



BUSINESS SCHOOL

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Intergenerational impacts: the sustainability of New Zealand Superannuation

Commissioned report prepared for the Commission for Financial Capability's 2019 Review of Retirement Income policies:

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"An assessment of the impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current New Zealand superannuation settings."

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1. Introduction

In addition to the enlarged burden of pension costs, a further consequence of increasing longevity (and medical and technological advances) is that total healthcare expenditure in OECD countries has climbed faster than GDP, at an average annual rate of 2% over the past 50 years, and some estimates suggest that by 2040 total expenditure could grow by another 50-100% as the number of people living with Alzheimer's disease and other dementia is expected to almost double to 65 million by 2030, with 72% of cases in the developing world. (OECD, 2017a; World Economic Forum, 2013).

For many years there has been growing concern in OECD countries that an ageing population means rising pension and healthcare costs will put increasing pressure on governments' budgets. As the numbers of those aged over 85 years grow relative to the older age group (65 years+) the expenditure on the older 'old' will take a growing share. Some of that cost will be met privately but there will be fiscal implications and intergenerational tensions around whose needs should be prioritised.

An additional concern in OECD countries is that ageing inequality is increasing and with it, growing poverty issues especially for new retirees and women:

Growing disparities in labour market conditions will likely result in higher pensioner poverty in the future. Moreover, many countries have already lowered pension promises as a response to population ageing. Financing of pensions and long-term caring is likely to become more difficult. Therefore, the sustained and broadly shared improvement in the living standards of elderly people seen over past decades may not continue in the future. (OECD, 2017b, p. 20).

New Zealand has a younger demographic profile than many other OECD countries but faces similar tensions. The retirement income framework comprises a universal state pension, New Zealand Superannuation (NZS) at age 65, and an auto-enrolment private savings scheme, KiwiSaver. The amount spent on subsidising KiwiSaver attracts little attention as it is relatively small, however the cost to the Crown accounts of NZS is often viewed as 'unsustainable', or 'unaffordable' especially as the number over 65 swells relative to those of working age. The growing numbers of older persons and the ageing of the older population itself also portends a rapid growth in health and welfare expenditure both in absolute terms and relative to other state spending. After years of belief that elder poverty was a thing of the past in New Zealand, there is new evidence that for many low-income people, the state pension is no longer enough to live on.

Some might view increasing fiscal costs as an inevitable consequence of demographic change, but long-term projections suggest that something must give as the debt projections under current settings appear fiscally explosive (see Table 9, discussed in section 4). Some people are willing to let the inevitable adjustments just emerge over time, while others suggest the answer lies in proactive changes that might require some

kind of means testing or a rise in the age of access to NZS. Some put their faith in the growth of GDP to mitigate the 'burden', or in growing the sovereign fund, the New Zealand Superannuation Fund (NZSF).

This report first outlines the international context and the current parameters of NZS. Section 3 assesses how well pre-retirement and post retirement cohorts are doing and Section 4 examines issues of fiscal sustainability as the demographic picture changes over the next 40 years. If state resources are limited for whatever reason,³ there will be competition for the marginal dollar of state expenditure. Some spending on older wealthier New Zealanders may be viewed as "crowding out" other more desirable spending on younger less affluent people. If so, the question becomes how should the current and future costs of retirement income policies best be contained, or moderated, without further harming the retirement of those who are already struggling? The remainder of this report addresses these issues.

If it is decided that the 'affordability' of New Zealand Superannuation (NZS) should be improved, then there are three major policy responses:

- Raising the qualifying age for NZS,
- Lowering the level of the NZS, including changing the indexation of NZS
- Increasing the degree to which NZS is targeted.

These are examined for their potential in sections 5-7. In section 8, other changes to save costs, such as increasing residency requirements for NZS; making KiwiSaver compulsory; growing GDP, raising taxes, prefunding NZS are also briefly discussed. The potential for cost saving around long term care is discussed in St John & Dale (2019).

The Government's Terms of Reference for the 2019 Review reflect the Government's interest that policies work to enhance outcomes for disadvantaged groups and begin by requiring:

An assessment of the effectiveness of current retirement policies for financially vulnerable and low-income groups, and recommendations for any policies that could improve their retirement outcomes. (Hon Kris Faafoi, 2019)

This explicit requirement echoes the international concern that societies are increasingly ageing unequally.

"Ageing unequally" refers to inequality that develops throughout the life course and materialises in old age. It is often the result of specific episodes during people's lives that tend to cumulate their detrimental effects on health and income at old age. Ageing unequally is not a new phenomenon, but while the current generation of older people is experiencing higher incomes and lower poverty risks than previous ones in most countries, the younger generations are likely to face again higher inequality in old age. They are expected to live longer, but have been

³ These may be self-imposed, with restrictive fiscal rules for example, or the perceived difficulties of raising taxes equitably.

experiencing more unstable labour market conditions, and widening inequalities in the distribution of earnings and household income. This contributes to widening inequality in old age, while socio-economic disparities in health status remain large. (OECD, 2017b, p. 15).

Mindful of this lens, this report examines the main policy tools for their potential to contribute to fiscal sustainability, and to improve perceptions of intergenerational equity and retirement outcomes for low income retirees.

2. New Zealand Superannuation – an overview

Figure 1 shows the spending on public pensions as a proportion of GDP for OECD countries and suggests that NZ spends a modest amount compared to many demographically older European countries. The New Zealand Treasury projections discussed in section 4 show that the gross cost of NZS is expected to reach only 7.9% of GDP by 2060, well below the percentage already spent by a large number of countries today. Comparative figures in Figure 1 also overstate expenditure on the public pension in New Zealand because the state pension is paid gross but is fully taxable as income for all recipients.

Other countries design and manage public pensions very differently to New Zealand. Among developed countries, New Zealand has taken a unique approach that puts universal non-contributory, flat rate NZS at the centre. In pensions jargon, NZS is a tier one (or pillar one) scheme. Other countries place less reliance on the basic tier one pension, and more on tier two, compulsory, contributory state pensions. These social insurance schemes are usually financed by contributions from both employers and employees.

Compulsory social security contributions are, like taxes in New Zealand's case, used to pay for the existing retirees' pensions on a Pay-As-You-Go (PAYGO) basis. Because these social insurance schemes are mandatory, managed by the state, and contributions resemble taxes, expenditure from them is classified as "public".

PAYGO schemes do not have a fund that accumulates contributions like a private savings fund. Current contributions are used to make current payments.

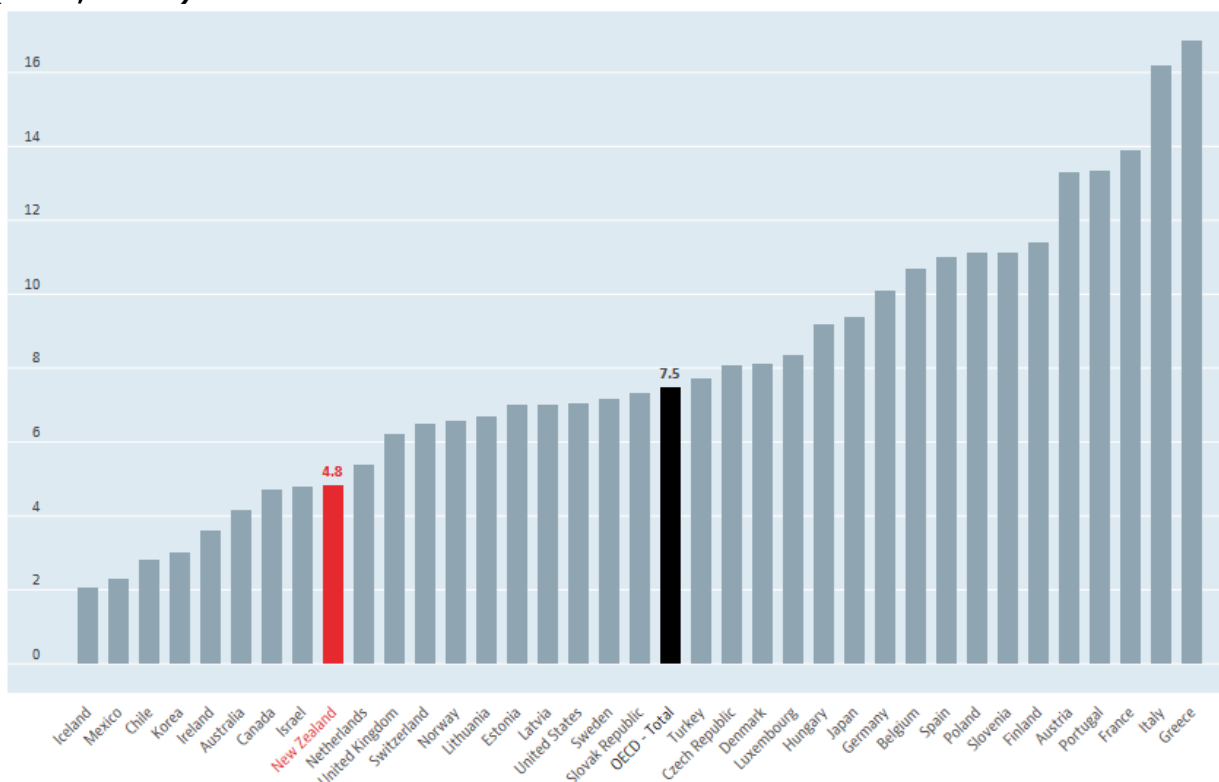
Another hidden form of state spending on retirement incomes comes from tax relief and subsidies to private retirement income provision. These tax-subsidised savings schemes may be also mandated by the government, but as they are managed by the private sector, they are not classified as public schemes. In Australia for example, the second tier compulsory savings scheme called the Superannuation Guarantee (SG) requires a 9.5% contribution from the employer, set to rise to 10% in 2021. The SG is 'tax-effective' because it has lower (concessional) tax rates for fund contributions and earnings, and tax-free withdrawals at the prescribed age of access.

Many countries encourage private saving for retirement, whether mandatory or voluntary, to a much greater extent than does New Zealand.

The cost of these fiscal incentives is measured in many OECD countries using the concept of "tax expenditures", developed in the 1960s. This attempts to quantify the value of the preferential tax treatment relative to a benchmark tax treatment. The idea is that this is the amount the government would have to provide as a subsidy (a direct expenditure) to achieve the same effect. Data on tax expenditures for retirement savings are available for 21 OECD countries. Over two-thirds of these figures are 0.2% of GDP or less. And in only four countries –Australia, Canada, Germany and the United Kingdom – are reported tax expenditures worth 1% of GDP or more. (OECD, 2017a, p. 144)

Ireland, Australia and Canada look like they spend less on pensions than New Zealand (Figure 1), but their tax expenditures on private retirement saving are 0.9%, 1.9%, and 2% of GDP respectively. In contrast, the tax subsidisation of private provision in New Zealand is limited to a small tax credit for KiwiSaver costing around 0.3% of GDP.⁴

Figure 1. Public spending on pensions as % of GDP, 2017, or latest available (OECD, 2017a)



As noted, the taxation of state pensions also makes a difference, with New Zealand levying more tax than most other countries. For example, the Age Pension in Australia is not taxed. In 2018/19, Treasury figures show the gross cost of NZS of 4.9% is only 4.1% of GDP in net terms, making it similar to Australia in Figure 1.⁵

⁴ With the home start subsidy, KiwiSaver related subsidies for 2019 are forecast to be \$957 million. As different countries measure tax expenditures differently, the OECD (2017) cautions against simply comparing the percentages.

⁵ Treasury estimates based on the New Zealand Superannuation Contribution Rate Model, BEFU 2019 New Zealand Treasury. <https://treasury.govt.nz/publications/information-release/new-zealand-superannuation-fund-contribution-rate-model-2019>.

Given different countries have very different approaches it is hard to draw conclusions from the data in Figure 1. Typically, in OECD countries, social insurance programmes pay earnings-related pensions that reward a person's contributions history, while the basic state or tier one pension is limited and often means-tested. In the US for example, some protections for low paid people are built into the formula for social security pensions, but those who fall through the cracks are assisted with means-tested social assistance, supplementary or welfare payments.

The coverage under public pensions is also very different. In Australia there is a strict means test on the age pension, around 20% of retirees do not get any (see section 7). In Ireland, many women fail to access a full state pension, because it is based on having a full-contributions record in the paid workforce. Some require means-tested top-ups to survive, others are dependent on their spouses (St John, 2018a). New Zealand is at the other extreme: paying the same gross pension (adjusted for marital status and living arrangements) to everyone who qualifies on residency grounds alone.⁶

The different approaches taken also result in differing outcomes for those on different multiples of the average wage when working. Pensions based on contributions inevitably deliver higher pensions to higher income people. New Zealand pays a flat gross rate but delivers less net state pension to higher income people because it is taxable under the (slightly) progressive tax structure. Consequently, NZS delivers a high replacement rate⁷ for low income people, but, compared to countries with mandatory savings schemes and contributory social insurance programmes, a much lower replacement rate for high income retirees (OECD, 2017a, pp. 101-103).

Parameters of New Zealand Superannuation

Table 1 shows the three different 2019 NZS rates and the amounts retained after tax by individuals who are taxed at the lowest tax rate, and those taxed at the top rate. Tables 2 and 3 provide detailed statistics and the five-year rate of change.

NZS is both price and wage-linked. The net married couple rate after tax at the primary income rates adjusted annually by changes in the Consumer Price Index (CPI) providing it is within a band of 66% and 72.5% of the net average wage. Since the floor of 66% was reached in 2000 (McTaggart, 2005) it has in effect been indexed to wages.

⁶ With the exception of those who have a state pension from another country (St John and Dale 2016).

⁷ There are various ways to calculate replacement rates, all are for fulltime workers at the average wage. Table 4.2 (OECD 2017a) includes mandatory pensions, public and private; Table 4.3 also includes voluntary pension schemes.

Eligibility requires that 10 years residency is met with 5 after the age of 50. When a superannuitant has lived in another country and has a pension that is classified as an overseas state pension, deductions will apply (see Dale & St John, 2016).

If admitted to residential care and the pensioner has few assets and income, the pension helps pay the costs with a small allowance retained for personal spending. The details of these arrangements are set out in St John & Dale (2019).

The net sharing and living alone rates are set as:

- 60% of the net married couple rate for single people sharing accommodation
- 65% of the net married couple rate for single people who are living alone.

Table 1: New Zealand Superannuation (NZS) and Jobseeker Support rates in NZ\$ at 1 April 2019⁸

Category	% Net average wage	Annual rate Gross	Annual Net Primary Tax	Annual Net 33% Tax
NZS Single, living alone	43%	\$24,722	\$21,380	\$16,564
NZS Single, sharing	40%	\$22,731	\$19,735	\$15,223
NZS Married person or partner in civil union or de facto relationship (each)	33%	\$18,742	\$16,446	\$12,557
Jobseeker Single, 25+ years	23%	\$12,723	\$11,387	
Jobseeker Married, civil union or de facto couple (without children, each)	19%	\$10,602	\$9,488	
Supported living payment single 18+	29%	\$16,063	\$14,232	
Supported living payment (married couple each)	24%	\$13,251	\$11,860	

Table 1 also shows how net welfare benefits as a proportion of the net average wage compare to NZS. As discussed in section 3, over time, a large gap has opened between net benefits of various kinds and net NZS because welfare benefits are not wage indexed.

Table 1 shows that the net NZS varies depending on the tax rate paid. New Zealand has a fairly flat tax structure with the lowest income single living alone paying a 13.5% average tax rate. High income superannuitants pay 33%. The highest income single living alone superannuitant receives 77.5% of the net pension paid to the lowest income single living alone superannuitant.

Thus, tax is mildly progressive and provides a modest degree of claw-back even though the pension is universal. For 13 years (1985-1998) an additional surcharge to 'other income' applied in effect removing the advantage of getting NZS from high income people

⁸ See Work and Income website: <http://www.workandincome.govt.nz/>.

(St John, 2018c). Since the abolition of the surcharge over 20 years ago, the only claw back is through the progressivity of the tax scale. From 2000 the top tax rate was raised to 39% but by 1 October 2010 it had been again reduced to 33%.

Table 2. NZS and veterans pensions as at Mar 2019 (source MSD, 2019)⁹

Recipient characteristic	New Zealand Superannuation		Veteran's Pension	
	Number	%	Number	%
Gender				
Male	359,396	46.4	3,493	49.1
Female	415,255	53.6	3,615	50.9
Age Group				
Under 60 years	3,783	0.5	39	0.5
60-64 years	11,065	1.4	58	0.8
65-69 years	235,399	30.4	502	7.1
70-74 years	207,272	26.8	1,230	17.3
75-79 years	144,907	18.7	1,228	17.3
80-84 years	89,922	11.6	1,059	14.9
85-89 years	53,626	6.9	1,055	14.8
90 years and over	28,677	3.7	1,937	27.3
Ethnic Group				
NZ European	480,771	62.1	3,892	54.8
Māori	43,498	5.6	741	10.4
Pacific peoples	19,813	2.6	41	0.6
All other ethnicities	122,992	15.9	413	5.8
Unspecified	107,577	13.9	2,021	28.4
Receipt of additional support				
Accommodation Supplement	41,630	5.4	315	4.4
Disability Allowance	127,746	16.5	1,974	27.8
Temporary Additional Support/Special Benefit	6,579	0.8	S	S
Total recipients	774,651	100.0	7,108	100.0

1. Couple includes clients who are married, living as married or in a civil union.

Tables 2 and 3 show that there are around 15,000 under-age recipients, generally spouses of superannuitants included in a special Non-Qualifying Partner means-tested rate of NZS. From 2020, this category will not be available to new retirees (Cabinet Social Wellbeing Committee, 2019; The Treasury, 2019).¹⁰ It is not further discussed in this paper.

In Table 3, the Veteran's pension has been added to the NZS figures as for purposes of this report they are equivalent. Table 3 shows the increase in the total numbers over the five-year period to 2019.

⁹ See <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/archive-2019.html>.

¹⁰ Saving a cumulative \$139.9 million by 2023, and \$103.5 million per annum thereafter.

Table 3. Five-year increases NZS plus Vet pension (MSD 2019)

Recipient characteristic	Mar-14	Mar-19	5 yr % change
Gender			
Male	299,600	362,889	21%
Female	355,397	418,870	18%
Age Group			
Under 60 years	3,676	3,822	4%
60-64 years	10,281	11,123	8%
65-69 years	212,469	235,901	11%
70-74 years	160,938	208,502	30%
75-79 years	111,153	146,135	31%
80-84 years	80,802	90,981	13%
85-89 years	50,150	54,681	9%
90 years and over	25,528	30,614	20%
Ethnic Group			
NZ European	395,253	484,663	23%
Māori	32,360	44,239	37%
Pacific peoples	14,960	19,854	33%
All other ethnicities	86,216	123,405	43%
Unspecified	126,208	109,598	-13%
Receipt of additional support			
Accommodation Supplement	33,221	41,945	26%
Disability Allowance	129,287	129,720	0%
Temporary Additional Support/Special Benefit	3,775	6,579	74%
Total NZS+ Vet pensions	654,997	781,759	19%

Of interest is the rapidly changing ethnic mix. NZ European have increased marginally to be 62% of all recipients by 2019, likely due to improved longevity in this group. However, NZ European numbers have grown more slowly (23%) than for Maori and Pasifika and all other ethnicities (overall 40.4%). The non-specified ethnicity group has fallen by 13%.

Table 4 shows the numbers receiving different rates of NZS. Approximately 62% are married, 13% are single sharing and 25% live alone. Gross superannuation for 2018/19 was \$14.562 billion, of which approximately \$9 billion was paid to married persons, \$2 billion to single sharing and \$3.5 billion to superannuitants living alone.

