Evening Post 26 August 1993)

However, MMP politics played out in November 1996 in private coalition negotiations between New Zealand First and Labour and National. By 6 December 1996 both major parties had agreed with New Zealand First to hold a referendum on compulsory superannuation as part of a coalition deal. In an odd twist, Labour reserved the right, even if it went into coalition with New Zealand First, to argue against a compulsory scheme. A referendum was estimated to cost $10 million but Mr Peters was determined to fight for the New Zealand First model as he argued that "opinion polls showed 68 percent support for a compulsory scheme and the country desperately needed a savings strategy."

1997 Review of the Accord on Retirement Income Policies

The referendum on compulsory superannuation (see clipping from New Zealand Herald, 6 December 1996), which was a condition of New Zealand First's support for National's coalition government of 1996, took place in the middle of the 1997 Review. In support of the Task Force recommendations, the Accord had provided for the periodic review of Accord policies by a group comprising the Retirement Commissioner, representatives of non-Government sectors, and officials. The review would make recommendations on where adjustments to any retirement income policies were desirable. Jeff Todd was asked to lead the Review and in a media release of 30 May 1996 Hon Peter Gresham, Minister for Senior Citizens and

Parties agree to super referendum

Tax cuts delay linked to vote offer

The path to power

(NZ Herald 6 December 1996)

Chairman of the Accord, announced that Susan St John, an Auckland University lecturer[6] had agreed to be deputy chair of the Review Committee. The Retirement Commissioner, Colin Blair, would be the third member.

Scope of the first Periodic Report

At the time the Accord was signed in August 1993, the Parties agreed that the first periodic report should:

- provide a description of trends and likely future developments;
- comment on whether the emerging trends of public and private provision of retirement income are appropriate in terms of adequacy, efficiency, equity and sustainability;
- identify areas of risk or unsatisfactory performance; and
- suggest where adjustment of any of the retirement income policies is desirable.

In his letter of appointment to Jeff Todd, dated 24 December 1996, the Minister of Social Welfare introduced the idea of “an interim report on issues relevant to the proposed referendum on compulsory savings”. The formal reporting date for the Periodic Report was to remain at 31 December 1997, while the interim report early in 1997, with the date and matters to be covered specified by the Minister, would “provide a timely overview of the current system”. The date subsequently specified for the interim report was 31 July 1997.

(Malcolm Evans, New Zealand Herald 1997)

By February 1997 briefing papers for the Periodic Report had been produced by the Minister of Social Welfare and were forwarded to the Group. The Group was informed that under the provisions of the Accord, the Alliance Party had suggested additional terms of Reference and the Minister had agreed they should be added to the Group’s work programme. They were:

- Analyse overseas trends in superannuation, especially in relation to expected developments in the New Zealand labour market;
- Describe the standard of living of the elderly, especially of those solely dependent on New Zealand Superannuation;

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[6] Now Co-Director of the Retirement Policy and Research Centre.

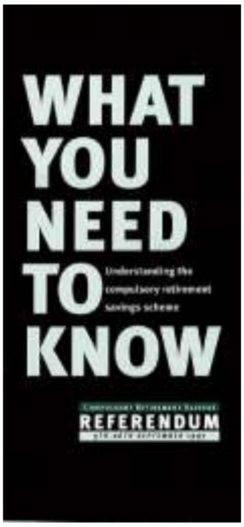
- Describe the extent to which persons older than 63 are able to participate in the labour force and any obstacles to their preferences for such participation;
- Consider the long term impact of TTE on the provision of private retirement incomes;
- Review the various definitions of sustainability of private and public provision for retirement;
- Review the adequacy of current New Zealand Superannuation provisions for unqualified spouses;
- Describe the Australian policy on superannuation, analyse its effects and draw a comparison with New Zealand's policies.

In order to monitor the operation of retirement policies and to prepare for each Periodic Report, the Accord stated that certain information should be routinely gathered, made available for policy analysis and explained to the public. This information would be used to reinforce the review process so that topical concerns and emerging issues were identified and policy responses developed.

An extensive work programme was developed by officials from Treasury, Department of Social Welfare, Inland Revenue Department and the Retirement Commissioner's office to provide the Reporting Group with information to assist them in the production of the Periodic Report. The work programme would review:

- Developments in and adequacy of the regulatory environment for private savings
- International trends and issues in the provision of retirement income;
- Demographics and their effects on the current and future environment;
- Economic performance;
- The overall fiscal position - including the share in total spending of older people compared with other groups (including intergenerational equity);
- The fiscal cost of New Zealand Superannuation;
- Evidence of the integrity of public provision policies in practice, eg surcharge avoidance and other 'interface' issues (eg imputation, superannuation fund tax rates);
- The performance of major participants, such as the financial sector, employers, educators, regulators and the Savings Ombudsman;
- Information on the patterns of voluntary private savings - levels, forms, rates of return and comparison of all these with the "base case", ie a comparison with the assumptions used at the time of the Task Force on Private Provision for Retirement;
- Individual affordability evidence from life-cycle statistics on income, expenditure, wealth, transfers, etc;
- Labour market statistics such as participation, earning levels, and continuity of employment;
- Information on the transition from full-time work to retirement, covering self- and part-time employment, ages of retirement, and age when pensions are drawn;
- Information on the standard of living of those wholly reliant on New Zealand superannuation and the adequacy of their income;
- information on the income needs and living circumstances of people in and approaching retirement;

- international trends and issues in the provision of retirement income; and
- Information on other economic and social changes and policies with effects on saving and older people, e.g. health and education costs, housing, marriage dissolution, life expectancy, and patterns of community care.



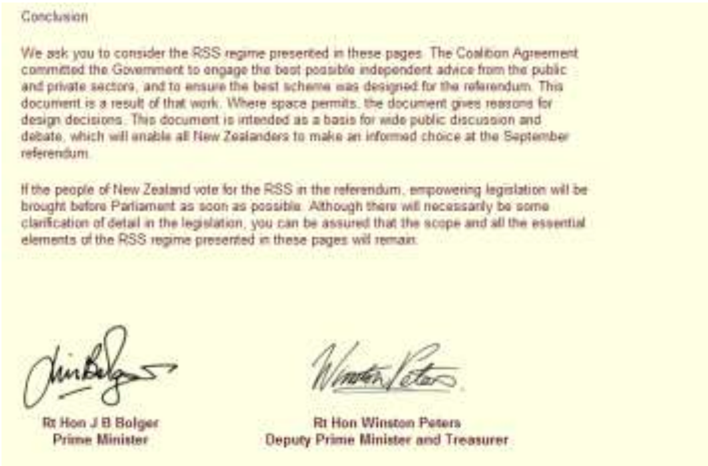
(Independent Referendum Panel, July 1997)

While National's Minister of Social Welfare in February 1997 was positive about the cooperative attitude of parties to the Accord in developing briefing papers for the Periodic Report, the Prime Minister was publicly reflecting as early as April that year on New Zealand Superannuation. The New Zealand Herald, 4 April 1997 quoted Mr Bolger saying:

- The age of eligibility may have to be raised to contain the costs of the scheme. Some Nordic countries already had a retirement age of 70;
- The coalition pledge to abolish the "surtax" on April 1 1998 renewed pressure on the affordability issue. National had adopted the policy on the grounds that the majority of New Zealanders were opposed to targeting. National, the only party that had campaigned in 1996 on keeping the "surtax" had secured only 34% of the vote;
- The status quo is not sustainable on present tax levels for very long; it was unlikely that a cross-party consensus could be developed on superannuation; and he strongly supported "throwing the decision to the public" through the September referendum.

The 1997 referendum on Compulsory Superannuation

The Government's White Paper on the compulsory scheme was released in early July 1997 and the Periodic Review Group urged New Zealanders to set the details of the compulsory scheme against the findings of the Group before making up their minds on how to vote in the September referendum.



Conclusion

We ask you to consider the RSS regime presented in these pages. The Coalition Agreement committed the Government to engage the best possible independent advice from the public and private sectors, and to ensure the best scheme was designed for the referendum. This document is a result of that work. Where space permits, the document gives reasons for design decisions. This document is intended as a basis for wide public discussion and debate, which will enable all New Zealanders to make an informed choice at the September referendum.

If the people of New Zealand vote for the RSS in the referendum, empowering legislation will be brought before Parliament as soon as possible. Although there will necessarily be some clarification of detail in the legislation, you can be assured that the scope and all the essential elements of the RSS regime presented in these pages will remain.