Table 4. Characteristics of NZS and Vet pensions as at March 2019

(Ministry of Social Development, 2019) Rate type	NZS + Vet pension			Share %
	Female	Male	total	
Individuals in a married, civil union, or de facto couple where each qualifies for NZS/VP	208,608	261,564	470,172	60.14
Single sharing accommodation	68,336	35,278	103,614	13.25
Single living alone	130,434	64,278	194,712	24.91
Single	13	17	30	0.00
Non-qualified partner	11,479	1,752	13,231	1.69
Total	418,870	362,889	781,759	100

3. Pre-retirement and post retirement cohorts

Labour force participation of older people

Older people of working age in New Zealand have a high labour force participation rate (LFPR) as shown in Table 5, and to date a low unemployment rate. Even by the age 60-64 years, nearly 72% are still in the labour force (meaning employed for 1 or more hours per week). As at March 2019, the LFPR of people aged 65+ is 23.7% with 170,100 still in paid employment.

Table 5. Labour market statistics for older workers: Quarterly Employment Survey March 2019

Labour force			Not in labour force	Working-age population (2)(3)	Labour force participation rate	Employment rate	Unemployment rate
Employed	Unemployed	Total					
(000)			(%)				
50-54 years							
267.0	9.0	275.9	36.0	311.9	88.5	85.6	3.3
55-59 years							
254.3	6.7	261.1	53.3	314.3	83.1	80.9	2.6
60-64 years							
197.9	5.0	202.9	72.6	275.6	73.6	71.8	2.5
65 years and over							
170.1	2.1	172.2	553.7	725.9	23.7	23.4	1.2

Of those still in the labour market at 65+, most are under 75 years of age. Table 6, based on census 2013 data¹¹ shows that one third of women and nearly one half of men aged 65-69 are in the labour force. By ages 70-74 this drops to 15.5% of women and 27% of men, with relatively very few over age 75 still in the labour force.

Table 6. Labour force participation (LFP) aged 65+ by age group using 2013 census data (Littlewood, 2014, Table 3)

Age group	LFP			
	Males LFPR %	Males number	Females LFPR %	Females number
65-69	48.10	45,972	33.20	33,330
70-74	27.00	19,467	15.50	12,090
75-79	14.70	7,293	6.70	3,846
80-84	8.40	3,000	3.80	1,707
85-89	5.80	1,512	2.70	1,281
90+	n.a.	n.a.	n.a.	n.a.

Participation in paid work by older persons in New Zealand is high. The LFPR for those aged over 65-69 is second only to Iceland in the OECD (OECD, 2017a, p. 125). Compared

¹¹ 2018 census data is not yet available.

to Australia, our nearest neighbour, Table 7 shows that the LFPR of New Zealanders aged 55 and over, have been significantly higher.

Table 7. Older workers Labour Force Participation Rate: (ILO statistics base)¹²

		LFPR		LFPR		Percentage points difference	
		Australia		NZ		NZ v Australia	
Age band		2018	2030	2018	2030	2018	2030
total	55-64	66.7	71.4	80.8	84.5	14.1	13.1
	65+	13.2	15.7	24.4	27.4	11.2	11.7
male	55-64	73	76.4	87.1	89.1	14.1	12.7
	65+	17.2	19.8	31.5	34.7	14.3	14.9
female	55-64	60.6	66.6	75	80.3	14.4	13.7
	65+	9.7	12	18.2	21	8.5	9

The LFPR of all those aged 65+ (24.4%) is nearly twice that of Australia (13.2%). For females the LFPR in the pre-retirement age 55-64 is 14.4 percentage points higher in New Zealand. By age 65+ New Zealand women are nearly twice as likely to be still in the labour force. In part this reflects lower disincentives to be in paid work in New Zealand once pension-qualifying age is reached.¹³

The International Labour Organisation (ILO) projections in Table 7 show that in both countries the LFPR is expected to increase at all ages 55+ by 2030. Such projections are to some extent speculative: the 'future of work' is likely to be very different than work today and gains in LFPRs are likely to slow as the proportion of younger retirees falls relative to all aged 65+.

Nevertheless, older citizens are clearly making significant contributions to the paid workforce. The latest projections are summarised by the Ministry of Social Development (2019):

The proportion of the population aged 65 and over in the labour force is expected to rise from the current rate of 23.7 percent¹⁴ to reach up to 26 percent by 2036.¹⁵ The labour force aged 65 years and over increased from 23,000 in March 1991 to 57,900 in March 2006 and to 146,000 in 2016. It was 172,200 in March 2019¹⁶ and is projected to reach 311,000 by 2038. This means that around 8 percent of our total labour force will be aged 65 and over by 2023 (up from 7 percent in 2019), and 10 percent by 2038.¹⁷

¹² See International Labour Organisation (ILO) <https://ilostat.ilo.org/>.

¹³ The LFPR for the 65+ group in Australia will increase as the age for the age pension increases.

¹⁴ Household Labour Force Survey: March 2019 quarter. Statistics New Zealand, Wellington, May 2019.

¹⁵ National Labour Force Projections: 2017 (base) – 2068, Statistics New Zealand, Wellington, December 2017.

¹⁶ Household Labour Force Survey, Statistics New Zealand, Wellington, extracted from Infoshare 31 July 2019.

¹⁷ National Labour Force Projections: 2017 (base) – 2068, Statistics New Zealand, Wellington, December 2017.

Even so, many do not work full-time. Of the 100,200 aged 65+ earning wages and salaries in 2018, 46,200 are female and 54,000 are male. Only 50% percent of women work full-time, compared to 62% of men. Approximately, 60,000 of those over 65 have self-employment income.¹⁸

A Commission for Financial Capability survey (2016, p. 5) with 2,989 respondents revealed the main reason 54% of the 65+ group in paid work remain in the workforce is financial necessity, while a minority (36%) work mainly for satisfaction and value. It might be surmised that this latter group are largely white-collar professional people, although some lower paid persons may also derive social contact and/or mental health benefits from work.

The impact of retirement on physical health is an important focus of ageing. Research findings using longitudinal data from the New Zealand Health, Work and Retirement Study (Szabó, Allen, Stephens, & Alpass, 2019), examining physical functioning 8 years pre- and post-retirement indicate that retirement can be beneficial for those with poor health and limited resources. Unsurprisingly, for the wealthy and healthy, retirement does not necessarily advantage health. Importantly, the researchers confirmed that NZS may partly address inequalities experienced by older persons in poor health and socio-economic circumstances prior to retirement, meaning their circumstances improved post-retirement. These findings suggest there are advantages in maintaining the current policy regime around provision of NZS.

There is also a downside to the increase in numbers of older workers participating in the workforce. While the oldest workers (75+) had the lowest number of accident compensation claims in 2017 consistent with the demographic structure of the working population, they had the highest claim rate of all age groups at 190 claims per 1,000 FTEs. This group also had the highest incidence rate for more serious claims, at 66 claims per 1,000 FTEs, compared with 14 claims per 1,000 FTEs for the total population.¹⁹

Low income, pre-retirement group

In New Zealand, older working age people (45-64 years) who are living on their own have the second highest rate of income poverty after sole parents: doubled from 10% in 1988 to 23% in the early 2000s, and currently at 29% (McKenzie, 2019). Evidence suggests while the depth of poverty is largest among beneficiaries and their children, (Perry, 2019 forthcoming, p. 64),²⁰ there is significant poverty and hardship among the older low-income working age population.

¹⁸ Statistics New Zealand info data, accessed July 2019.

¹⁹ See <https://www.stats.govt.nz/information-releases/injury-statistics-work-related-claims-2017>.

²⁰ *Sole-parent households with dependent children have the highest low-income rates of all household types of around 45%, compared with a population rate of 15%. Using the 60% AHC REL measure, the rates are around 60% compared with 21% respectively.* (Perry, 2019 forthcoming, p. 142)

Of those aged 50-64 years, while 714,400 are employed in paid work (NZ Stats 2019), around 120,600 receive a welfare benefit with more than half of these on the benefit for over 5 years, and with two thirds of this group on a benefit for reasons of health disability (McKenzie, 2019). A further number had an ACC payment including 14,440 on earnings related compensation for an average of 117 days²¹, and 14,130 people aged 50 to 64, not receiving a main social security benefit (ie low income workers) were receiving one or more weekly supplementary benefits (McKenzie, 2019).

These figures provide a snap-shot at a point in time, but the probability of a person needing benefit, ACC or supplementary assistance between the ages of 50 and 65 is much higher. In later working age, periods of unemployment, redundancy, ill health or caregiving duties may impact severely on the ability to prepare financially for retirement.

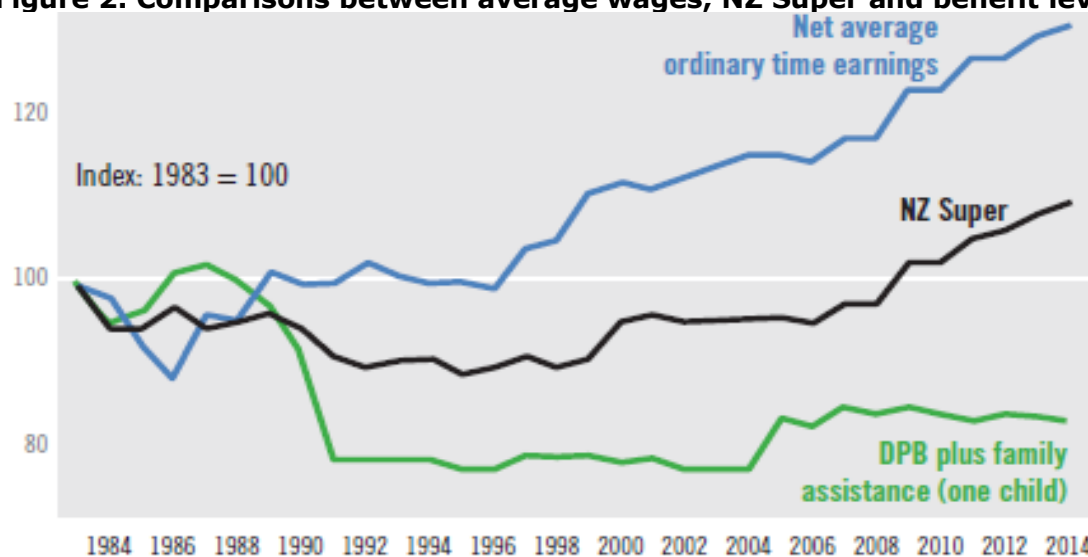
Welfare benefits are widely perceived as inadequate as outlined in the Welfare Expert Advisory Group report *Whakamana Tangata*, (2019). The net single 25+ Jobseeker rate is barely over 50% of NZS for a single recipient taxed at the primary rate living alone (Table 1). Even if NZS is taxed at the top tax rate, perhaps because the superannuitant works full-time, the net NZS is still 45% more than the net Jobseeker Support benefit rate paid to an unemployed adult. The inadequacy of benefits and other assistance²² means that many people on benefits accumulate private debt, and/or have debts to public agencies. For example, as at June 2018, the Ministry of Social Development (MSD) was owed \$557.8 million as recoverable hardship assistance, and a further \$768.7 million by clients who had received money from MSD to which they were not entitled (Welfare Expert Advisory Group, 2019, p. 85). Of such debts, at the end of December 2018, over 56,000 current beneficiaries aged 50 to 64 years owed the MSD a total of \$182 million (McKenzie, 2019).

Using the DPB, sole parent benefit (now called sole parent support) to illustrate the general case for benefits, Figure 2 shows the gap between welfare benefits and NZS has grown despite the occasional one-off boosts to welfare. NZS has been linked to average wages, which have risen markedly, while benefits are linked to CPI prices only. While the indexation for benefits will change to wage indexation from April 2020 and prevent the gap from widening further, it will not close that gap.

²¹ In 2016, 216,000 people aged 50 and over had one or more ACC claims for a fall-related injury accepted. Data are not presented on the type of injury resulting from the fall, which may range from a simple bruise through to a head injury. See <https://www.hqsc.govt.nz/our-programmes/health-quality-evaluation/projects/atlas-of-healthcare-variation/falls/>. Earnings related compensation data is from 2019 OIA

²² As detailed in the WEAG report, pp. 96 – 98.

Figure 2. Comparisons between average wages, NZ Super and benefit levels²³



Those on benefits also face a stringent income test whose parameters have not been changed since the 1980s. Earned amounts over \$80-100 per week are treated punitively. In contrast there is no disincentive for those aged 65+ to earn over and above NZS.

Declining rates of home ownership

As well as providing security of tenure, home ownership avoids escalation in rent costs. Table 8 shows that all ages, except those over 80, experienced declining rates of home ownership between 2001 and 2013 on census figures (2018 data not available).

Table 8. Home ownership rates (Census data, Mckenzie, 2019)

Age Group	2001	2006	2013
25-29	26.4	22.9	18.4
30-34	47.7	43.6	36.0
35-39	61.0	56.6	49.6
40-44	69.1	64.8	57.9
45-49	74.3	70.5	63.8
50-54	77.9	74.8	68.4
55-59	79.3	78.0	74.9
60-64	79.3	79.1	74.9
65-69	80.2	79.3	77.3
70-74	80.6	79.5	77.5
75-79	78.7	78.4	75.9
80-84	72.6	74.5	73.1
85+	55.4	59.0	60.4

²³ Adapted from Perry (2014) Ministry of Social Development, page 82, Figure C.8A.

While there are measurement issues that reduce the usefulness of data on home ownership,²⁴ the decline in home ownership in the pre-retirement age groups 50-64 appears significant and shows the problem is not just younger people delaying home purchases. This lower owner occupancy can be expected to feed into lower rates of home ownership for those over 65 in the years to come. When available, Census 2018 data will likely show a further decline in home ownership in those approaching retirement.

Changing nature of work

In addition to housing problems, the rapidly changing nature of work may make employment at older ages more difficult with more calls on welfare support. The Welfare Expert Advisory Group report²⁵ (2019, p. 130) warns of the coming disruptions:

The welfare system needs to respond to employment changes brought on by the growing use of robotics in manufacturing and digital technologies (the 'fourth Industrial Revolution'), the gig-economy, and New Zealand's transition to a low-carbon economy. The magnitude of these changes cannot be predicted with confidence, but major job losses and considerable structural change in the labour market are virtually certain.

Research by Hyslop and Townsend (2017, p. 26) confirms that people displaced from work generally re-attach to the labour market, but they have poorer long-term outcomes than those who have not lost their jobs. This highlights the importance of the systems in place to re-attach people to the labour market and ensure that their skills remain relevant to employers: "job-displacement has substantial long-term effects on workers labour market outcomes and income support".

In a changing labour market of more casualised work, higher redundancy, youth unemployment, the welfare system and retraining and support provisions appear seriously lacking. In this environment many older workers are likely to struggle to obtain sufficient income from work and have more periods between paid employment which will affect their ability to maintain assets let alone save for their retirement. They may be less likely to get retrained than younger people. It is very likely that hardship amongst older working age people will rise in the future:

Support for displaced workers is particularly weak. Compared with OECD best practice, New Zealand has an inadequate system of dealing with job loss, redundancies and labour market shocks (OECD, 2017). Redundancy pay is not required by law, the stand-down provisions between work and benefit entitlement see many workers and families plunged into poverty. (Welfare Expert Advisory Group, 2019, p. 46)

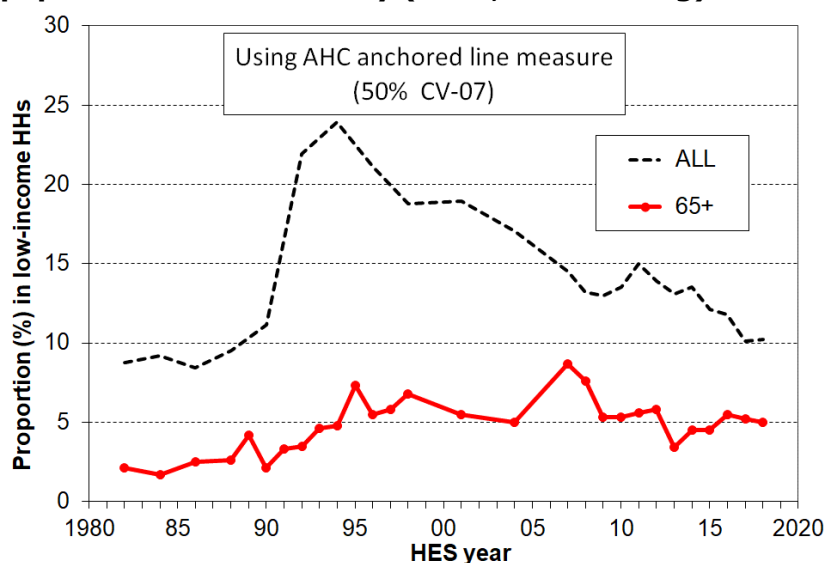
²⁴ See, Chamberlain and Littlewood (2019).

²⁵ Also see <http://weag.govt.nz/assets/documents/WEAG-report/background-documents/29c1cc3696/Employment-and-Labour-market-010419.pdf>.

How well are those over 65+ doing?

As a basic income, provided on residency grounds, not on contributions or work periods, along with high rates of mortgage-free home ownership, NZS appears to have been outstandingly successful to date in preventing poverty among most of those over 65. Compared to the rest of the population, their fixed line income-based after housing cost poverty rates have been very low (Figure 3a). Similarly, hardship rates based on non-income measures are also low, 3% compared with 13% for children and 8% overall (Perry, 2019 forthcoming).

Figure 3a. Poverty rates after housing costs for older people compared to general population. Source: Perry (2019, forthcoming)



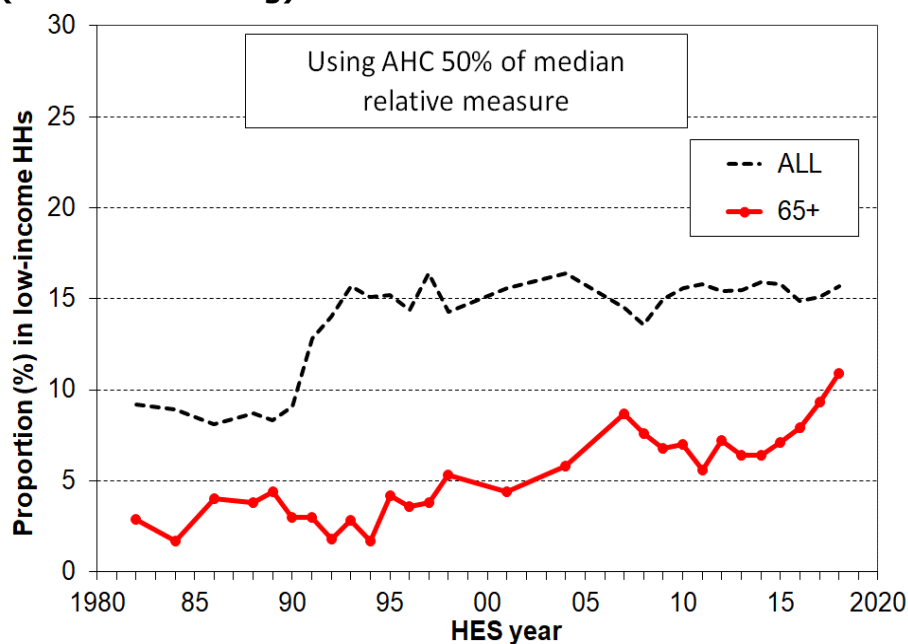
International comparisons of income poverty rates can be misleading. On the 60% before housing costs (BHC) measure NZ appears to have high rates of poverty (around 33%), yet on the BHC 50% measure the NZ rates are very low (4-5%).²⁶ This difference arises because of the high number of older New Zealanders whose income is NZS and little or no more, and the value of the NZS being not far above the 50% BHC threshold in the last 15 years. Material hardship measures provide more realistic international comparisons. Using the EU's official hardship measure, the rate for 65+ New Zealanders was 3% in 2017, which ranks NZ in the top five EU nations along with Norway, Sweden and Denmark (Perry, 2018, p. 48).

Nevertheless, in the last five years relative living standards have slipped. While NZS (married rate) has been kept at 66% of net wages, with the rise of more two-earner families, NZS has fallen relative to median household incomes (Perry, 2019 forthcoming, figure 1.3). Figure 3b shows the steady increase in poverty as measured by the 50% AHC

²⁶ These figures are based on the EU's approach, using the modified OECD equivalence scale. See Perry (2018, p. 173 for more detail).

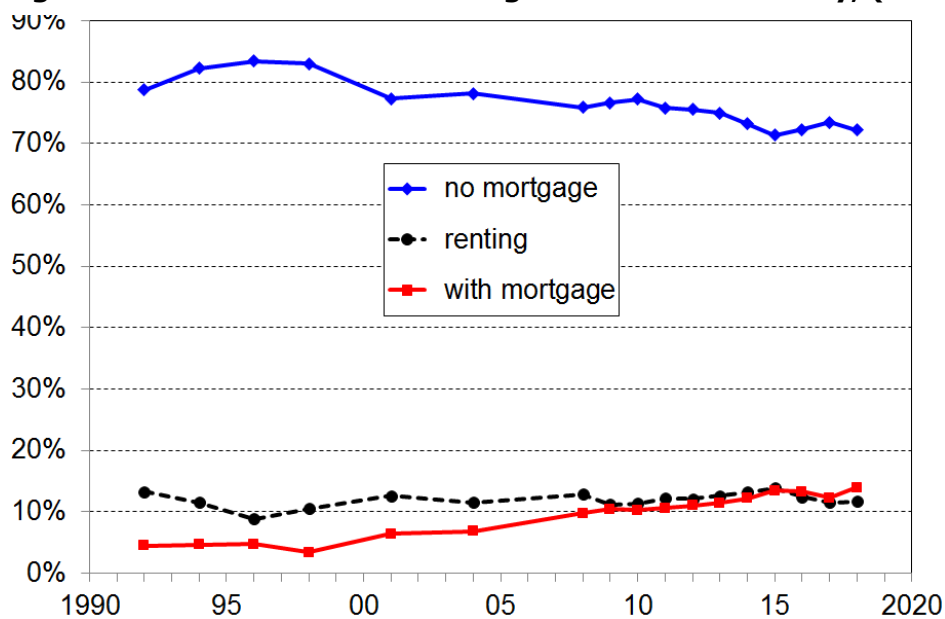
contemporary poverty line. This corroborates the suspicion that many more retirees are affected by rising rents as home ownership falls.

Figure 3b Poverty rates using a 50% contemporary line measure. Source: Perry (2019 forthcoming)



The benign poverty picture that was shown in Figure 3a may change as less well-prepared cohorts enter retirement. As shown in Table 8, the rates of home ownership among late working age people is dropping (see). Fewer people will reach 65 with a mortgage-free home and many face high weekly rental costs as the New Zealand property market soars. Figure 4 charts significant changes in tenure for those over 65, showing a drop in those with no mortgage and a rise in numbers with a mortgage.

Figure 4. Tenure for individuals aged 65+. Source: Perry, (2019 forthcoming)



Towards the end of the second decade of the 21st century an increasing number of superannuitants require additional support in the form of the Accommodation Supplement (AS).²⁷ The numbers of those over 65 accessing the AS has increased from under 4% in the early 2000s to 5.4% in 2019 or 42,000 people (see Table 3). An additional 14,241 people aged 65 or over in public housing receive the Income-Related Rent Subsidy that means they pay no more than 25% of their income in rent (McKenzie, 2019).

Other supports available to NZS recipients are: Disability Allowance , Temporary Additional Support (see Table 2 and 3 above) and hardship grants which are primarily for food. Evidence from the NGO sector also points to a growing poverty problem in the older age groups despite the extra MSD support. Budgeting services and foodbanks report increased demand for food parcels for this age group. Darryl Evans, CEO of a major South Auckland budgeting centre reports that from a client base of 1,300 over age 65, 29% need assistance with food costs.²⁸ Others may be accessing low- or no-interest loans from microfinance providers,²⁹ or borrowing from less benign providers of credit.

It is fair to say that the people who actually ask for food parcels are the tip of the 'need' iceberg. The Auckland City Mission data³⁰ (Figures 5) shows a worrying trend of increased monthly demand for food parcels by the group aged over 60.³¹

Figure 5. Number of food parcels requests persons aged 60+ (Auckland City Mission)

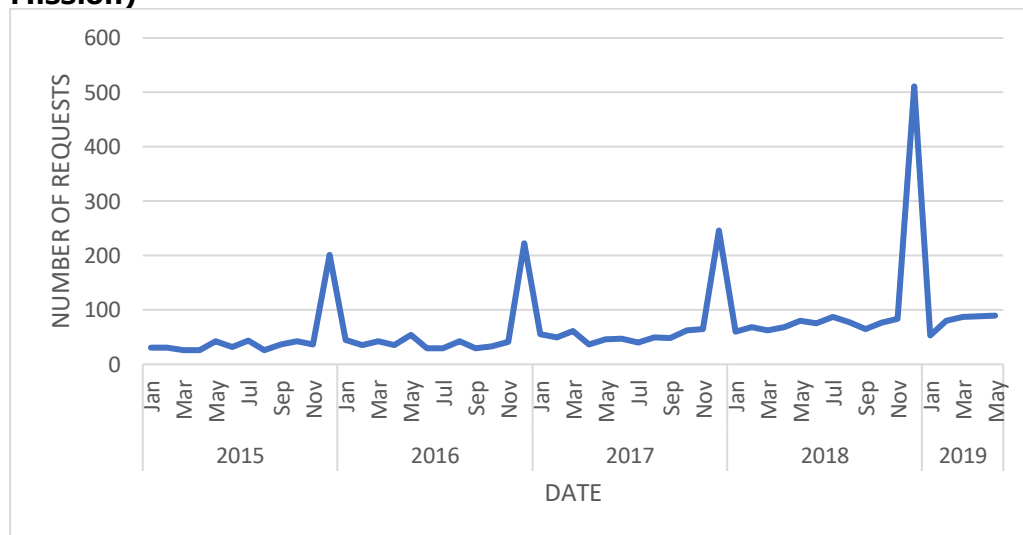


Figure 6 analyses this food need indicator by age bracket. While the absolute demand is unadjusted for the numbers in the respective age categories, 92% of the food parcels

²⁷ The Accommodation Supplement is an asset and income-tested top-up assistance payment for rent or home ownership costs such as mortgages.

²⁸ Personal communication.

²⁹ In 2018, of 130 applicants to Nga Tangata Microfinance for debt relief loans, 10 were aged 65+.

³⁰ Personal communication Helen Robinson, GM Auckland City Mission.

³¹ Data covers hubs in Papakura, Mangere & Manurewa as well as central Auckland (ACM June 2019).

requested by those over 60 are for those between 60 and 75 years of age. The picture is suggestive of a growing hardship picture among people in that age group.³²

While Christmas is the peak time for food insecurity, Figure 6 shows that all months for those aged 60-75 have seen a significant increase. The figures for 2019 are continuing this trend. Figure 7 may indicate that women are more likely to be in food poverty than men aged over 60. It may also indicate that women are more likely to seek outside help.

Figure 6. Number of food parcel requests from persons 60+ by age. (Auckland City Mission)

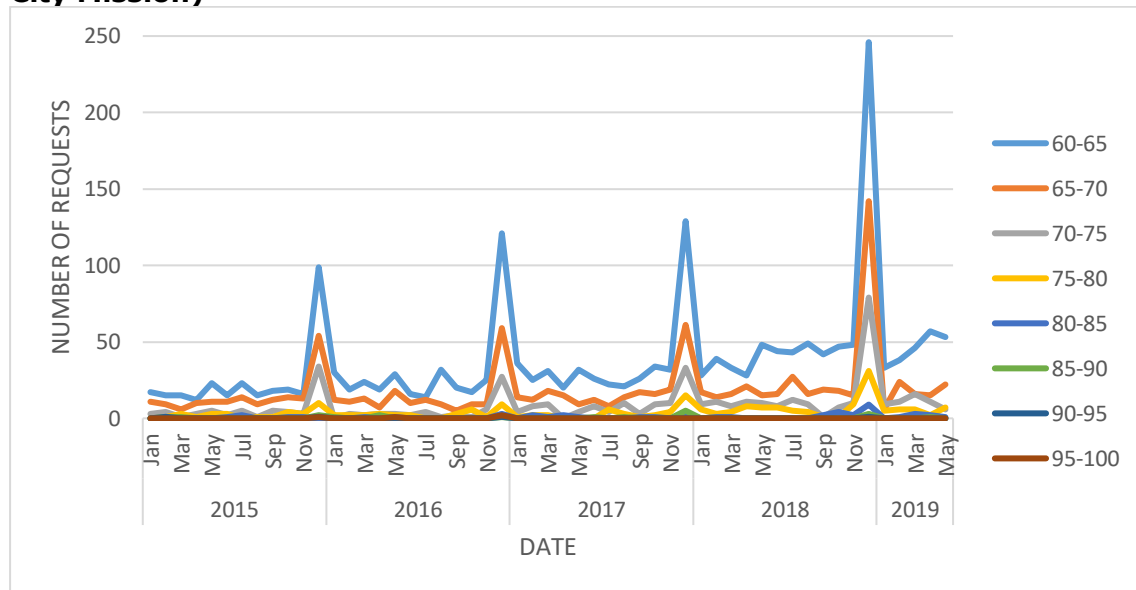
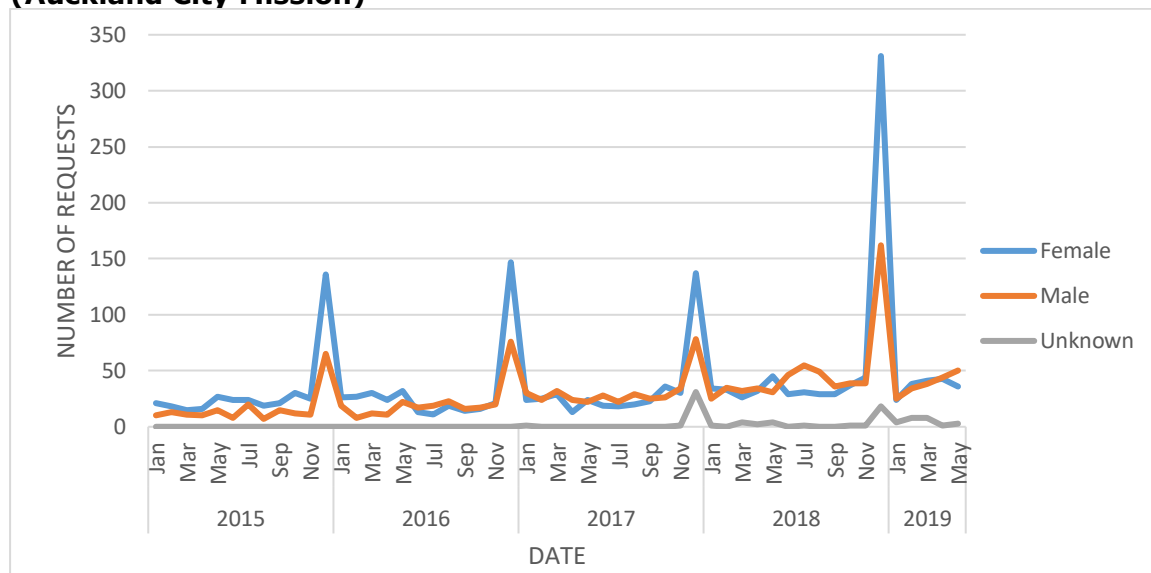


Figure 7. Number of food parcel requests from persons 60+ by gender (Auckland City Mission)



³² In the 2018 ANZ Financial Wellbeing Survey of around 828,000 people in New Zealand, only 23% had no real financial worries (Prendergast, Blackmore, Kempson, Russell, & Kutin, 2018, p. 5).

Further research is needed to see if the increased demand for food from those aged over 60 are corroborated by City Missions in other parts of New Zealand. While the Wellington City mission has not observed higher demand for food parcels for those over 60, they report a steady increase in other support required for this age group (60+) over the last two financial years 2017- 2019. They note there are considerably more males than females over 65 years that are provided with both food and other support.

While the decline of homeownership, and the rise in rental costs is a major explanation for food insecurity, some new retirees may have been independently affected by the experience of the Global Financial Crisis (GFC), the casualisation of work, divorce, ill health, or some combination of these. Causation however is likely to be both ways. For example, poorer health can lead to poorer housing as well as poorer housing leading to poorer health. After three consecutive, annual, nationally representative New Zealand Health Surveys that compared owner-occupiers, private renters and public renters, Pledger, McDonald, Dunn, Cumming, & Saville-Smith (2019) concluded that rental tenure is associated with poorer health.³³

Rising numbers of older renters, who are often living alone, on low incomes and in poorer health than owner-occupiers, will have important implications for future health and housing policy. Much of this policy is currently premised on high rates of home ownership and changing patterns of tenure will need to be considered and adapted to. There are also implications for services in terms of the future demand for care, in helping deliver policies that support people to remain healthy and in their homes for longer, and in ensuring that the diverse health, care and support needs of older people living in their homes are met. (Pledger, et al., 2019, p. 188)

Summary

Already there are signs of financial stress among some of the 65+ group. As measures to improve fiscal sustainability of retirement policies are discussed it is also important to understand the particular problems that will be faced by the cohort aged 50-65 as it approaches retirement.³⁴ The poorer life experience of many in cohorts entering retirement in the next 15 years may see more new retirees at 65 less well prepared financially, less healthy, and with less security of housing tenure.

As well, the changing nature of work, digitalising and automation will have a profound impact on the ongoing employment of older workers who may find themselves without skills needed in the new 21st Century economy and face frequent redundancy. Older people may be in competition for the limited resources available for retraining and education with similarly affected young workers.

³³ In their report, pooled data were analysed for 15,626 older adults (aged 55+) from these three studies.

³⁴ It also reflects the requirement of Retirement Income Policy Review Terms of Reference No. 1.

While New Zealand has one of the highest LFPR for cohorts aged over 65 in the OECD, it must be acknowledged that this is primarily part-time work. The majority of those aged 65+ are not working at all (77.4%) and of those working it is predominantly from financial necessity although they have a basic income from NZS. The LFPR for women has increased faster than for men older age categories and increasingly women may seek to work past the age of 65 to make up for time spent out of the workforce in a caregiving role.

Many retirees, even if in part time paid work, make valuable contributions in unpaid work, especially providing the caregiving required for the young when parents work, and for older parents who have become frail. Volunteer work of all kinds, meals on wheels, supporting the Arts, mentoring the next cohorts in business and the professions, search and rescue, ambassadors for tourism, environmental projects, budgeting services, to name a few are the lifeblood of a community and can be facilitated by the provision of a basic income as the NZS provides (see section 7).









This section suggests that as younger cohorts enter the 65+ years traditionally associated with retirement, a rise in elder poverty in New Zealand can be expected, especially when measured in after housing costs terms. Many will feel forced to continue paid work, but this has an opportunity cost for them and for society as further discussed in section 7.

4. Fiscal sustainability and intergenerational equity: current arrangements

Demography

Figure 8 is a stylistic picture of New Zealand’s demographic change. There were around 5 people of working age to each one aged over 65 in 2010. By 2060 this falls to just over 2 of working age to each one over 65.³⁵ Another way to put this: the 65+ dependency ratio (the number of people aged 65+ per 100 people aged 15–64 years) was about 20 per 100 in 2010 and will rise to 50 per 100 in 2060.

Figure 8. Structural Ageing in New Zealand 2010 to 2060

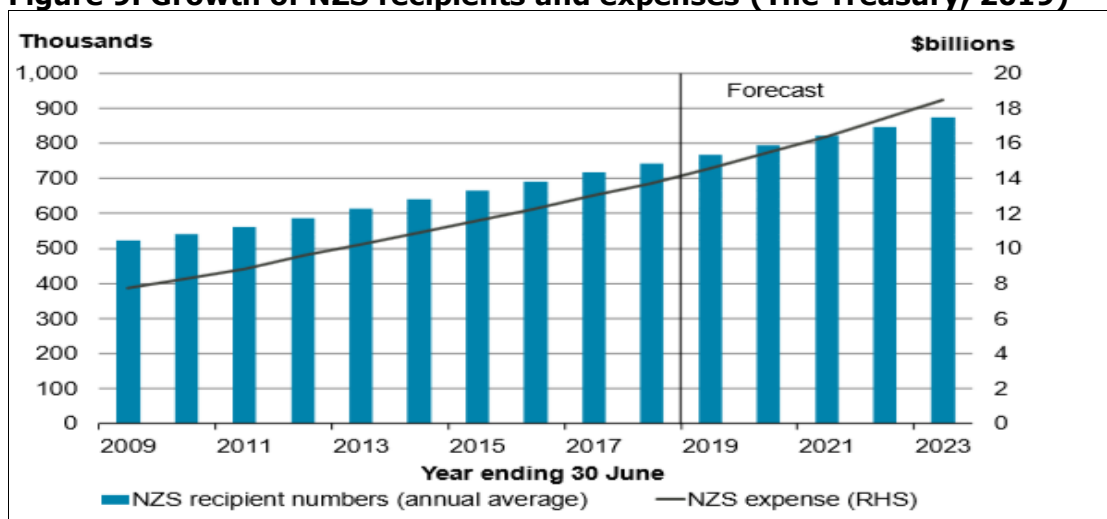
	Projected ratios of different age groups	
	15-64 years	65+ years
2010		
2020		
2030		
2060		

³⁵ The actual figures are 2.8 at working age to each person aged 65+ by 2032, 2.5 in 2050 and 2.1 in 2068. National Population Projections: 2014 (base)–2068. http://archive.stats.govt.nz/browse_for_stats/population/estimates_and_projections/NationalPopulationProjections_HOTP2014.aspx.

Fiscal pressures

The 2019 Budget records NZS gross expenses of \$13.7 billion in the most recent completed fiscal year of 2017/18. It forecasts these expenses to increase from this level by \$1.8 billion to \$15.5 billion in 2019/20 and by \$4.8 billion to \$18.5 billion by 2022/23, the end of the forecast period (Figure 9). In this final forecast year NZS represents around 53% of core Crown social assistance spending and 17% of core Crown expenditure.

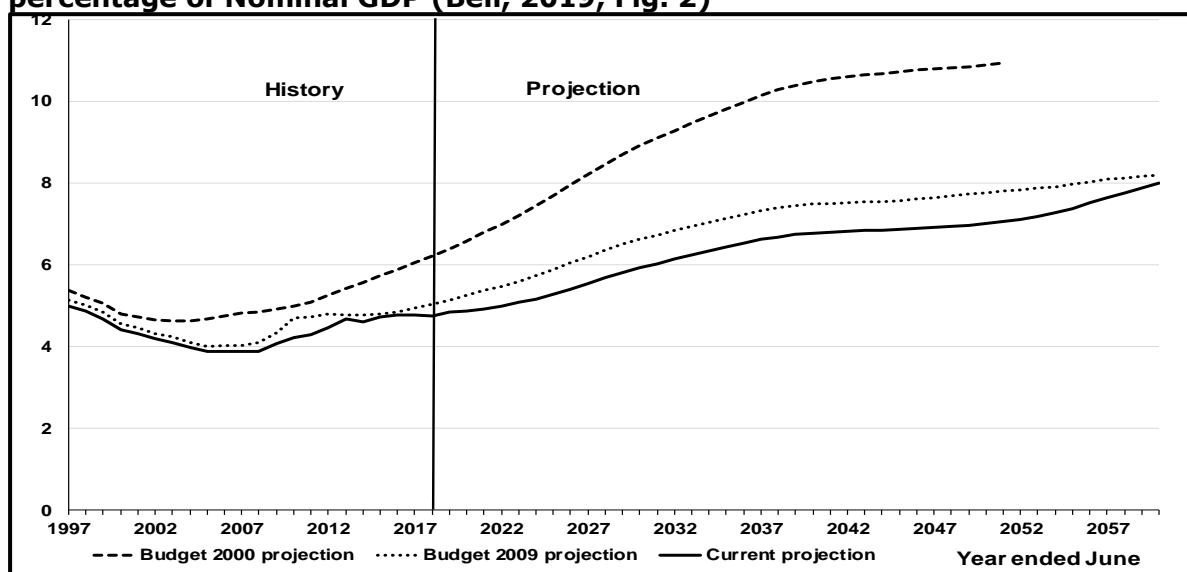
Figure 9. Growth of NZS recipients and expenses (The Treasury, 2019)



The growth in expenditure of 34.8% shown in Figure 9 reflects both an expected increase in recipient numbers from almost 741,300 in 2017/18 to approximately 872,900 by 2023 (17.8% increase) and continued indexation of NZS to wages (The Treasury, 2019, p. 29).