Rt Hon J B Bolger
Prime Minister

Rt Hon Winston Peters
Deputy Prime Minister and Treasurer

Sir John Robertson, former Chief Ombudsman, who had headed the panel providing an intensive information campaign leading up to the referendum on MMP, undertook a similar task following the release of the White Paper on the scheme.

The Periodic Review Group released its Interim Report at the end of July 1997. Although it did not directly discuss the Coalition's (New Zealand First) compulsory proposal, it made it clear that the current regime was robust and there was no place for panic, despite some of the media coverage. The Group argued that New Zealand should build on the current scheme's strengths of simplicity, flexibility and fairness.

On the day of the Interim Report's release, legislation to abolish the surcharge was moving through its second reading in the House, with the support of all parties. That same day seven cabinet ministers in the Bolger government announced they would not support the compulsory superannuation proposals. The Prime Minister and only three other National cabinet ministers supported the scheme.


Shipley on super attack

'Income-tested pension' would be fairer for all

(NZ Herald 17 July 1997)

Quoting again from Prime Minister Bolger's autobiography:
"All seemed settled at that stage, but in the lead-up to the '96 election, the Labour Party abandoned the Accord by giving a commitment to remove the surtax. New Zealand First gave the electorate a similar undertaking and in line with the coalition agreement, the government removed the surtax as from 1 April 1998. The referendum on compulsory superannuation which we had agreed in coalition talks to hold - a proposal that both I and Peters, along with the ACT Party supported - was lost by a huge margin.

(Laurence Clark, NZ Herald 2 August 1997)

A team of ministers including Jenny Shipley had worked hard to develop the best possible scheme according to our undertaking in the coalition agreement. She had said during the coalition talks, 'If the proposal is a good one, I will go out and back it personally.' Given the vigour of her public opposition to what was finally put forward, she obviously saw the scheme she had helped to design as a bad one; or perhaps she saw the compulsory superannuation proposal as a popular issue on which to stake her identity and her ultimate claim to higher office. We will probably never know which."

Voting packs for the referendum were mailed out to 2.5 million registered electors from 5 September 1997. Public opinion surveys at that time predicted a 90 percent response with a 75 percent 'NO' vote. The final results of the Compulsory Retirement Savings Scheme Referendum were published on 3 October 1997. A remarkably high percentage of eligible voters (80.3%) participated, and 1.988 million votes were counted to produce the result: a massive 91.8% "NO" vote.

(Herald 3 October i997)

On 8 December 1997, following that decisive defeat, Jenny Shipley became New Zealand's first woman Prime Minister.

In his autobiography, Mr Bolger blamed superannuation for his loss of the Prime Ministership:

"When I look back over that remarkable year and the passing headlines about Tuku's underpants, Banks' and Peters' verbal punch-up, Kirton's sacking, Fletcher's ministerial resignation, Alamein Kopu and all the rest, I believe it was the 'super' referendum that

destabilised the government most because Ministers were speaking out strongly on both sides of the issue and the essential single-mind focus was lost."

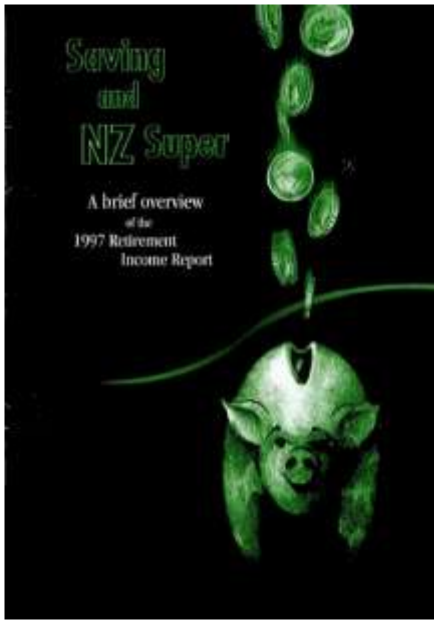
(David Fletcher. NZ Herald. Auaust 1997)

Periodic Report Group Final report

So 1997, the year of the first six-yearly review of retirement income policy, proved to be a big year for retirement income policy. The final report was delivered on 18 December in accordance with the original time schedule. The Group's two reports were intended to be read together as one - the final report did not repeat the material presented in the interim report.