Based on Budget updates of the New Zealand Superannuation Fund (NZSF) Contribution Rate Model on the Treasury website, Figure 10 shows the projected growth of NZS (Budgets 2000, 2009, 2019) under pressures from an ageing population (Bell, 2019b).

Figure 10. New Zealand Superannuation (NZS) expenditure (gross and as a percentage of Nominal GDP (Bell, 2019, Fig. 2)



Over time the projections in Figure 10 appear to show that there is less of a problem than had been thought. Growth of GDP has been higher than expected, and one factor contributing to this has been the greater LFPR of older people. The most recent projection shows a steady upward trend but lower growth path in the proportion of the GDP represented by NZS expenditure. These are gross expenditure figures so the net projections are even less stark. However, an ageing population and improving technology will mean health expenditure will also grow faster than GDP. Health expenditure is more difficult to forecast than NZS but, based on different assumptions, Treasury provides a variety of projections ranging from around 8.5% to nearly 12% of GDP by 2060.

Table 9 from the Treasury's 2016 Statement on the Long-Term Fiscal Position projects expenditure under current policy settings using historical spending patterns: the combination of NZS and healthcare expenditure rises from 11% in 2015, to a projected 17.6%, while welfare and education remain relatively static.

Table 9. Projections for 'historical spending patterns' scenario as % of GDP (The Treasury, 2016, Table 6.1)

	2015	2030	2045	2060
Healthcare	6.20	6.80	8.30	9.70
New Zealand Superannuation (NZS)	4.80	6.30	7.20	7.90
Education	5.30	5.40	5.50	5.70
Law and order	1.50	1.40	1.40	1.40
Welfare (excluding NZS)	4.20	4.50	4.70	4.70
Other expenses	6.30	6.70	6.70	6.70
Debt-financing costs	1.60	2.20	5.30	11.00
Expenses	30.00	33.30	39.10	47.10
Tax revenue	27.60	28.60	28.60	28.60
Other revenue	2.30	2.40	2.40	2.50
Revenue	29.90	31.00	31.00	31.10
Operating balance	-0.10	-2.30	-8.10	-16.00
Primary expenses	28.40	31.10	33.80	36.10
Primary balance	0.50	-1.20	-4.00	-6.30
Capital expenditure	0.70	0.90	1.00	1.00
Net debt	25.10	32.50	94.00	205.80
Net debt incl NZSF	12.90	11.50	68.90	174.10
Net worth	13.80	16.10	-41.30	-146.30
Note: All variables are on a core Crown basis; New Zealand Superannuation expenses are on a gross basis; bracketed numbers represent negative values; primary expenses are expenses excluding debt-financing costs and the primary balance is the difference between revenue (excluding interest revenue and dividends) and primary expenses; these projections represent a "what if" scenario.				

If current policies are unchanged, including keeping tax revenue at 28.6% of GDP the projections show (Table 9) that net debt grows exponentially as a % of GDP. These projections will be updated when the next Long-Term Fiscal Statement is published in 2020. While individual figures in the table will undoubtedly change, the general path of the key fiscal indicator, net debt to GDP, is very likely to follow a similar upward trajectory to unsustainable levels.

It is not suggested that the outcomes by 2060 shown in Table 9 will occur. One of the strong assumptions is that taxes as a percentage of GDP remains fixed. Ceteris paribus, over time as relatively more is spent on ageing cohorts, there will be relatively less for the working age cohorts. Many of working age and their families have much higher rates of deprivation and income poverty so that there will be inevitable pressure for changes long before 2060. Either changes can be planned for and the fiscal pressures managed or there will be ad hoc, knee-jerk, ill-thought-out changes in response to the perceived crisis.

Role of prefunding

One of the problems of expressing the demographic pressures in simplistic income and expenditure terms is that no account is taken of what is happening to the overall Crown balance sheet. The 'what if' scenario in Table 8 includes what happens to Crown assets and liabilities and net worth as the projected operating surplus becomes a deficit.

Under the PAYGO system, NZS is funded by current taxpayers, as are subsidies for old age care. At the same time, current taxpayers are contributing to the NZSF. This fund has been accumulating assets since 2003 although regular contributions were suspended in 2009 and not restarted until 2018. In 2019, the size of the fund is nearly \$42 billion and the cumulative contributions of \$9.5 billion over the years 2018/19 to 2022/23 is expected to increase the size of the NZSF to nearly \$64 billion by the end of this period (Table 10).

NZSF: in essence, in the early years, taxpayers provide it with funds that are invested to grow so that, in future years, money can be taken from the NZSF to help future taxpayers cover the cost of higher public pension expenses.

Table 10. The NZ Superannuation Fund (The Treasury, 2019)

Year ended 30 June	2019 \$m	2020 \$m	2021 \$m	2022 \$m	2023 \$m
Contributions	1,000	1,460	2,120	2,420	2,553
Fund size	41,811	46,093	51,345	57,276	63,769

It is difficult to know the counterfactual: if NZSF did not exist, the contributions to it may have gone towards lowering taxes or may have been spent on other things, some of which might or might not have increased productive spending to benefit the real growth of the economy. The Fund has opportunity costs. From a real resource point of view, if more is allocated to the ageing population, then there will be a smaller slice of current output of

goods and services for the working age population, regardless of how or where the funding comes from.

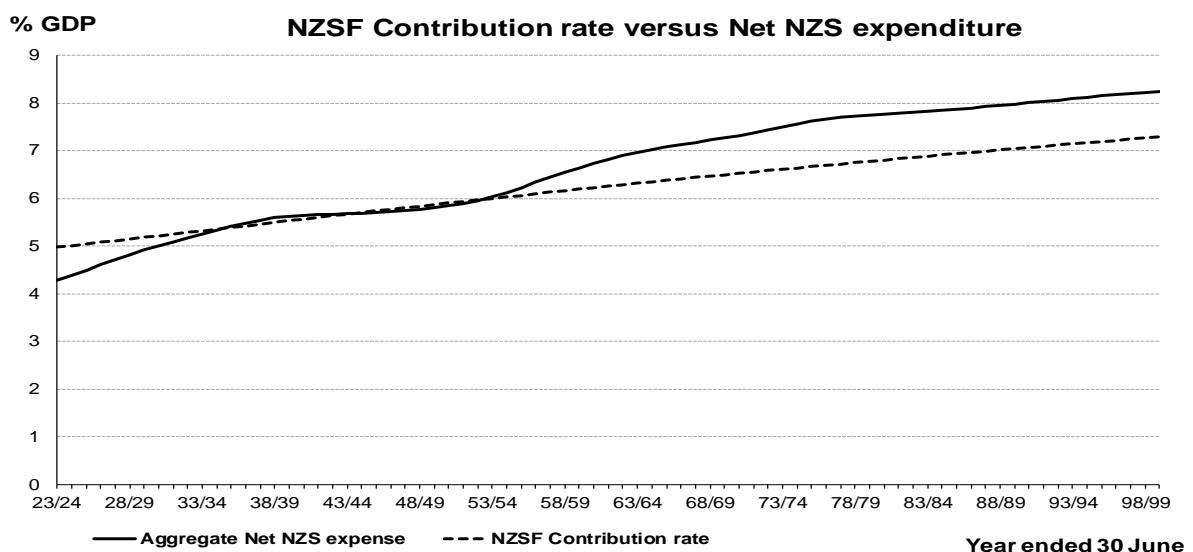
Moreover, NZSF does not prevent future tax increases: the future cost of NZS will continue to rise as may other spending categories. Accounting for government spending is not affected by where the spending is financed from, so that the Fund does not help the government keep within its fiscal caps (government expenditure on NZS is not changed when there are capital contributions made from the NZSF), nor does it avert pressure from competing demands.

In the meantime, the recent resumption of allocations from the budget surplus to the NZSF ask the working age population to not only fund the existing superannuitants, but also pay for some of their own, perhaps less generous, future age pensions. These contributions may preclude other useful government spending or redistribution.

While some argue that funding improves savings and investment rates, evidence that funded or Save As You Go (SAYGO) schemes improve the size of the rates GDP pie itself is scarce (Barr, 2001; Barr & Diamond, 2009). The NZSF is best thought of as performing a tax smoothing function.

Another common misunderstanding is that the NZSF will build up and then be drawn down and disappear, but the Fund is not set up that way. The Treasury explains the way the Fund works in detail and the complexity of the calculations involved (Bell, 2019b). While each year, a calculation is made such that over a forty-year horizon, the tax paid to meet the total costs of net NZS (the contribution rate) could be kept constant, assuming at the end of the 40 years the Fund is exhausted, each year, a new 40-year time horizon is used to set a new contribution rate (tax smoothed rate). Figure 11 illustrates the latest projection of the tax smoothing role.

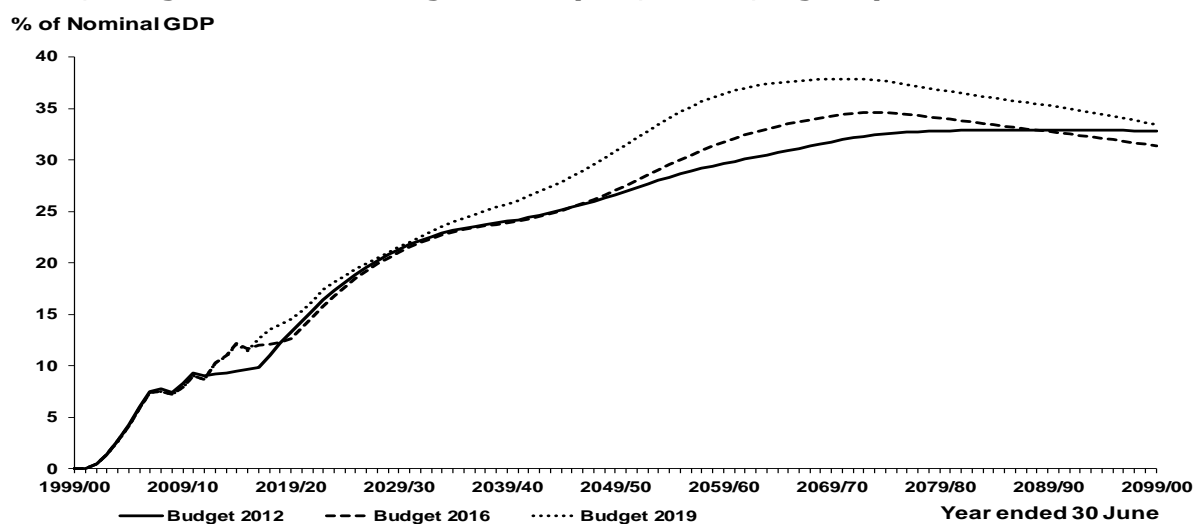
Figure 11. Tax smoothing role of the NZ Super Fund (Bell, 2019b, Fig. 3)



Each year the difference between the cost of NZS and the tax smoothed contributions rate is the capital contribution made to the Fund, or the capital withdrawal taken from the Fund. Under the current projections, as shown in Figure 11, the capital contributions virtually stop in the mid-2030s and significant contributions from the Fund do not start until the mid-2050s.

By the end of the century the annual contribution from the Fund from that time is expected to be about 1% of GDP. Looking to the end of the current 40-year horizon, by 2059/60 the projected annual cost of NZS is \$105 billion with the Fund meeting \$7 billion or just 6.7% of the net costs of NZS.³⁶ Figure 12 shows that the Fund does not reduce much on budget 2019 projections, even by the end of the century, as s when it will be worth over 30% of GDP.

Figure 12. NZSF closing balance, as a percentage of GDP, as projected at Budget 2012, Budget 2016 and Budget 2019 (Bell, 2019b, Fig. 13)



Summary

While the NZSF may be helpful eventually, there are two considerations. First, there is an opportunity cost of the funds contributed (expected to be \$9.5 billion over the forecast period 2019-2023): there are alternative uses for this money. The second consideration is that the public may be misled into thinking that the fund makes their pensions secure. In fact, it provides no guarantee of any of the parameters such as level of NZS or its indexation or continued universality, and it only very partially funds NZS. It does not alter any of the real resource costs of an ageing population. In the meantime, the decision to exclude the NZSF assets from the net debt fiscal rule that the government has adopted

³⁶ See <https://treasury.govt.nz/publications/information-release/new-zealand-superannuation-fund-contribution-rate-model-2019>.

may unduly constrain the type of real investment today that might better prepare society for the inevitable pressures of an ageing population.

The discussion in this section shows that the outcome under current settings is not sustainable. An increase in taxation is one way to proceed although to date an increase in personal income tax rates, GST and capital gains tax have been ruled out. Many other sectors such as welfare, justice, education and health are in need of serious injections of money and are unlikely to be sources of cost saving. This leaves reducing future NZS payments through the use of one or more of the three main levers: the age of eligibility, the level of payments, and some form of means-testing.

While raising the eligibility age is often discussed as if it were the only option, a carefully considered mix of the three main levers: raising the age, lowering the rate, and income-testing, might most effectively maintain the best features of NZS. The first two levers are briefly discussed in sections 5 and 6, followed by a more detailed proposal for use of the third lever in section 7. This third lever has been seldom discussed seriously in New Zealand since the late 1990s when the surcharge was abolished.

5. Age of eligibility issues

International context

It is not self-evident that New Zealand is much out of step with other countries. While several countries are proposing raising the age of eligibility for state pensions, the average expected age on current policies across the OECD will be just 66 by 2060 (OECD, 2017a).

Figure 13 shows that under current legislation a few countries are aiming to have their retirement age considerably higher by 2060. But it is a two-edged sword. Under contributory schemes, pensions become more valuable if accessed later. While this may be good for the individual, it may not save costs in the long run. Moreover, the problems of poverty are re-emerging among younger less affluent retirees who are having to wait longer, often without the benefit of extra years of paid work.

Of those countries whose age is expected to increase, Denmark stands out: the age of 74 is by 2060 reflects the indexing of the qualifying age to expected improvements in longevity.

Finland, Italy, the Netherlands, Portugal and the Slovak Republic are also linking the age of eligibility to life expectancy (OECD 2017a). Nevertheless, there are controversies over how higher ages are working out for manual workers.

What are other countries doing?

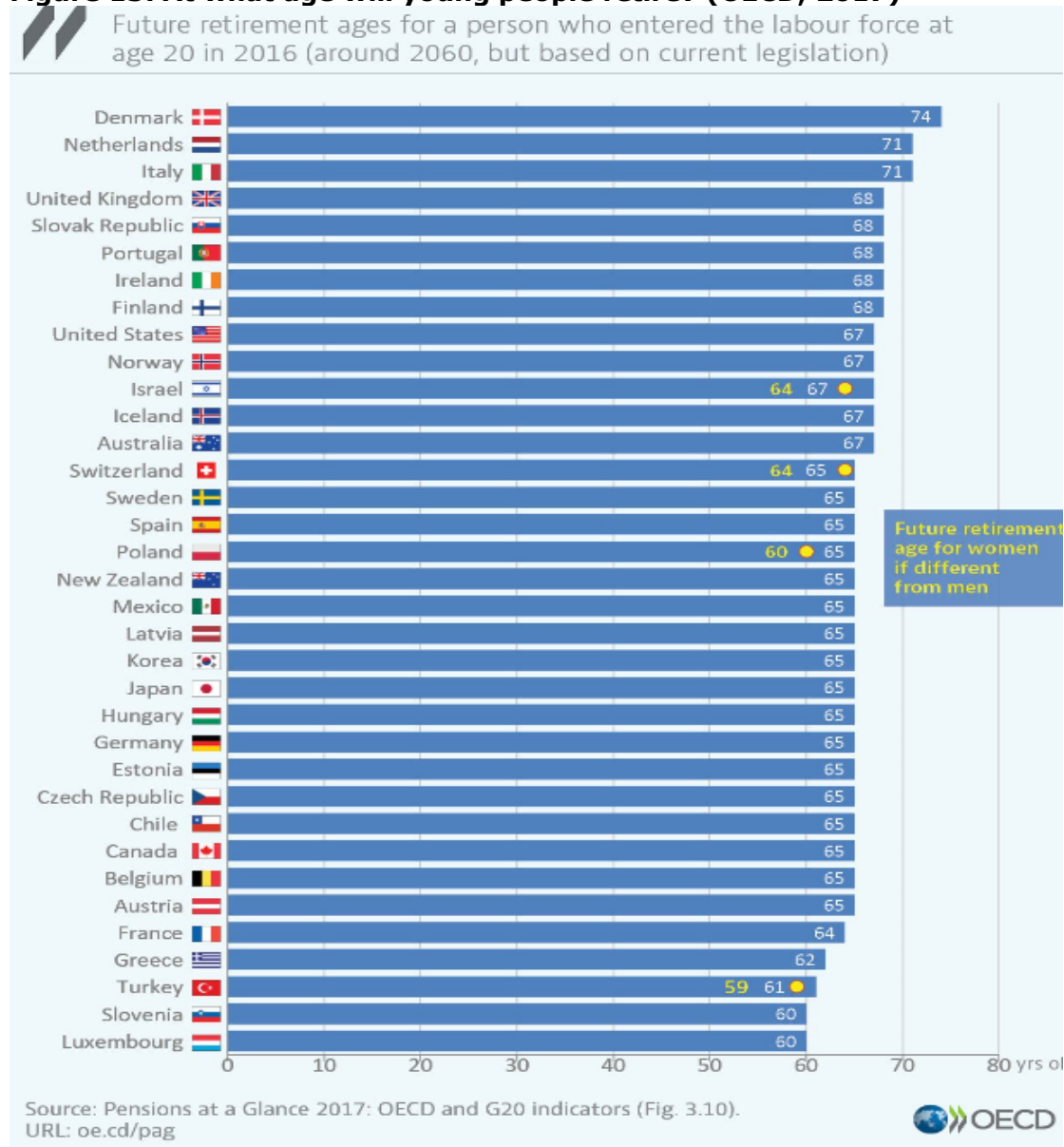
In the Netherlands, Denmark, Belgium, France, Germany and Spain the age pension qualifying age is already 67. The UK age for the British State Pension will rise from 2018 to reach age 68 by 2046, while in Ireland the age rises to 68 by 2028. The age will be 67 in Australia by 2023, and in the US by 2027.

A few outliers, eg France, Greece, Luxembourg, Slovenia and Turkey, expect the age to be below 65 in 2060. Overall, the average expected age on current policies across the OECD will be just 66 by 2060 (OECD, 2017a).

Japan has one of the oldest demographic profiles and while they are talking about raising the age,³⁷ they have not yet done so. It is possible for people to choose to postpone retirement in Japan as it is in many countries, but this does not save any money:

... the incentives to continue working after the retirement age are large and go beyond the increases that would be justified to compensate for the short retirement period (OECD, 2017a, p. 12).

Figure 13. At what age will young people retire? (OECD, 2017)³⁸



Three countries are actually reducing their age in response to concerns about austerity policies and elder poverty. In Canada for example, in 2012 the Conservative government

³⁷ See <https://www.reuters.com/article/us-japan-economy-retirement/retiring-late-as-pensions-underwhelm-more-japanese-opt-to-prolong-employment-idUSKCN1RM0G>.

³⁸ Note that the age of entitlement to a state pension and the actual age of retirement may differ. In New Zealand there is no age of retirement.

decided to raise the age for the basic pension (Old Age Security) from 65 to 67 by 2023. Under Justin Trudeau the Liberals won the 2015 Federal election with reversing the age rise as a key policy. The argument was that it was better to encourage Canadians to stay in the workforce rather than force them to stay and increase poverty of those who cannot:

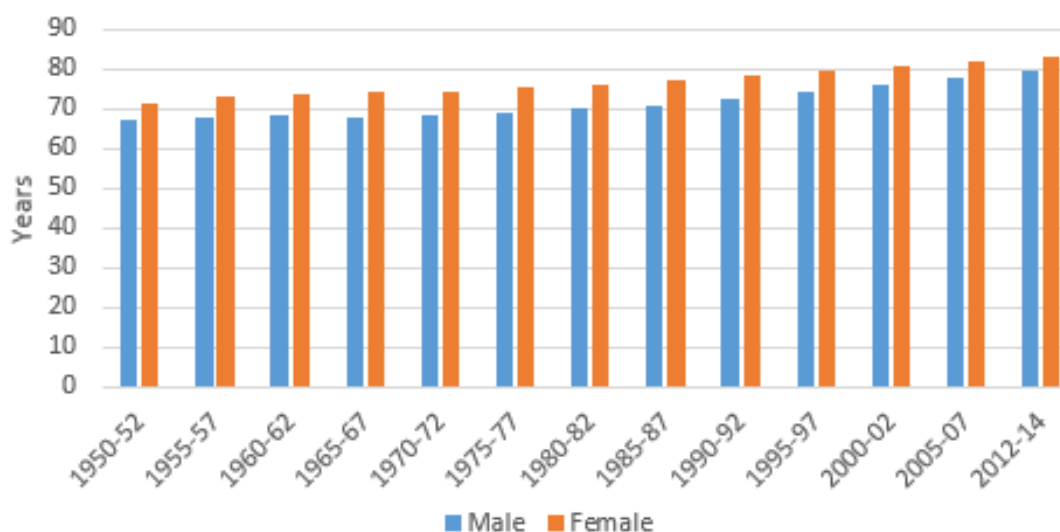
Reversing the previous government’s arbitrary decision to [raise] the OAS age of eligibility was a commitment we made with the middle class and the most vulnerable Canadians in mind, and it was absolutely the right thing to do. (Duclos, Canada’s Minister of Families, Children and Social Development).³⁹

Case for raising the age in New Zealand

Lifting the age of eligibility for NZS has been the most discussed lever to help sustainability and is widely seen as necessary for fiscal sustainability. The New Zealand Treasury (2013),⁴⁰ amongst other options, modelled the possibility of raising the eligibility age for NZS for the Long-term Fiscal Projections in light of an ageing population and ever improving longevity.

This option may appear logical as the average length of time spent in retirement lengthens with improvements to longevity. Figure 14 shows these improvements over time with some possible levelling off since 2013-15 and a compression of the difference between life expectancy for men and women.

Figure 14. Average life expectancy at 65 (StatsNZ, 2019)



Retirement Commissioners have emphasised the need to raise the age in the last three three-yearly reviews of retirement incomes policy (Retirement Commission, 2010, 2013; Retirement Commissioner, 2016). The 2013 Retirement Income Review suggested that the age of eligibility should reflect improving life expectancy and the lengthening of

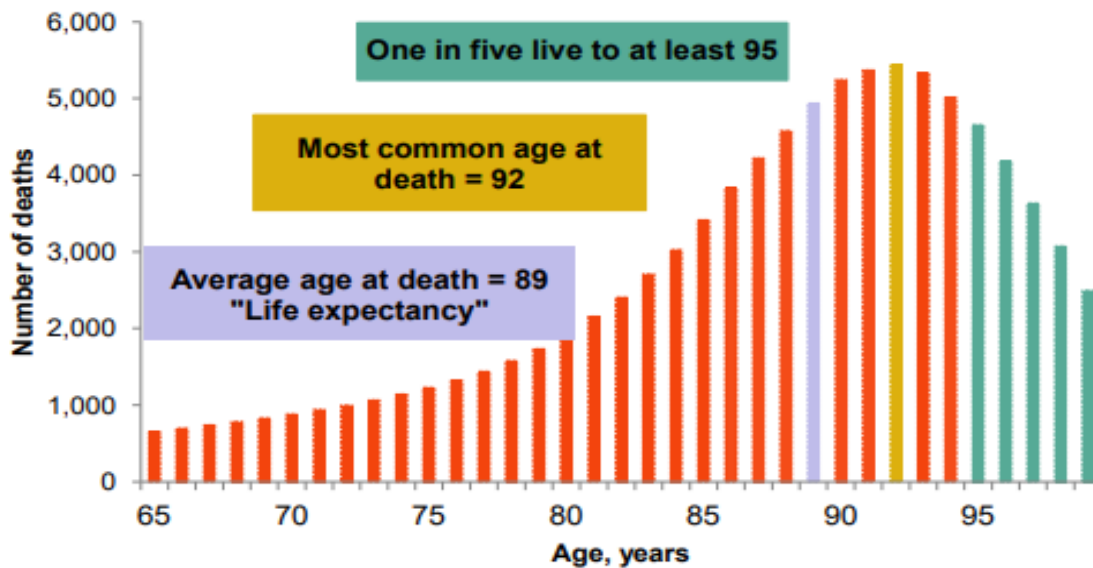
³⁹ Minister of Families, Children and Social Development Mandate Letter from the Office of the Prime Minister: <https://pm.gc.ca/en/mandate-letters/minister-families-children-and-social-development-mandate-letter>.

⁴⁰ There was no inference that Treasury supported this policy, but it was modelled as an option.

average length of time spent in retirement. One way to do this, was to “keep constant the proportion of life in which people receive publicly funded retirement income” (Retirement Commission, 2013, p. 36).

Figure 14 however disguises the spread of mortality experience. As Figure 15 illuminates, while the most common age of death is 90 there is a wide spread of actual experiences.

Figure 15. Estimated number of deaths at each age (from 65 to 100) for 100,000 female New Zealanders who reach their 65th birthday in 2015 (O’Connell et al., 2015, Fig. 6)



By the time today’s 25 year olds reach 65, it is expected men will live another 25 years and women another 27 years on average (Commission for Financial Literacy and Retirement Income, 2013 p.36).⁴¹

Much of the gain in life expectancy at birth has been attributed to the gains made at older ages with improving medical technology likely to further increase life expectancy at older ages over time. A woman aged 90 today can expect to live on average another 4.6 years, a 60% increase since 1950-52.⁴² Thus it is possible for life expectancy to increase because there is an extension of life at older ages rather than everyone living longer. This is a plausible picture of the future when the inequality in access to health outcomes and lifestyles help the longer lived and healthy to live yet

A recent comparative study of Denmark and Sweden has shown improvements in health in cohorts of female centenarians in Denmark but no such improvements in Sweden. This difference may be explained by reduced spending on public services, including healthcare for the elderly, in Sweden in the early 1990s, due to a series of economic crises. While no evidence of an increase in Sweden was found in recent years in Denmark the very oldest were observed to die at higher and higher ages, and the age at which only 6% of centenarians survive rose consistently among those born between 1870 and 1904 (Medford, Vaupel, & Christensen, 2019).

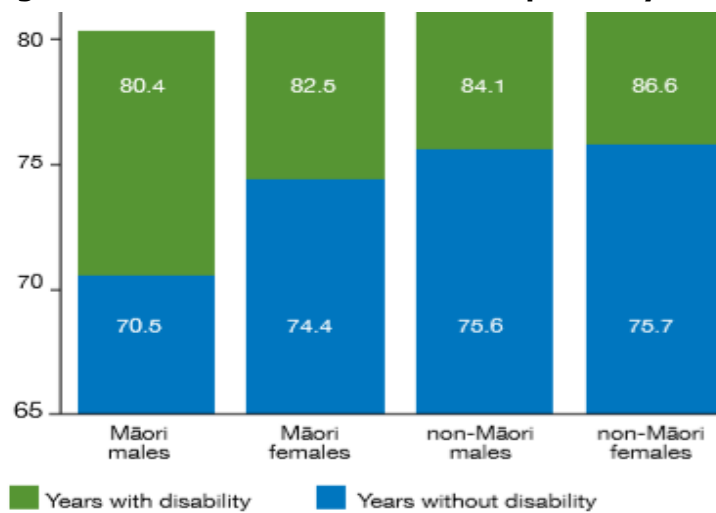
⁴¹ Discussed further in St John and Dale (2019)

⁴² See http://archive.stats.govt.nz/browse_for_stats/health/life_expectancy/NZLifeTables_HOTP12-14.aspx.

longer, while others experience declining life expectancy (O'Connell, et al., 2015). Evidence provided for the CFFC 2019 review from the Health, Work and Retirement surveys suggests that around 15% of adults in the longitudinal study were on a trajectory of financial hardship as they entered retirement, with this group also experiencing ill health and disadvantage (Allen, 2019)

Figure 16 illustrates the different life expectancies for Maori and non-Maori. Not only is the life expectancy worse for both male and female Maori (there is a similar result for Pasifika peoples), but Maori spend fewer years without disability and spend a higher proportion of their total years in retirement with a disability.⁴³

Figure 16. Maori & non- Maori life expectancy at age 65 (Ministry of Health, 2013)

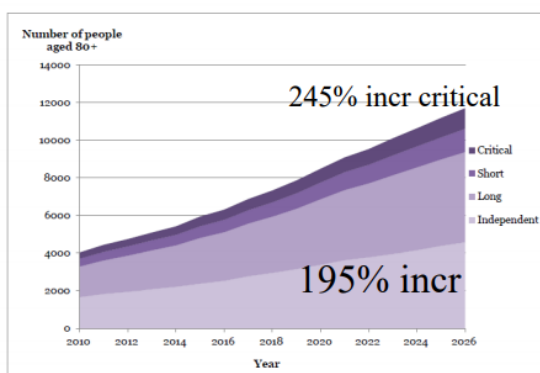


While life expectancy for Maori is increasing, the incidence of ill health, rates of poverty and benefit receipt are also higher for this population.

Figure 17 shows the projected increase in disability for the Maori population compared to the non-Maori.

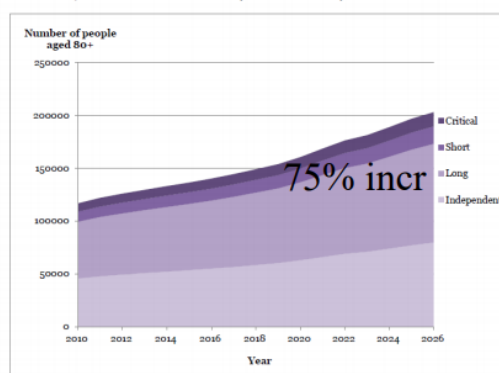
Figure 17. Estimated increase in population disability (Kerse, 2019, Fig.10)

Figure 3: 2026 projections of Māori aged 80+ with critical, short or long interval care needs, as well as those who are expected to be independent



Source: LILACS NZ 2010-11, Statistics NZ population projections 2011

Figure 4: 2026 projections of non-Māori aged 80+ with critical, short or long interval care needs, as well as those who are expected to be independent



Source: LILACS NZ 2010-11, Statistics NZ population projections 2011

⁴³ See https://www.health.govt.nz/system/files/documents/publications/healthy-ageing-strategy_june_2017.pdf.

New Zealand's experience with raising the age

While the state pension age was increased rapidly by 5 years, with little warning, over the period 1992-2002, the consensus today is that raising the age needs to be well-signalled. The recommendation from the 2016 Retirement Review⁴⁴ was to increase the age of NZS eligibility to 67 over eight years between 2027 and 2034. The National Government found even that an insufficient lead in-time and sought a mandate at the 2017 election for a 20-year notice period with a rise to 67 phased in over four years between 2037/38 and 2040/41.⁴⁵

Giving an extended period of notice would ensure families and individuals will have time to adapt to these changes. (English, 2017)

The Labour-led coalition elected in 2017 was opposed to the raising of the age and Prime Minister Jacinda Ardern promised to resign rather than raise the age.

It wasn't irresponsible to leave the age of eligibility at 65, despite New Zealand's growing population, she said. It's irresponsible not to save for it. ... Ardern said she was moved by people in hard labouring jobs who said they could not continue working beyond 65. (Walters, 2017)

While both major political parties have shown a reluctance for a rise in the age, New Zealand's closest neighbour, Australia, began to increase the age for the Age Pension in 2017 and will achieve 67 after only six years in 2023.

Rather than aligning the age with Australia, New Zealand's reciprocity agreement with Australia has been revised so that:

Australia's Age Pension age has been slowly increasing from 65 to 67 years. From 1 July 2019, the age for the Age Pension is 66. It increases by 6 months every 2 years until Age Pension age reaches 67 on 1 July 2023. These increases only affect people born on or after 1 July 1952. (Centrelink, 2019)

... in order to claim the Australian pension or New Zealand superannuation under the agreement, an individual must have reached the higher of the pension eligibility age in both countries, regardless of the country in which the claim is made.⁴⁶

Both the current policy of raising the pension qualifying age in Australia to 67 and the threat to raise it further have been controversial. In July 2019, the age at which a person can access the pension increased to 66 from 65.5 years. The Sydney Morning Herald reports:

Older Australians struggling to make ends meet or looking to boost their quality of life are flooding the national jobs market in record numbers but many are finding their skills and experience unwanted by prospective employers.

National Seniors chief advocate Ian Henschke said many older Australians faced prejudice as they tried to get a job which would worsen as more people sought work in their 60s. He said people made redundant in their late 50s or early 60s often

⁴⁴ See <https://www.cffc.org.nz/reviews-and-reports/retirement-income-policy-review/>.

⁴⁵ The National opposition has confirmed in 2019 this is still their policy.

⁴⁶ See <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/regulatory-impact-statements/revise-social-security-agreement-with-australia.html>.

faced years on Newstart as they tried to get back into work before accessing the more generous age pension. (Wright, 2019)

Some of the debate about raising the age yet further is outlined in Box 1.

Box 1. Recent controversy in Australia around raising pension age

In 2014, Treasurer Joe Hockey's budget was the first to propose increasing the Australian Age Pension qualifying age to 70 years, starting in 2053. That proposal to increase the pension age was later scrapped.

Then in June 2017, Australians born in or after 1966 heard Social Services Minister Christian Porter confirm the Turnbull government would increase the pension qualifying age to 70 by 2035, 18 years earlier than the original proposal.

Subject to legislation, we are proposing to progressively increase the age pension age ... from 67 to 70 years, over 10 years from 2025 to 2035. By 2054/55, the number of Australians aged over 65 will more than double to 8.9 million, representing about one-fifth of the total population and placing enormous strain on the age pension system. The cost to taxpayers of the age pension would rise from \$39.5 billion in 2013/14 to \$72.3 billion in 2023/24. As the measure is rolled out, the government expects it to raise \$3.6 billion between 2025 and 2029 and more in later years. (Porter, quoted in Myer, 2017)

The NewDaily (5 June 2017) quoted some strong objections to the policy from the Combined Pensioners and Superannuants Association:

It's unreasonable. They don't say what people who lose their jobs before they're 70 and can't get another one will do. The move could threaten the superannuation of older people with small balances who become unemployed.... If they put their super in pension mode it could threaten their Newstart rights under the assets test, but people don't understand that.

Sandra Buckley, CEO of Women in Superannuation, highlighted consequences for women:

It is predominately women who earn less than \$37,000 and who have low super balances. Women are consistently being paid less and earning less than men over their lifetime so once again, they will be penalised in later life for the gender pay and super gaps that are proving to be extremely difficult to overcome.

David Atkin, CEO of building industry super fund Cbus, said:

Shifting the access to the age pension to 70 is a "blunt policy tool" that fails to consider the needs of manual worker. Our members simply can't keep doing these physically demanding jobs until they're 70.

Dr Cassandra Goldie, CEO of the Australian Council of Social Services, said:

The move will mean unemployed older workers would be pushed onto Newstart benefits which are far lower than the pension until they reach 70. We will consequently see a rise in poverty among the over 65s.

How much is saved by raising the age?

As described in Section 4 and in reference to Table 9, current policy settings in New Zealand projected out to 2060 are unsustainable: deficit costs feed an unconstrained growth of net debt and negative net worth.

Will raising the age address this problem?

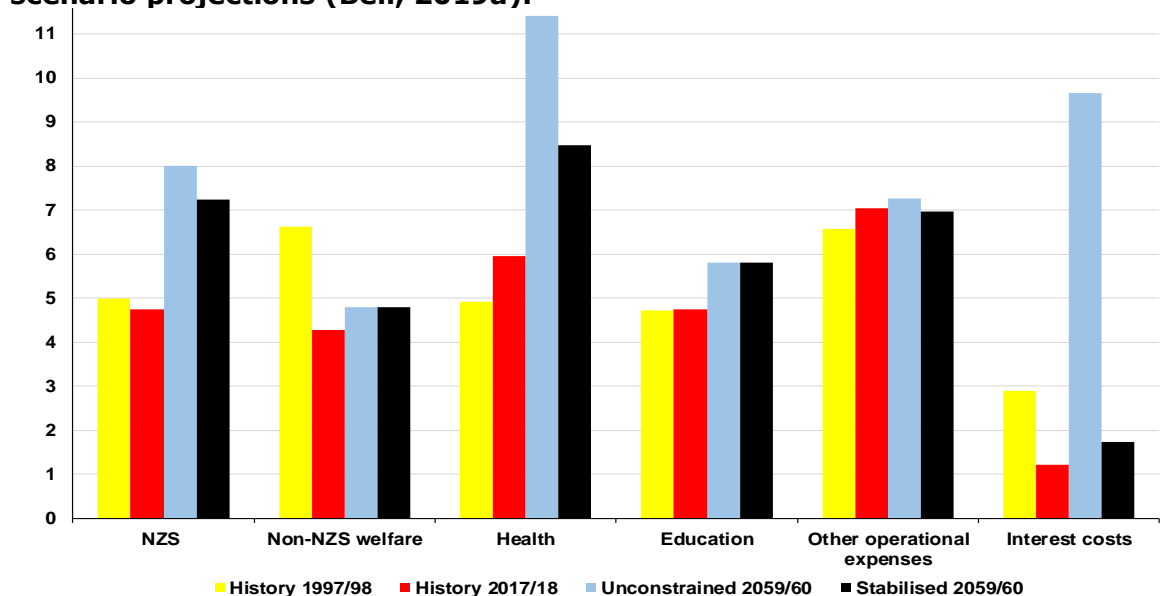
Treasury have modelled fiscal projections based on a set of policy changes that stabilise net debt by 2060;

- long-run tax to GDP is lifted by 1%,
- NZS eligibility age is raised to 67 by 2027/28, with 1 year increments every 15 years to reflect improved longevity,
- health growth is restricted to GDP +1% &
- other spending reduced so net debt is held below 20% of GDP.

This scenario was produced as an illustrative example, of one out of many potential sets of options, to address future fiscal pressures. It does not represent government policy or Treasury advice, and should not be construed as being either of those.

Figure 18 illustrates that this combination stabilises net debt compared to the unconstrained scenario and separates out the component contributions to that stabilisation.

Figure 18. Core Crown expenses as %s of Nominal GDP in history and different scenario projections (Bell, 2019a).



The raising of the age for NZS appears to reduce the % of GDP spent on NZS by around 0.8 percentage points by 2060. This is about 10% saving of the gross costs of NZS. A saving of 10% of NZS eventually is significant but this saving has been achieved by raising the age to 69 by the end of the projections period and there will be many offsetting costs. Given the profile of pre-retired people discussed in section 3, a significant proportion will not be able to support themselves for these extra years and may further run down their assets and increase their debts to be even worse off at age 67 by 2027/8, and at 69 by 2060.