Jeff Todd comments:

"Through the seven years I had been involved in retirement income issues I had heard a constant plea from New Zealanders for "certainty" and "stability". I'm not at all sure anyone can ever deliver that in our sort of democracy where party political election manifestos are built on "ideas whose time has come". This implies constant change and, generally we hope, constant development and improvement. I support this system of public policy development - this "competition of ideas". But I believe there is an exception to the rule in the case of retirement income policy. I make this exception because of the serious impact frequent policy changes have on the lives and long term plans of New Zealanders preparing for retirement. Stability in public policy is paramount when dealing with such long-term measures as preparation for retirement.



Many people understand that stability and sustainability of the system require political agreement and public support. If political parties see only political opportunity in retirement income policies, stability and certainty will always elude us. I was not pessimistic - after all, we had the 1993 Accord as a beacon of hope.

So it was certainly true that in the 1997 Report we did not recommend one single approach to the baby boomer problem. This was of course deliberate. We believed that any attempt to short-circuit multi-party talks and a new multi-party agreement would be unsuccessful. We noted at various places in our report, that simply foisting answers on the public (such as the surcharge, or even a total package based on some expert's views) is unlikely to build long term stability, unless those answers have broad public support. Without that, the system remains open to the high risk of policy reversals and worse, political bidding wars.

New Zealand's history of retirement income policy was littered with examples of failed attempts to implement what some may have regarded as good policy. There had been two unsuccessful attempts to introduce compulsory retirement savings schemes since 1972. They simply didn't last under our political system, whether good or bad in themselves, without much more work to build broad acceptance. In 1975 the compulsory scheme lasted only nine months before it was dismantled. In 1997 the RSS was thankfully put to a referendum first. But with 92 percent of the population opposed to its introduction, any attempt to force it into place would have created retirement provision chaos that would have lasted for years.

The surcharge was another good example of policy which caused political waves for years after its introduction. The 1997 Report Group expressed regret at the demise of the surcharge, but for all of its strengths, it could not stand the political heat. Better, more measured ways of making changes, and making them stick, had to be found.

Jeff Todd himself says: *"I was convinced that our best chance for long-term stability and political and financial sustainability would come from public support backing up a multi-party agreement. So we had strongly advocated multi-party talks as the best way to forge long-lasting, durable policy in retirement income. And we recommended that a public consultation process run in parallel with this, so that as the political consensus built, a base for public consensus would be developing too."*

The main conclusions in the 1997 Report in respect of the "big picture" were that there was no crisis, but that some change in retirement income policies were needed for the future, and some steps needed to be taken very soon. Importantly, the changes did not require the current system to be dismantled - far from it. Changes should build on the very real strengths of the current system, which combined voluntary private saving with tax-funded public provision.

The concluding report also looked at the "smaller picture" and recommended some changes – measured and gradual - that were considered to be required in the following couple of years to meet the challenges presented by the ageing of the population. It also set out the processes that would help build stability and certainty around New Zealand's retirement income framework, and outlined some of the changes that would be required over the longer term.


Super group wants accord

THE OPTIONS

(Dominion 19 Dec 1997)

The elements of the system which the Task Force wanted to see reconfirmed were:

- private provision should be made in a voluntary, tax neutral environment;
- public provision should be by way of an adequate state pension (NZS);
- these two elements should be linked, so that the net amount provided for a retired person reduces as that person's total income increases;
- the framework should be subject to regular review; and
- there should be public and political consensus on these elements.

The recommendations in the Reports reflected the priority the Report Group had given to the issues that need to be addressed if this system was to be maintained for the long term. With the abolition of the surcharge in April 1998, there was no longer a means of reducing NZS as a person's other income increases. For this reason, it spent time looking at ways in which private and public provision could be integrated again; and outlined some examples it hoped would help to promote discussion among both the political parties and the general public.

There was no robust public and political consensus. It didn't expect a new consensus to emerge immediately, but in the longer term they believed there were grounds for optimism. There were large areas of broad policy agreement on which to build a new consensus. Strong support for a unified approach could be found both within Parliament and in the wider population. The Report Group outlined a process by which it might be possible to expand this consensus over time.

To promote the longer term goals, the Report Group made some important recommendations for the short term. It saw merit in these recommendations being considered by all of the parties in the context of an agreed work programme. The recommendations were that:

- Funding be provided for the collection of better statistics on private savings now that the working group on savings statistics has been established;
- Sufficient long-term funding be provided to the Retirement Commissioner to allow the ORC to maintain its information and education campaigns, and to strengthen the specialist policy development capacity of the Office;
- Urgent reappraisal be carried out in relation to the prospectus requirements for employer sponsored superannuation schemes;
- Funding be provided to develop better information on the living standards of older people, so that income and other support programmes can be better designed;
- The distinction between the single sharing and the married person rates of NZS be gradually phased out;
- The question of how best to ensure that retired New Zealanders continue to enjoy a reasonable level of social participation should be based on a separate review; and
- Consideration be given to amending the Fiscal Responsibility Act, so that statements of fiscal policy intent for addressing prospective demographic and other pressures extend beyond the ten year minimum period currently specified in the Act.

Going beyond such an agreed work programme, the Report Group also recommended that the parties should engage in multi-party talks to develop principles for future retirement income policy and, after that, move towards developing policy details. The existing Accord would be an important and useful source document for this purpose. While acknowledging the failings of the Accord, there was much to be said for the role it played in providing stability and consensus, and the lessons it provided in how to do things better next time.

(Malcolm Walker, The Independent 1 August 1997)

Managing policy change within an agreement, so that it can evolve over time, was critical and the Report Group made some specific suggestions about that. In particular, it suggested that allowance be made for some policy differentiation in developing policy details. This could be achieved by agreeing on a restricted set of parameters rather than one distinct policy. Any policy positions within the agreed parameters that could not be negotiated through the agreement could be legislated, but would have to include a “sunrise” clause delaying its introduction until some period after enactment of the legislation, such as three years.

The Report Group also suggested that retirement income policy should continue to be subject to a full review at six-yearly intervals, but with the addition of a briefer interim review every three years to ensure a more overt link between the political process and the periodic reviews.

Together, these elements of policy principle, policy detail, and agreed processes for managing policy change could form the basis of a new multi-party agreement.

The Report Group believed a new multi-party agreement was an achievable goal. It made some specific suggestions on how the process of negotiating a new agreement might unfold, including providing impetus to multi-party talks by having the Retirement Commissioner play a secretariat role in co-ordinating the work to be done for those who were involved in the talks.

Another key theme of the reports was that public and private provision should be reintegrated by 2015 at the latest, but that consideration should be given to integrating public and private provision in the nearer term (that is, well before 2015), particularly on the grounds of intergenerational equity.

Any retirement income policy needs to provide financial security in old age while also helping the broader economy. To recognise both of these elements, any scheme for integrating public and private provision should satisfy the tests of adequacy, equity, efficiency and sustainability.

- The test of adequacy requires, at a minimum, that people have a level of income that is sufficient to provide for a basic standard of living;
- The test of efficiency requires the system to operate without unnecessary compliance, administration, or information costs, and does not create undue economic costs. The system should be designed so that it does not unduly create a disincentive to save;
- The test of equity, or fairness, has many aspects. A system needs to be fair across and between generations, should provide for equal treatment of people in similar circumstances, and provide acceptable differential treatment for people in different circumstances; and
- The test of sustainability requires that the retirement income policy structure be able to accommodate changes without requiring large, frequent changes or radical reform.

The Report Group did not put forward any one definitive option in the examples presented - the appropriate action needed to be decided once there had been an opportunity for the politicians and the public to discuss the options and sort through the difficult trade-offs required. For this reason, they suggested that these examples might be used to assist debate in multi-party talks and among the public. The surcharge demonstrated that, unless such measures had broad community support, policy reversal and public frustration could result.

(NZ Herald 2 Oct 1998)

In Conclusion…

The Task Forces in the 1990s made a contribution to the development of retirement income policy in New Zealand appropriate to the times. The 1992 Task Force was probably the first of its kind anywhere to undertake a comprehensive review of both public and private provision for retirement. The decade could perhaps be best remembered for the gradual elimination of politics from superannuation policy. The legacy of the nineties is to be seen in the public provision/voluntary retirement savings framework, the office of the Retirement Commissioner, the regulatory framework and the heightened awareness of the importance of private provision.

The work of the Task Force and the Report Group, and the Accord, are now part of New Zealand's retirement income history.