A critical disadvantage of relying on raising the age of eligibility to improve NZS sustainability is that many people with physically demanding jobs are disabled or sick by age 65 and unable to work further. Others lack the required skills or education to meet the changing market requirements. The cost saving from raising the age would have to take account of the costs of supporting people who could not work past 65 and would require another form of state assistance. Retraining also is another cost and could not provide the whole answer for those who struggle to work past 65. The use of conventional welfare benefits with stringent income tests are particularly harsh for those over 50 who

spend sustained times unemployed, care-giving or incapacitated. They are likely to exhaust their private retirement resources before reaching the new higher age of eligibility.

Table 1 showed the net Supported Living Payment (SLP) for a married person is only \$11,860 compared to \$16,446 for NZS. There is an over \$9000 annual difference for a couple. A couple on the Jobseeker benefit, has a joint income of only \$18,976 per annum, a difference of nearly \$14,000 per annum to a couple on NZS, and they can earn only \$80 between them before harsh abatement occurs to make any extra not worthwhile. The welfare benefits are well below usual poverty lines and supplementary means-tested assistance will normally be needed. This illustrates that the raising of the age, under current welfare policies would have a severe impact on those who cannot support themselves.

Another consideration is that the voluntary work of the retired population has an economic and social value, projected to be worth around \$47 billion (2016 dollars) by 2061 (Office for Seniors, 2018, p. 14). Grandparents also make a large contribution to the care of their grandchildren and other significant community activities. An entitlement to a basic income at age 65 offers the option for many to retire from paid work to do valuable voluntary work. It is also a very effective way to support older workers who wish to do paid work, but to work fewer hours and have more flexibility than full time work. It enables the combination of the benefits of some work with the benefits of income to support other worthwhile activities.

In summary: some raising of the age may prove inevitable to reflect improved average longevity, greater participation in the workforce and to align with other countries such as Australia. However, if the only way to do this politically is to give a long lead-in time, there will be little or no potential for immediate savings from using this lever. Moreover, there may be substantial disadvantages both for low income individuals and for society who must cope with the costs of unemployment and increased poverty and loss of older persons' socially valuable unpaid contributions. While it is a potential source of some saving, there will be many offsetting costs to factor in.

6. Reduction in rates of NZS

If raising the age cannot deliver needed savings for the foreseeable future, then a second possibility is to reduce the payment level of NZS. Politically this would be difficult, while welfare benefits were cut nearly 30 years ago, that was under a first past the post government. A gentler approach would be to achieve cuts over time by changing the indexation basis for NZS, another is to reform the marital status and living arrangements basis of determining rates of NZS.

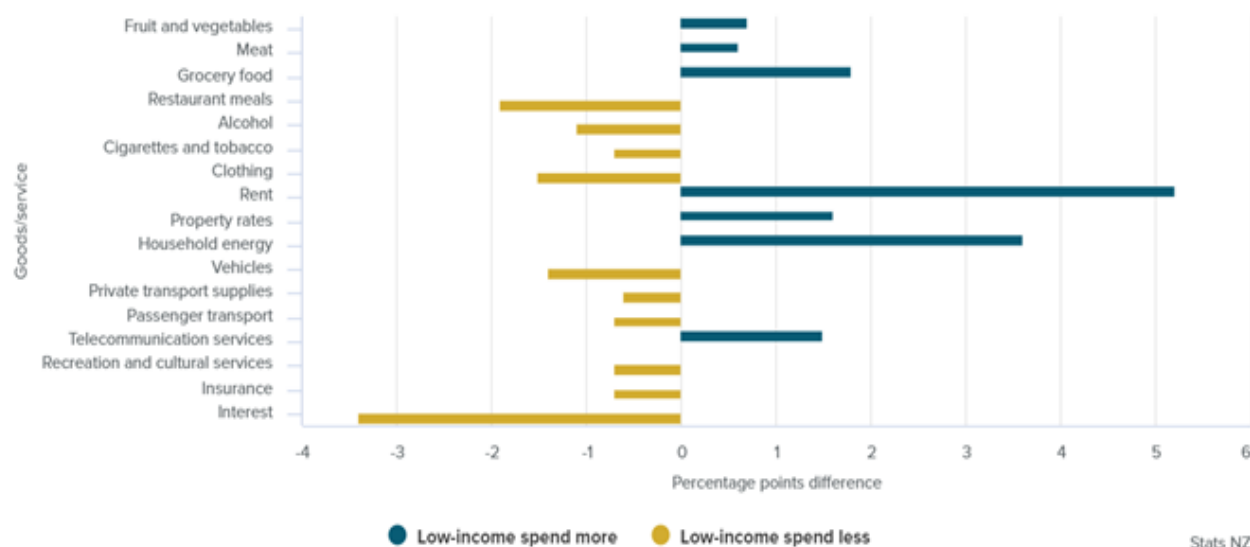
Indexation

Projections show that fiscal savings from indexing the annual payment of NZS to inflation (the CPI) rather than wages would lead to significant long-term savings (The New Zealand Treasury 2009, pp. 57-58). The real spending power of NZS would be protected but the rate of NZS would fall relative to average wages.

After a period of time, it is likely that the same issues of poverty found among the beneficiary community would emerge. There are two other objections: the CPI is not a good measure of the cost of living for low income people as it seriously underweights basic items such as food, rent and interest. A second problem is that it conflicts with an intrinsic value underpinning NZS: older people should have enough income to feel they can participate and belong to society. Having a wages link for NZS is a crucial protection of this value.

The lowest quintile of disposable income has very different patterns of spending when compared to the middle income quintile. Other price indexes can be developed that better reflect the expenditure patterns of lower quintiles. Figure 19 below shows these differences

Figure 19. Diversity in spending patterns between middle and lowest disposable income quintiles⁴⁷



Household living-costs price indexes (HLPis) do provide measures of the inflation experienced by specific household groups, such as beneficiaries or Māori. The resulting index better reflects the actual inflation experienced by the group. For example, low-income households typically spend proportionally more than average on household energy and grocery food. They spend proportionally less on new cars, international airfares, and restaurant meals.⁴⁸

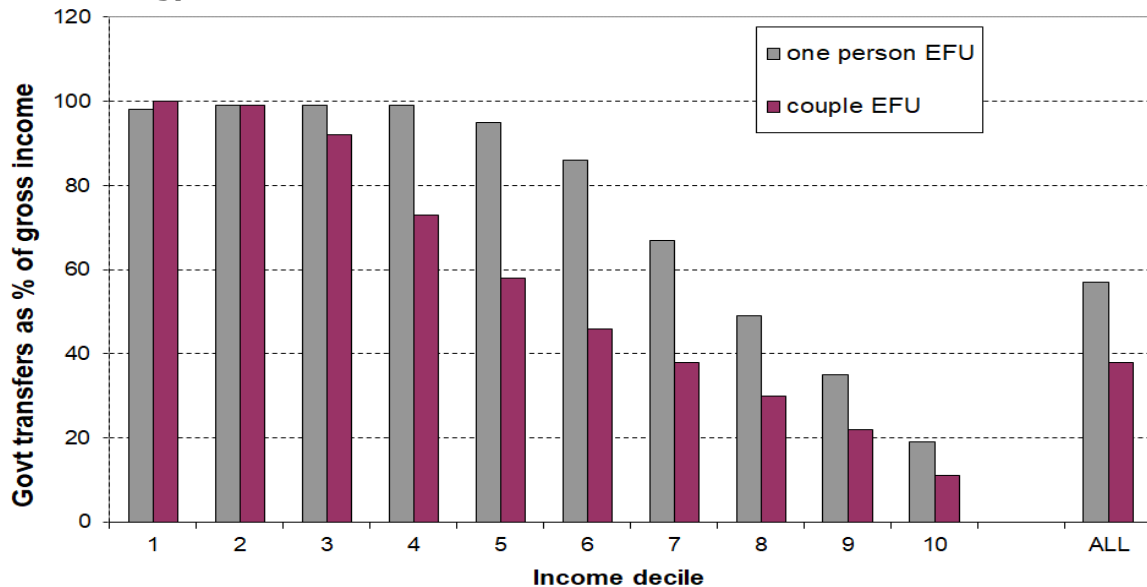
⁴⁷ See <https://www.stats.govt.nz/methods/measuring-child-poverty-fixed-line-measure>.

⁴⁸ See <https://www.stats.govt.nz/methods/measuring-child-poverty-fixed-line-measure>.

The problem is, even if a HLPI price index is used that is better suited to set the level of NZS for low income superannuitants, it still only protects an absolute living standard. As average living standards rise, lower quintiles of retirees will fall further behind others.

Figure 20 shows the dominance of NZS as a source of a long-term income support for low decile superannuitants. Any reduction in the level of NZS may have a dramatic effect on social inclusion of older people over time.

Figure 20. Percentage of income from government sources (Perry 2019 forthcoming)



The great majority of older New Zealanders (aged 66+) are very dependent on NZS and other government transfers for their income. 40% have less than \$100 pw from other sources, 40% of singles have no other income, the next 20% have on average around 70% of their income from NZS and other government transfers... [Couples] generally have higher per capita non-government income than do those in single person EFUs. (Perry, 2019 forthcoming)

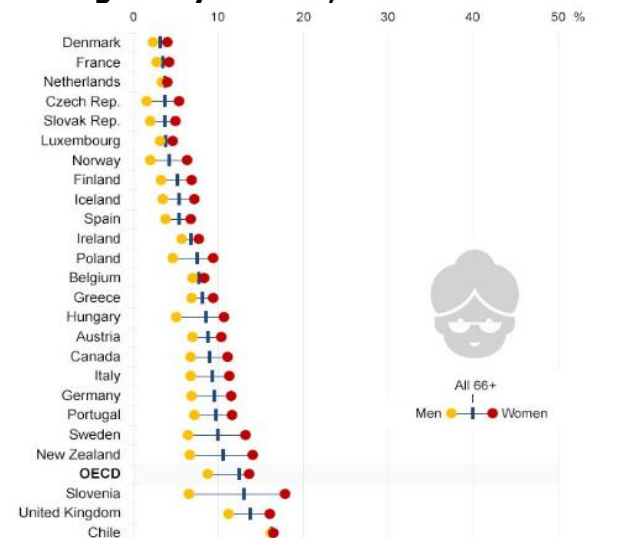
In summary, the level of NZS needs to be high enough to prevent hardship and while the current level does that for most, particularly for those who are home-owners, some pensioners clearly still struggle. Figure 20 shows how dependent at least 40-50% of superannuitants are on NZS. Single superannuitants on average get nearly 60% of their income from NZS.

Various studies show that a healthy retirement that allows participation in society requires additional income stream of around \$10,000-\$12,000 as discussed in St John and Dale (2019). This suggests the current level of NZS as a long-term support for people with no or little other income is far from generous.

There are also lessons to be learned from the failure to index welfare benefits to wages that has helped create serious levels of poverty (Welfare Expert Advisory Group, 2019).

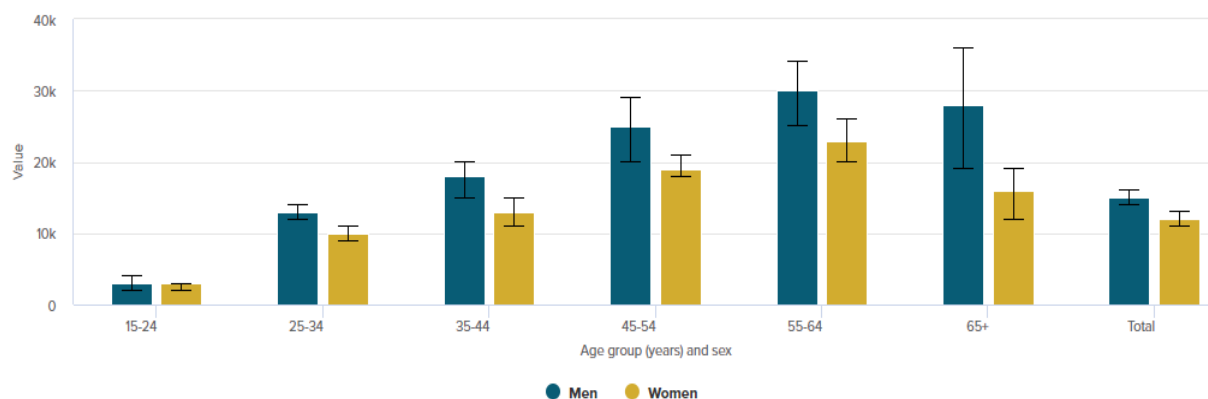
Women, already at risk (see Figure 21), are the most affected in the welfare system and it is likely they will also be most affected by price indexation of NZS.

Figure 21. Women are more at risk of old age poverty: relative income poverty among 66+ year olds, 2014 or latest available (OECD, 2017b, p. 39)



A Westpac NZ survey of more than 1,000 KiwiSaver members found that women are contributing less into KiwiSaver than men, have lower average balances and are less likely to have other investments that can pay for their retirement. Nearly a third of women in the survey have less than \$5,000 in their KiwiSaver accounts (vs 19% of men) while only 4% of women had more than \$50,000 (vs 13% of men). The national gender pay gap remains at 9.3%,⁴⁹ and this research shows the flow-on effect on retirement savings. "Simply put, it appears men have more income available to set aside for retirement and this is impacting KiwiSaver balances" said Simon Power, Westpac's general manager of consumer banking and wealth (Personal Finance, 2018).

Figure 22. Median value (\$) of KiwiSaver schemes, by age group and sex, year ended June 2018⁵⁰



⁴⁹ As reported in NZ Herald, 22 August 2019, 'More work to do' on pay gap: PM, p. A7.

⁵⁰ Note error bars show variability in the estimates <https://www.stats.govt.nz/news/kiwisaver-nest-eggs-grow-5000-in-three-years>.

As shown in Figure 22, and as has been the case in the Australian compulsory scheme, median balances in the KiwiSaver savings scheme for women in the older working age (40-54 years) and those approaching retirement (55-64 years) are significantly below those of men. The biggest gap is for those still contributing after 65 years.

Therefore, reducing either the level of NZS or the relativity to wages over time can be expected to undermine the desirable achievement of low hardship rates for the 65+ group, adversely impact on women, and further increase the expenditure on supplementary assistance.

Rationalisation of different rates of NZS

Another approach to decreasing the level of NZS is to rationalise the three different rates for NZS. As shown in Table 1, there is a net married rate, a single sharing rate at 60% of the married rate, and a single living alone rate at 65% of the married rate. As previous Retirement Commission Reviews and Periodic Report Groups Reviews (eg, 1997, 2007, 2010) have noted, the difference between single sharing and married rates are hard to justify.

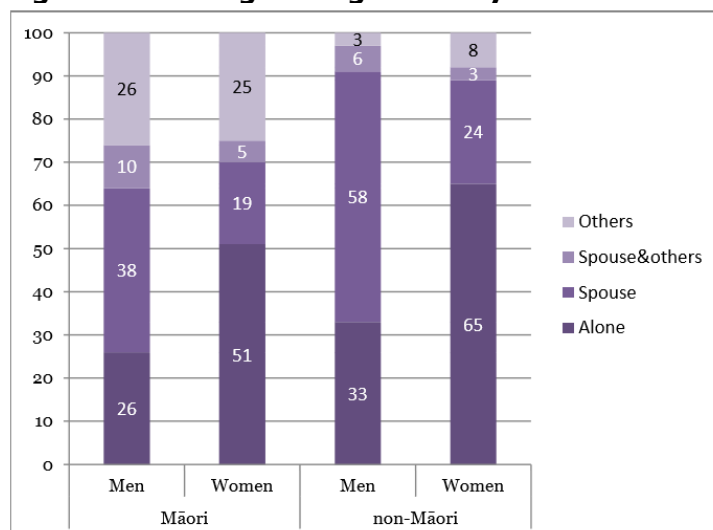
Rationales from the MSD (2016, pp. 10 - 11) are:

Couples living together in a married, civil union or de facto relationship are paid less than double the single rate because it is considered that they can take advantage of certain economies of scale that individuals in shared accommodation cannot. Thus, the rate paid to a married person is less than that paid to a single person. For example, a married couple:

- *could be able to enjoy lower accommodation costs than two single people*
- *could be able to have their personal household effects on one insurance policy whereas two single people who are sharing accommodation would be more likely to have separate insurance costs totalling a higher amount*
- *could share vehicle expenses, while two single people may be more likely to have their own individual transport and vehicle costs*
- *could generally share meals, while two single people sharing accommodation may not have merged their lives to that extent.*

None of these rationales are particularly convincing or substantive. It is fair to say the different rates are historical and they are unsuited to a modern world of flexible living arrangements and relationships (St John, MacLennan, Anderson, & Fountain, 2014). There are many more factors at play than just culture, but Figure 23 shows that living arrangements are more varied for the Maori population with at least 25% living with 'others' and far fewer with a spouse.

Figure 23. Living arrangement by sex and ethnic group⁵¹ (Kerse, 2019)



Current policy also criminalises those who commit ‘relationship fraud’ by failing to declare relationships in the nature of marriage. Healey & Curtin (2019) found from an Official Information Act request that only 122 superannuitants were prosecuted in 2017/18. While the MSD do not as aggressively pursue superannuitants as they do other welfare beneficiaries for this so-called crime, aligning the rates will eliminate the anxiety many may feel around their relationship or living alone status.

In summary: There is a case therefore to pay the same flat rate to everyone, set somewhere between the married person and single sharing rate. As shown in Table 4, around 25% of superannuitants live alone and possibly the majority of these would need accommodation assistance. The elimination of the living alone rate would require an additional needs-based payment where high housing costs are demonstrated. The means-tested AS is currently already accessed by 42,000 of those over 65 (Table 3). This payment could be further adapted for the over 65 group to assist with high housing costs, independently of whether superannuitants are sharing, married or living alone.

Using the data in Table 4 and the rates of NZS in 2019 (Table 1), paying all NZS recipients the married rate reduces the gross cost by around \$1.3 billion (8.5%). If all were paid the single sharing rate, the gross cost increases by around \$1.3 billion and by \$2.6 billion if all were paid the living alone rate.

Whether or not there is a separate rate for living alone, the alignment of the married and single rates appears justified.⁵² To save costs without direct cuts, the single sharing rate could be frozen until the married rate catches up with normal annual adjustments.

⁵¹ LiLACS NZ first wave of data collection.

⁵² The Retirement Commissioner’s Review (2010, p. 13) endorsed the alignment of the single sharing and married person rates. In the interests of simplicity it suggested that the living alone rate remained unchanged.

Alternatively the single rate could be CPI indexed until the married rate indexed to wages catches up.

In an April 2019 paper to the Cabinet Social Wellbeing Committee, the Office of the Minister for Social Development signalled an intent to change some aspects of NZS that would move the scheme towards more individual entitlement by 'modernising and simplifying'.⁵³ So far this affects only the non-qualifying partner (NQP) and spousal deduction, but it may also indicate a willingness to move in the direction of aligning rates.

7. Means testing and alternatives

This leaves the 'third rail'⁵⁴ of superannuation policy: some form of 'claw-back' from those who do not 'need' it. This has been a politically unattractive option because of New Zealand's history, (see St John, 2015; St John, 2018b).

There are a number of ways to save costs by reducing access to NZS by the well-off. Probably few people would wish to contemplate a welfare-type income test as in the benefit system. The last time that was attempted (1991 budget) there was outrage and anger among the powerful superannuitants' lobby and the legislation that would have changed NZS into a welfare benefit was reversed before it was implemented (St John, 1999; St John & Ashton, 1993).

The Australian means test described in Box 2 takes account of both income and assets, using joint income and assets for couples. While 80% of those eligible by age get at least some age pension⁵⁵, this model is most unlikely to be acceptable for New Zealand. However, an income-based test, would not preclude counting as much imputed income from assets as feasible over time.

Means tests take other income and assets into account in determining the amount of benefit a person is entitled to. A simpler version is an **income test** alone. Welfare benefits in NZ are subject to a stringent income test that aims to target payments to only those who 'need' them. A gentle test that affects only the top end may be described as an **affluence test**. A progressive income tax and a taxable benefit automatically ensures some income testing or **clawback**. A basic non-taxable income and other income taxed at progressive rates is another way to operate an affluence test.

⁵³ See <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/information-releases/nzs-vp-modernisation-and-simplification.html>.

⁵⁴ *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).

⁵⁵ See <https://www.austaxpolicy.com/better-targeting-australias-age-pension/>.

Box 2. Age Pension means test in Australia⁵⁶

Rates of Age Pension March 2019 (including energy and pension supplements)

Single: A\$926 per fortnight (A\$24,081 per year)

Couple (each): A\$698.10 per fortnight (A\$18,051 per year)

Couple (combined): A\$1,396 (A\$36,301 per year)

Couples separated due to illness each receive the Single rate

Income test

To qualify for a full Age Pension a single person must have income below A\$174 per fortnight (A\$4,524 per year). Above that the age pension is reduced by 50% for each extra dollar until there is no entitlement by \$2,026 per fortnight (\$52,686 per year).

As in New Zealand, the Australian couple rate of the full Age Pension is lower than for two single people. A couple's combined income must be below A\$308 per fortnight (A\$8,008 per year), for a full Age Pension. A part Age Pension is payable up to a joint income of \$3,100 per fortnight (A\$80,610 per year).

From 1 July 2019, there is a work bonus: earnings up to \$300 per person per fortnight from working is not included in the Age Pension income test.

Assets test

To qualify for a full Age Pension a single person's assets must be below A\$263,250 if a home owner, or A\$473,750 if not. A part Age Pension is paid when assets are below A\$572,000 for a homeowner, or A\$782,500 if not. For a couple combined assets must be below \$394,500 if they own their home, or \$605,000 if not. A couple may be eligible for a part Age Pension if assets are worth up to \$860,000 if they own their own home, or \$1,070,500 if not.

From 1985 to 1998 New Zealand operated a surcharge on superannuitants' other income (Preston, 2001). This too was unpopular and complex for people to understand. Nevertheless, it did deliver useful savings.

While the surcharge was complicated and contentious, it performed a useful cost-saving function without imposing hardship. Some better-off retirees did not bother claiming the state pension, and most of those still in high-paid work received little after-tax benefit from it.

The fiscal cost of abolishing the surcharge in 1998 was estimated to be \$400m or 10% of the net cost of NZS. This indicates that the surcharge created a 10% fiscal saving on the net cost of NZS. (St John, 2015, p. 8)

In New Zealand, the challenge is to find a way to apply an income (or 'affluence' test) that could be seen as fair simple and acceptable, with enough useful savings to take the pressure off relying solely on raising the qualifying age or reducing the rate of NZS as the principal levers.

The justification for considering this lever seriously is intergenerational equity. Wealthy recipients of NZS may still be in well-paid work and/or have other large private incomes and assets, and sometimes annuities (see St John and Dale 2019). This group is likely to have accumulated their wealth with tax-free capital gains and may have gained substantially from the 2010 income tax cuts and lower Portfolio Investment Entity (PIE) rates of tax.⁵⁷ Under the PIE regime, the top rate of tax is 28% compared to the top rate

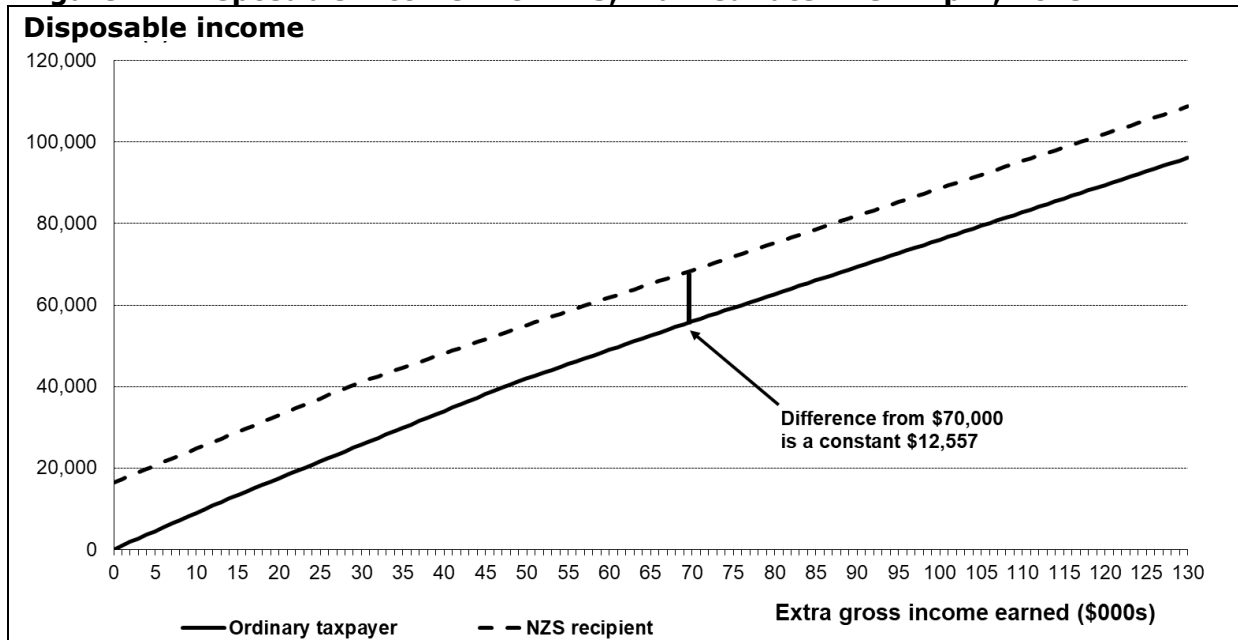
⁵⁶ See <https://www.superguide.com.au/accessing-superannuation/age-pension-rates>.

⁵⁷ "The number of super-rich earners on the New Zealand taxman's radar has skyrocketed in the past five years with 350 people now worth more than \$50 million — some of whom are in a fight over more than \$85

of 33%, providing a five-percentage point advantage. Increasingly the younger working age population who are struggling in the property market and may have large student debts are questioning this largess.

Figure 24⁵⁸ for the case of a married superannuitant illustrates this generosity by showing the addition to net income provided by NZS at all income levels. Where there is no other income the NZS payment is a net \$16,446 (Table 1). When earned income exceeds \$70,000, NZS is taxed at the highest marginal rate so that the effective net NZS payment is reduced to \$12,577. No matter how high the earned income is once 33% is reached the additional income is always \$12,577 as shown in Figure 1. For those on higher rates of NZS, the net gain at higher incomes is more: \$15,230 for single sharing and \$16,564 for living alone.

Figure 24. Disposable income with NZS, married rate NZS 1 April, 2019



The 1993 Accord⁵⁹ endorsed the principle that the net amount of NZS should reduce as total income increases, either by a surcharge or a progressive tax regime that had equivalent effect. The 1997 Periodic Report Group on Retirement Incomes noted:

We strongly support the sentiment that there are higher priorities for government resources. Therefore we regret the impending abolition of the surcharge...

The abolition of the surcharge will provide a breathing space in which we can inform and educate the community about the future shape of public provision and explain why some kind of targeting mechanism will be needed in future. (Periodic Report Group, 1997, p. 47)

million in disputed tax. The group - labelled High Wealth Individuals (HWI) by Inland Revenue - has soared 75 per cent since 2013, while the country's poorest residents continue to struggle." (Kirkness, 2019)

⁵⁸ Figures in this section are updated from St John (2018).

⁵⁹ Between the three major political parties: Labour, National and the Alliance in 1993.

As suggested above, other levers may impact unfairly on those least able to manage. In contrast, only those with significant 'other' income will be affected if a clawback from the top end can be devised in a simple and fair way. Finding a way for the top line to meet the bottom line in Figure 24, by reducing the generosity of net NZS at the top end is worth exploring.

The New Zealand Superannuation Grant- a blue skies proposition⁶⁰

This section draws on St John (2018b) and suggests various options for a tax-based clawback to improve sustainability with modelling to show approximately how much revenue could be saved.

A basic income approach might offer this possibility and align with the Government's future of work programme, led by the Productivity Commission (2019), where the 21st century workplace no longer provides certainty of employment or sufficient hours of work for many workers.

In a basic income approach, each person has a universal grant that is not part of taxable income. When additional income is earned, it is taxed under a progressive tax regime so that the tax system does the work of providing a claw back of the universal grant for high income people. Extra income is not unduly discouraged. The attraction for using this approach for NZS is that it retains simplicity and universality while reigning in the expenditure at the top end and providing some useful additional revenue to balance intergenerational concerns and to reduce the inequality within retirement.

It also offers a compromise between aggressive means testing as applied in the welfare system (or the affluence test as applied in Australia), and a fully universal taxable pension approach such as for the current NZS. It offers people flexibility in their employment choices in early retirement.

Taking a 'basic income' approach may be simple to implement and operate but it requires a new way of thinking. The basic income, named here the 'New Zealand Superannuation Grant' (NZSG), would be paid to all superannuitants as a weekly non-taxable grant. Then, for any other gross income, a separate tax scale would apply for each additional dollar.⁶¹

For illustrative purposes it is proposed that the NZSG is the same for everyone (married; single sharing; single living alone) and any extra supplement for high housing costs would

⁶⁰ The authors gratefully acknowledge the modelling of these results provided with the help of Matthew Bell, NZ Treasury but this in no way implies any endorsement of these policies.

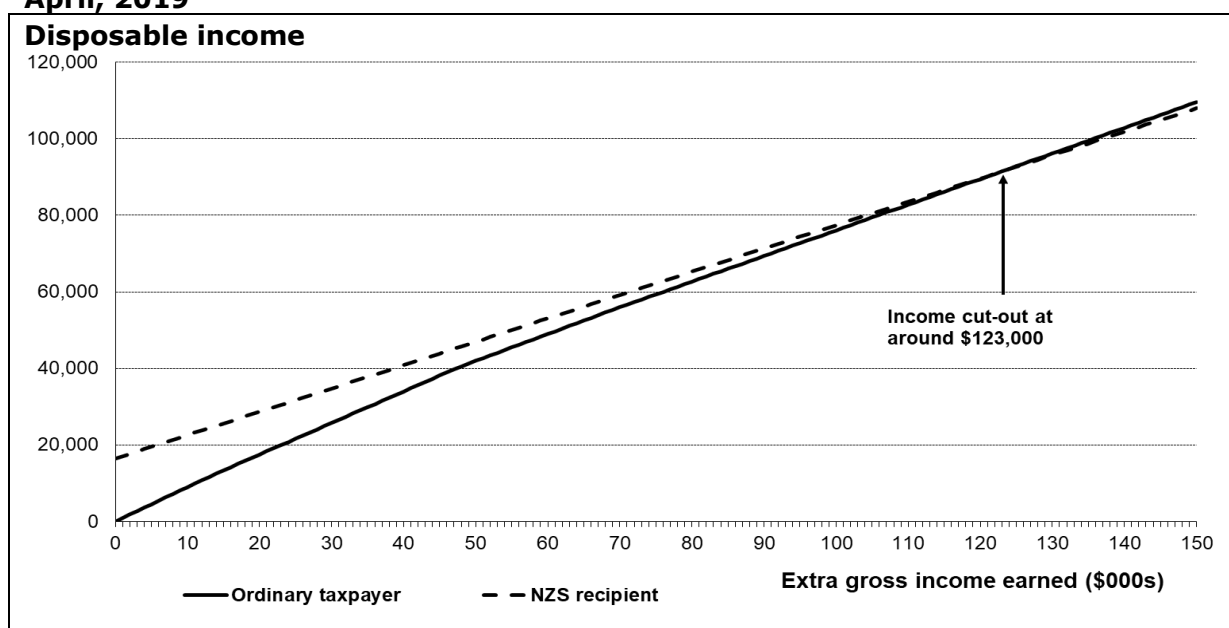
⁶¹ Paying the pension as a non-taxable grant and a progressive tax on other income makes the pension analogous to universal payments such as the old Family Benefit. It fits the labour government's ideas of progressive universalism, introduced with Best Start, Winter Energy Payment, tertiary study fees.

be part of the welfare system.⁶² While the NZSG could be set at any level, Figure 24 shows it as equal to the current (after-primary tax) rate of NZS, i.e. \$16,564 for a married person.

A break-even point exists (Figure 25) where the NZSG, plus extra income from work or investment, net of the new 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 gain from the NZSG has been effectively clawed back (i.e. offset by the additional tax).

The scenario depicted in Figure 25 with a flat tax at 39% on other income shows the breakeven point occurs when the NZSG recipient's 'other' income is \$123,000.

Figure 25. Scenario 1. Flat tax of 39% on other income: married rate NZS 1 April, 2019



This proposal is technically different to the surcharge of 1985-1998 because the NZSG payment is not part of taxable income. The surcharge was exceedingly complex, applying until the net advantage from NZS was equal to the surcharge paid and could mean different end points (when NZS had been fully clawed back) for different taxpayers. Few could follow the calculations. The surcharge was also perceived as an additional, discriminating tax that could result in marginal rates of tax exceeding 50% (see St John (1991) for further discussion of how the surcharge worked).

Given that for 80% of NZS recipients, NZS provides the majority of their income, a tiered structure may be useful to give some relief to those with limited extra income. Figure 26 illustrates a tiered scenario; with rates of 17.5% for the first \$15,000 of other income, and 39% on each dollar above that. At \$ 177,000, the break-even point in this case is much

⁶² As shown in Table 3 around 180,000 superannuitants get the single, living alone rate. Of these, many would continue to require a supplementary payment to reflect higher costs. A suitably modified accommodation supplement may be required.

higher than in Figure 25. Figure 27 offers a third intermediate tax scenario, and shows a cut out point of \$101,000

Figure 26. Scenario 2. Two-tiered rate of 17.5% (for first \$15,000 earned) and 39% above \$15,000: married rate NZS 1 April, 2019

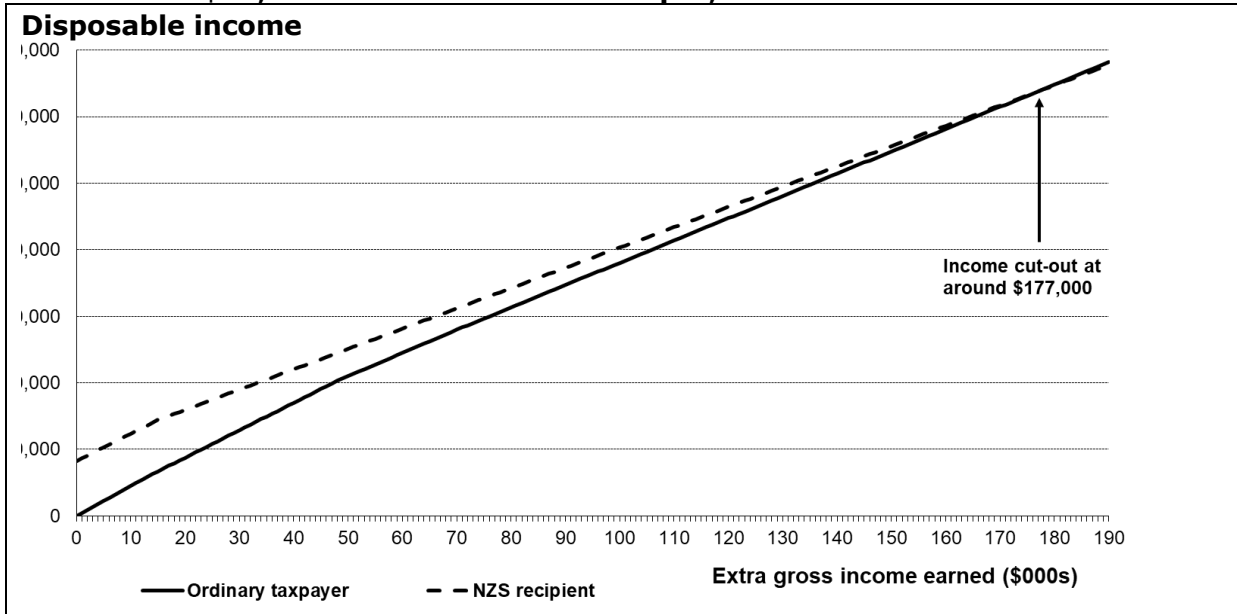
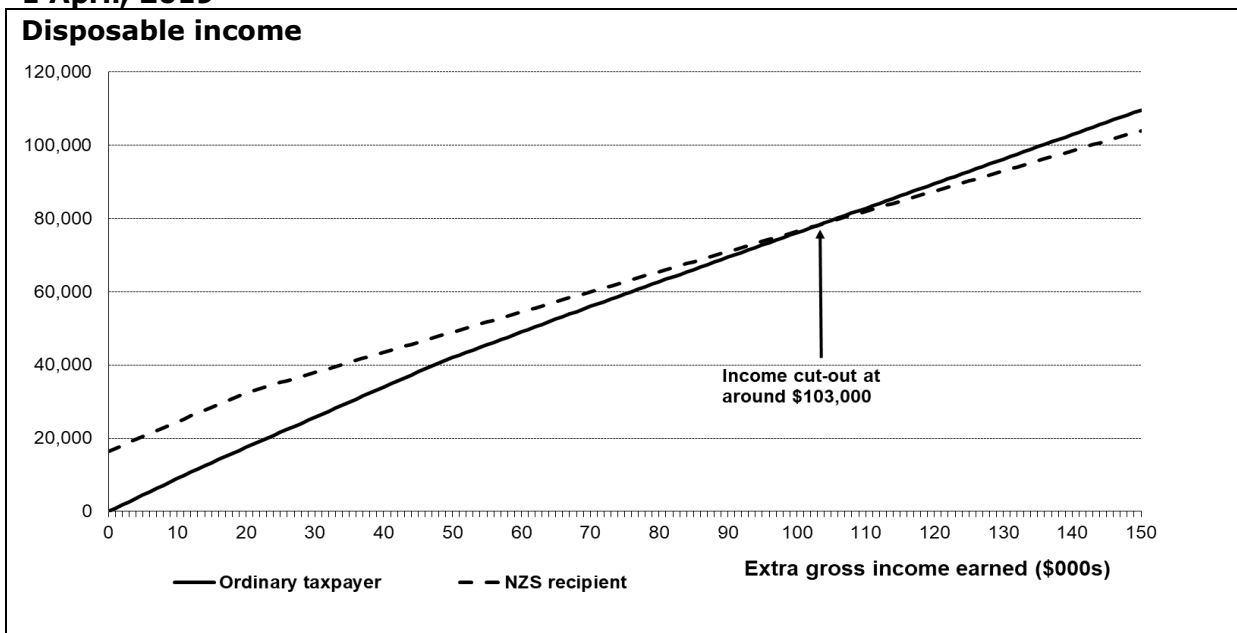


Figure 27 20% tax first \$20,000 earned and 45% beyond that; married rate NZS 1 April, 2019



The break-even point is very sensitive to the tax rate chosen, or in the case of a tiered tax schedule, to the highest rate of the schedule.

In the example scenario depicted in Figure 26 with a flat tax at 39% on other income, if the recipient of NZSG receives more than \$123,000 then it would be rational for them to

either: forego the NZSG and be treated as an ordinary taxpayer, or to apply for a refund of any tax overpaid on income above the cut-out at the end of the year.

Whether other income is from paid work or from investments, and whether it reduces or disappears, the right to the basic income floor of the NZSG remains. Thus, the NZSG is the prototype of a basic income that provides automatic income security as of right.

There are annual losses in disposable income relative to current settings as shown in Table 11 for the three tax scenarios depicted in Figures 25, 26, and 27 at bands of extra income earned. Any losses for people with small amounts of additional income these may be compensated in other ways,⁶³ or minimised as in the two-tiered tax approach of tax scenario two.

Table 11. Losses of non-NZS disposable (rounded) income for superannuitants relative to current system 2019/20 NZS married rate. ⁶⁴

Non-NZS taxable income (\$ per year)		Tax Scenarios		
		One	Two	Three
\$5,000		\$1,071	-\$4	\$121
\$10,000		\$2,146	-\$4	\$246
\$15,000		\$3,221	-\$4	\$371
\$20,000		\$4,296	\$1,071	\$496
\$25,000		\$5,371	\$2,146	\$1,871
\$50,000		\$8,153	\$4,928	\$6,153
\$75,000		\$9,691	\$6,466	\$9,191
\$122,800	Around Cut-out point for One	\$12,559	\$9,334	N/A
\$176,500	Around Cut-out point for Two	N/A	\$12,566	N/A
\$103,100	Around Cut-out point for Three	\$11,377	\$8,152	\$12,563

Once in place, the NZSG would be far less complicated than other forms of clawback such as the surcharge, a welfare-type means-test directly on NZS, or even a negative income tax approach. As with any targeting regime, an increase in the degree of targeting will result in some avoidance activity. New Zealand's past experience shows that opportunities and incentives for tax avoidance were features of the surcharge. It must be noted here however that the NZSG proposal is not nearly as harsh as the welfare means-test that applies to rest home care subsidies (see St John and Dale, 2019). It provides a gentle

⁶³ The Winter Energy Payment could be added in to the NZG for example.

clawback using the principle of progressive taxation which, it can be argued, is the natural counterpart of universal provision. The NZSG is consistent with the current arrangements that do not require any retirement test and therefore there is no disincentive to work.

Another concern may be that the NZSG would need to be carefully packaged so as not to adversely influence the decision to save. This of course would be much more of a problem if a full means-test was proposed including an asset-test rather than the proposed income-test operated through the tax system.

PIE tax regime

The integrity of the NZSG approach would require that the top PIE rate be aligned so that for the tax scenarios given, the top NZSG PIE rate would be 39% or 45% for the third scenario. Alternatively, gross PIE income could be imputed as 'income' to be taxed at 39% less the tax already paid by the PIE on the member's behalf (similar to the imputation regime).⁶⁵ The same argument applies to income earned through trusts, companies and overseas vehicles.⁶⁶ PIE income is included in the other income used to abate tax credits in the other major redistributive programme in New Zealand –Working for Families.⁶⁷

The holding of net financial wealth is highly skewed, favouring older age groups. It is therefore likely that there is significant PIE income among the top 20% of superannuitants. The costing done in the next section does not capture undertaxed PIE income as it is not included in the Household Expenditure Survey data base.

Treatment of current annuities and defined benefit pensions raise other complex but not insoluble problems. In the past, such annuities were apportioned 50% as income for surcharge purposes. There may also be opportunities. If for example there was desire to encourage annuitisation, an annuity to a limited value could be added to the NZSG grant instead of apportioned 50% as income as a means of making it attractive to middle income people in the absence of compulsory annuitisation (St John, 2016; St John & Dale, 2019).

Costing⁶⁸

The fiscal saving possible by using the NZSG approach depends on the decision about the alignment of rates and critically on the tax rates chosen. If the degree of targeting was similar to the surcharge as it operated at the end of the 1990s, savings of the order of 10% or more could be expected (Periodic Report Group, 1997).

⁶⁵ There is a case for using a consistent definition of taxable income for everyone, not just superannuitants. Thus extensions to the definition of taxable income, such as apply in Working for Families, might capture other possible avoidance activity.

⁶⁶ The issues around the need for an overall reform of these vehicles so that they are taxed at the individual's appropriate marginal tax rate are explored in Chamberlain & Littlewood (2010, 2019).

⁶⁷ See <https://www.ird.govt.nz/situations/i-am-a-pie-investor-with-a-student-loan-or-working-for-families>.

⁶⁸ The authors gratefully acknowledge the Modelling of these results provided with the help of Matthew Bell, NZ Treasury but this in no way implies any endorsement of these policies.

Table 12 shows the current projected costs and average numbers of superannuitants. A surcharge equivalent for the 2019/20 year, would produce saving of \$1.54 billion in gross terms. Moreover, in contrast to raising the age such savings could be reaped much sooner.

Table 12. New Zealand Superannuation (NZS) aggregate expenditure and average recipient numbers over June-end (fiscal) year - history, forecast & projection (The Treasury, 2019)

Fiscal Year (Year ended 30 June) →	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Nominal Gross Domestic Product (GDP) (\$billion)	288.812	299.713	316.957	334.009	350.210	366.568
Gross New Zealand Superannuation expenditure (\$billion)	13.699	14.562	15.488	16.384	17.409	18.468
Gross NZS expenditure as percentage of nominal GDP	4.7%	4.9%	4.9%	4.9%	5.0%	5.0%
Net (of tax) NZS expenditure	11.625	12.333	13.095	13.824	14.660	15.528
Net NZS expenditure as percentage of nominal GDP	4.0%	4.1%	4.1%	4.1%	4.2%	4.2%
Average number of NZS recipients in Fiscal Year (thousands)	741	767	794	821	846	873
Annual percentage growth of NZS recipients	3.4%	3.5%	3.5%	3.3%	3.1%	3.1%

The most recent Household Expenditure Survey was used by the New Zealand Treasury to model the cost saving from implementing a possible NZSG for the March-end year 2017/18. This costing was produced to assist in the production of this paper. It does not represent government policy or Treasury advice. The Treasury model assumes:

- All eligible people elect the option that delivers the higher disposable income, even if only by \$1 per annum. In other words, the only people who turn down the NZSG are those whose non-NZS income exceeds the 'break even' point, where they would end up with the same disposable income under either option.
- There are no behavioural responses, in particular, no change to labour supply or average hours worked by eligible superannuitants.

There are a total of 12 scenarios, which are 4 NZS net rate options costed by three different alternative tax regimes. The 12 scenarios are summarised in the Appendix.

The 4 NZS net rate options are:

1. Anyone who receives NZS gets the net married person rate
2. Any married person who receives NZS gets the net married person rate (including the non-qualified spouses) and any single person who receives NZS gets the net single sharing rate
3. Anyone who receives NZS gets the net rate they are currently entitled to
4. Anyone who receives NZS gets the net single sharing rate

The 3 alternative tax regimes are:

- a. 39% flat tax rate on all non-NZS taxable income
- b. 17.5% on the first \$15,000 of non-NZS taxable income and then 39% on non-NZS taxable income above \$15,000 per year
- c. 20% on the first \$20,000 of non-NZS taxable income and then 45% on non-NZS taxable income above \$20,000 per year

The true cost to the government of providing the public pension is the aggregate net (after-tax) NZS expense. Relative to its value in each year, costed under the NZS and personal tax regime existing in that year, modelling showed that savings in net NZS was possible for all net rate options and alternative tax regimes except net rate option number

4 where everyone has the single sharing rate. The results are summarised for the first three net rate options 1, 2, 3 above respectively:

- **Tax regime a** (39% tax on all other income) produced overall savings of 23%, 16%, 14%.
- **Tax regime b** (17.5% of first \$15,000, 39% on balance) produced overall savings of 16%, 10%, 7%.
- **Tax regime c** (20% on the first \$20,000, 45% on balance) produced overall savings 17%, 11%, 9%.

These figures assumed an immediate adjustment of all rates to the prescribed NZS net rate option. In practice the alignment of the rates would be phased in over time and the savings would increase more gradually. The costings also take no account of the additional supplements required by many of those living alone with high housing costs. Over time, as the baby boomers swell the numbers over age 65, savings will likely increase. This will be reinforced if the tax thresholds for the NZSG tax schedule are unadjusted for inflation.

The scenario of aligning the single living alone and single sharing rate to the married rate with a flat tax schedule of 39% achieves the most saving (23%). Appendix 1 shows that over one third or 8.5 percentage points of this saving is due to the alignment of the rates. The more gentle tax schedule of the 17.5%/39% combination saves 16% of NZS with just over half of this due to alignment of the rates, and the more aggressive tax schedule of 20%/45% saves 17%.

Even if the net rates are not changed as for net rate option 3, the costings show that 9-14% savings are possible as modelled under the three tax regimes.

For the scenario of aligning the single to the married rate and a flat tax schedule of 39%, around 3.7%, or 27,500 of age-eligible superannuitants are unlikely to apply as they would not gain from the NZSG. If the more gentle combination of 17.5%/39% is applied only 1.5% drop out, but for more aggressive tax schedule of 20%/45% around 4.6% drop out. It is likely these figures are very much understated as many would find it not worth the bother to ask for the NZSG especially if they are in well-paid work. It is also likely that others would be deterred because more income, such as PIE income would be captured.

Thus the savings set out in Appendix 1 for the 12 scenarios are all likely to be underestimates of the true potential of the NZSG approach. However if the living alone rate is aligned to the married rate there will be the need for separate assistance with accommodation costs for many low income retirees.

Summary

The proposed NZSG option that simplifies the treatment of relationship status by paying a single rate of NZSG for all – a tax-free grant equal to the net amount now paid to a married

person is most effective at saving costs although additional payments for those with high accommodation costs would be required.

This preliminary analysis suggests that the combined approach of using a separate tax schedule for other income and freezing the single rates so that over time there is alignment with the married rate, will give worthwhile savings of at least between 16-23%. If the net rates are not aligned the savings falls to 7-14%.

Fiscal savings are possible without imposing undue hardship or affecting those with modest amounts of additional income and can be achieved relatively sooner compared to raising the eligibility age. Any increase in the eligibility age if longevity continues to improve could be very gradual with constant monitoring to ensure individuals who, given the arduous nature of their employment, may expect to retire from work earlier than others, are looked after.

The NZSG approach does not unduly penalise extra income, depending on the parameters. Given that for the bottom 60% of NZS recipients, as measured by gross incomes, NZS payments comprise at least 80% of their total income, and for the bottom 80% of recipients it comprises at least 55%, the majority of over 65s will face little if any reduction in disposable income, especially in the 2 tiered tax options. It may therefore be much easier to introduce than raising the age and hence savings could be reaped earlier.

As with any targeting regime, efforts to maximise returns will lead to some tax planning activity. However, those who should be paying the top rate of tax of 33% already have an incentive to reduce their taxable income and some already pay little or no tax. It is debateable as to whether a marginal 39% or 45% tax rate would substantially change behaviour but there is the possibility that it could provide the impetus for a full investigation into, and exposure of, current and potential tax avoidance activities by wealthy individuals. Under the proposed NZSG, a wealthy person would have to reduce taxable income to under \$15,000 to avoid the 39% rate or \$20,000 to avoid the 45% rate completely.

Where income is in PIE funds the tax regime should ensure that individuals declare their PIE income and tax paid as they do for dividends from holding shares so as to pay tax at the appropriate marginal tax rate.

The proposed change would decrease the fiscal cost of NZS through reductions in payments to high income superannuitants and thus allow more spending or lower taxes for younger New Zealand taxpayers. It may therefore lead to improved perceptions of inter-and intra-generational equity.

If it is agreed that the cost of net NZS should be reduced by increasing the degree of targeting, using the tax system and the proposed NZSG has a number of potential advantages compared to other targeting regimes:

- Relatively simple: Simplicity in administration when compared to other income tests and the old surcharge.
- Universality is maintained. The grant is paid irrespective of other income as a basic income grant if eligible people elect to take it
- Flexibility: The choice of tax rates for other income allows flexibility and clarity in reaching a desired breakeven point and required fiscal savings. It also provides choice and clarity for very high-income superannuitants who are not denied access to the basic income floor of NZSG if their situation changes.
- The NZSG could be usefully extended as a basic income to other groups such as those in their 60s on the supported living payment if required.

8. Notes on other measures to improve fiscal sustainability

Increasing residency requirements for NZS

Work under the National-led Government who sought to raise the age of eligibility for NZS to 67 years, starting from 2037, and in that same year increase residency requirements (with grandparenting) to 20 years, showed that by 2041, \$4 billion or 0.6% of GDP could be saved (Office of the Minister of Finance, 2016). It was estimated that 120,000 fewer people would be eligible for NZS in the year 2041. Of this number, only 6,800 were those who needed to wait longer to meet the new 20 year residency requirements. It was estimated that there would be an offsetting cost from raising residency of an additional 3,100 more Jobseeker and Supported Living Payments. Overall net savings in 2041 were expected to be only \$195 million.

Raising residency requirements also means that revenue would be foregone from the overseas pensions direct deductions policy. Dale & St John (2016) argue that any increase in residency should be in the context of reforming section 70 of the Social Security Act. They proposed a residency increase of 25 years and abolition of the deduction of an overseas state pension from a person's NZS while retaining and updating certain reciprocal agreements such as with the UK and Australia. The cost of reform of section 70, long overdue, might simply offset the savings from increasing residency.

Even without this offset, increasing residency is not a serious contender for improving fiscal sustainability and especially not in the short run. In terms of intergenerational perceptions of fairness however it may be a popular policy.

Compulsory saving and tax concessions

The Tax Working Group (2019) proposed some increases in tax incentives for KiwiSaver in the context of the introduction of a CGT. That exercise was a reminder that such incentives are difficult to design without them being complex, expensive and regressive, and disadvantageous to women, while probably impacting little on overall savings

(Retirement Policy and Research Centre, 2018).⁶⁹ Arguments for and against tax concessions are many and further explore in Chamberlain and Littlewood (2019) and Inland Revenue & The Treasury (2019). However even if tax incentives increase KiwiSaver saving there is no fiscal saving unless KiwiSaver reduces entitlement to NZS implying some kind of means test.

Cullen (2012) outlined how an annuity purchased from KiwiSaver might be used to reduce entitlement to NZS. Over time NZS could be made to disappear, shifting provision for retirement from the state to the uncertainties of private provision. It is unlikely that such an option would be acceptable in New Zealand.

Growing GDP, raising taxes, prefunding

While in theory, a growing GDP should enlarge the pie to be shared and make the provision of universal NZS easier, the past three decades have shown that growth alone does not solve mal-distribution of resources and increasing inequality and inequity. Rising GDP has reduced the projection of cost of NZS as a % of GDP, however GDP per capita is a better measure of success than GDP alone. With rising immigration, the growth of GDP per capita has been low.

The fruits of per capita growth have not been shared well, nor does the future suggest that growth will be of the things that enhance well-being. Much GDP will be devoted to repairing the effects of poor regulation eg leaky buildings, climate change, environmental damage and pollution, underfunding of education, a run-down health system, poor dental health, as well as costs associated with obesity, dementia and diseases such as cancer and diabetes.

Raising taxes may help pay for universal NZS, but if PAYE income tax and GST are increased the impact will be severe on lower and middle income people. A wealth tax of some kind has potential. Although it is a fairer way to go, a wealth tax will not solve the issue of competing demands: universal NZS may be seen as a low priority in the face of the demonstrable needs of many of working age and their children.

Increasing prefunding via the NZSF does not hold out much promise either under existing arrangements. Increased contributions to the NZSF do not make NZS cheaper but do preclude other more beneficial uses of the surpluses generated from taxation.

⁶⁹ See <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/Submissions/Response%20to%20the%20Tax%20working%20group%20interim%20report%20savingfinal.pdf>.

9. Conclusion

This paper has outlined a number of possible policy tools that could be used to reduce the cost to Government of retirement income support, and to enhance fiscal sustainability and intergenerational perceptions of equity.

A range of evidence suggests that care is needed in designing policies that will reduce the costs of NZS. Projections under current policy settings imply however that action is needed. Early action is always better than abrupt, dislocating action later.

If raising taxes is ruled out, and raising the age of eligibility is likely to be particularly problematic in a rapidly changing jobs market, then there are only two other levers capable of raising significant revenue: lowering the rate of NZS, and income-testing. If it is desirable to save at least 10% of the net cost of NZS with little delay and without creating poverty, then a basic income approach with some alignment of married, single and living alone rates as suggested in this paper is worthy of consideration.

Reform also requires a holistic approach. Are reforms for long term care and private annuities suggested elsewhere compatible with reforms to the structure of NZS? Are these reforms compatible with a well-being approach and with overall principles that are fit for the changed family structure and work environment of the 21st century?

Policy development and implementation requires a long-term perspective not a three-year election cycle which encourages a short-term bias where "vote-maximising politicians have strong incentives to discount the future" (Boston, 2017, p. 167). A revisiting of the possibility of a political accord backed by an ongoing retirement policy taskforce is required to progress the reforms suggested in this paper.

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Appendix NXSG costings for 2017/2018 March year					1. All net married rate	2. All singles: net single sharing rate	3. All current net rates	4. All net single sharing rate
Status quo in tax year 2017/18 (1 April 2017 to 31 March 2018)				(billion)				
2017/18 aggregate net of tax cost of New Zealand Superannuation (NZS)				11.846				
2017/18 Tax paid by superannuitants on all of their taxable income				5.244				
2017/18 Tax paid by superannuitants on non-NZS income				3.555				
Scenario 1: Flat tax of 39% on non-NZS taxable income								
Aggregate net of tax cost of New Zealand Superannuation					10.454	11.225	11.479	12.831
Aggregate tax paid on non-NZS taxable income					4.844	4.882	4.888	5.102
Saving on aggregate net NZS payments					1.392	0.621	0.367	-0.985
Saving on aggregate net NZS as % of status quo aggregate net NZS					12%	5%	3%	-8%
Extra tax paid on non-NZS income					1.289	1.327	1.333	1.547
Increase in tax revenue as % of status quo tax on non-NZS income					36%	37%	37%	44%
Overall saving relative to status quo					2.681	1.948	1.700	0.562
Overall saving as % of status quo aggregate net NZS					23%	16%	14%	5%
Aggregate saving on NZS just from paying net married person rate					0.988	0.250	0.000	-1.186
Percentage of overall NZS saving due to paying the net rate option					37%	12.8%	0%	n/a
Percentage of superannuitants who no longer receive NZS relative to status quo recipient numbers					3.7%	3.4%	3.3%	1.5%
Scenario 2: 17.5% tax on non-NZS taxable income up to \$15,000 and then 39% beyond that								
Aggregate net of tax cost of New Zealand Superannuation					10.695	11.442	11.692	12.899
Aggregate tax paid on non-NZS taxable income					4.267	4.279	4.279	4.326
Saving on aggregate net NZS payments					1.151	0.404	0.154	-1.053
Saving on aggregate net NZS as % of status quo aggregate net NZS					10%	3%	1%	-9%
Extra tax paid on non-NZS income					0.712	0.724	0.724	0.771
Increase in tax revenue as % of status quo tax on non-NZS income					20%	20%	20%	22%
Overall saving relative to status quo					1.863	1.128	0.878	-0.282
Overall saving as % of status quo aggregate net NZS					16%	10%	7%	-2%
Percentage of overall NZS saving due to paying the net rate option					53%	22%	0%	n/a
Percentage of superannuitants who no longer receive NZS relative to status quo recipient numbers					1.5%	1.4%	1.4%	1.0%
Scenario 3: 20% tax on non-NZS taxable income up to \$20,000 and then 45% beyond that								
Aggregate net of tax cost of New Zealand Superannuation					10.356	11.150	11.402	12.598
Aggregate tax paid on non-NZS taxable income					4.123	4.190	4.195	4.275
Saving on aggregate net NZS payments					1.490	0.696	0.444	-0.752
Saving on aggregate net NZS as % of status quo aggregate net NZS					13%	6%	4%	-6%
Extra tax paid on non-NZS income					0.568	0.635	0.640	0.720
Increase in tax revenue as % of status quo tax on non-NZS income					16%	18%	18%	20%
Overall saving relative to status quo					2.058	1.331	1.084	-0.032
Overall saving as % of status quo aggregate net NZS					17%	11%	9%	0%
Percentage of overall NZS saving due to paying the net rate option					48%	19%	0%	n/a
Percentage of superannuitants who no longer receive NZS relative to status quo recipient numbers					4.6%	4.0%	4.0%	3.3%