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RPRC Update

Retirement Policy and Research Centre

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Since 2007, issues around the portability of pensions for people who retire abroad and the treatment of retirees with overseas pensions in New Zealand has been an important research focus for the Retirement Policy and Research Centre. Collaborating with the Human Rights Commission, Victoria University, and with victims of current policy, seminars were held in Auckland and Wellington in 2010 and 2011, back-grounded by a number of publications on the RPRC website.

The RPRC continues to raise the unresolved issues in the media, especially for those with overseas pensions. A further paper "New Zealand's Overseas Pensions Policy: enduring anomalies and inequities" (forthcoming, 2012, Institute of Policy Studies Quarterly) suggests that raising the residency requirement for New Zealand Superannuation may resolve many individual cases, while offering a mechanism to improve the future sustainability of NZS in a time of rapid ageing and increased international mobility.

"Fuse burning on Super time bomb"

Rob Stock, in the **SUNDAY STAR★TIMES** 25 March 2012, draws on RPRC research to suggest that "a trans-Tasman pensions time bomb can be defused".

He writes: *"With an ageing population and more than half a million Kiwis in Australia, it is time New Zealand put in place a 25-year residency rule to manage the future cost of NZ Super. This is the view argued by authors Susan St John and M.Claire Dale. Such a move would also be a first step towards ending an unjust and inconsistent system of slashing NZ Super for immigrants because of pensions paid to them from overseas, sometimes amassed from their own earnings."*

Some overseas pension funds resemble KiwiSaver, and there would be a justified outcry if NZ Super was reduced by an annuity created out of a KiwiSaver lump-sum.

Stock continues: *"A move to a clear 25-year rule would put an end to the current simmering unfairness and discontent of Kiwis returning, and immigrants who have been here for decades, when their NZ Super is reduced by the value of pensions paid to them from overseas that have been accumulated from their own savings and employer contributions."*

"Many immigrants say nobody told them their pensions would be raided when they were encouraged to move to New Zealand, and feel cheated and treated shoddily by the application of opaquely worded regulations allowing the Chief Executive of Work and Income to decide what s/he believes to be an overseas pension that can be deducted from NZ Super", writes Stock.

"In the future, with an increasing state pension age in Australia, a harsher income test, and because 'totalisation' can be applied under the Social Security Agreement, it may become relatively attractive for New Zealanders to return home to retire…. This would increase the burden on the working age population of New Zealand."

Dale and St John note that the Ministry of Social Development's policy reviews have pointed out the unfairness of this treatment of immigrants and returning Kiwis. Recent legislative amendments mean this inequitable treatment now contrasts with the more liberal treatment of New Zealand Superannuitants who can take gross NZS on a pro-rata basis when they move to a non-agreement country.

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The Retirement Policy and Research Centre thanks its sponsors, close collaborators, and partner organisations.
In particular, grateful thanks to the MSA Trust; and to our host, the Department of Economics at The University of Auckland.

RPRC's letter in Mary Holm's **Herald** column, 10 March 2012, in response to her statement that her column would no longer include letters on the overseas pensions issue:

RPRC's Question: While we at the University of Auckland's Retirement Policy and Research Centre can quite understand your unwillingness to open the floodgates re the way people with overseas pensions are treated, the issues are still very real for many people. Can we suggest that you refer to our website and the material and papers we have published there, and our ongoing work to get improved policies and address the inequities. For details see **here**.

There is a spectrum of complaints in this field that make it very confusing. At one end there is a very clear anomalous treatment of the spouses of superannuitants who have an overseas state pension. It can be a painful discovery when one's own New Zealand Superannuation is reduced because of who you married, even if you have worked all your life in New Zealand.

Further along the spectrum are issues of deducting pensions from abroad that look suspiciously like savings into schemes akin to KiwiSaver. More murky are the earnings-related state-run pension schemes. But then there are the cases where it is clear-cut that a person should not be able to double dip. So no-one should get a full Australian age pension and full NZ Super for example, as your last letter on March 3 illustrates. Your readers may not be aware of the unfairness of the trans-Tasman arrangements. A wealthy Australian may get full NZ Super by retiring here. Ironically under the Australian income and asset test, this person may not be entitled to an offsetting Australian age pension, so the New Zealand government - ie us as taxpayers - meet the full amount.

Conversely when a wealthy New Zealander retires to Australia, they can't take NZ Super with them, and may also be excluded from the Australian age pension on the basis of the income and asset test.

Win/win for Australia, lose/lose for New Zealand?

Mary Holm's Answer: No wonder I found all this complicated when it last came up in this column. Hence the ban this time. We could fill the column with nothing else for weeks. But it's great to know you are on top of it all, and pushing for change. Readers affected by these situations should find your website helpful. … Send questions to mary@maryholm.com or Money Column, Business Herald, PO Box 32, Auckland.

The New Zealand Herald

Mary Holm's article **here**.

The Retirement Commissioner in her 2010 review stated firmly that the application of deduction policy to spouse's NZS goes against the principle of universal individual entitlement and needs to change. The RPRC believes at the very least this issue must be addressed immediately by the government.

RPRC in the media and public addresses

14 Feb, *Right to Health* conference, Wellington Medical School, Susan St John invited speaker.
22 Feb, Council of Trade Unions workshop, Auckland Susan St John invited speaker
27 Feb Radio New Zealand Michael Littlewood says **'**New figures suggest KiwiSaver did not make a significant contribution to household savings in 2011', **here**
3 Mar, Christchurch Press, *Move to a free-market economy has hurt the health of New Zealand's children*, Susan St John interview
3 Mar New Zealand Herald online: Achilles heel of welfare reform, Susan St John
13 Mar Maxim Institute's Real Issues Michael Littlewood on 'Costs of KiwiSaver', **here**
17 Mar, Methodist Mission Synod, Susan St John, invited address
24 Mar Mana AGM, Mataikotare Marae, Rotorua, Susan St John, invited speaker

Treasury appoints expert panel, 19 March 2012, by Vernon Small, for STUFF

Treasury has appointed an external panel of experts, including Dr Susan St John, Co-Director of the Retirement Policy and Research Centre. Link to the list of appointed experts ***here***.

The panel, to be chaired by Victoria University's Professor Bob Buckle, will test Treasury's analysis of the Crown's long-term fiscal position. Professor Buckle chaired the 2009 Tax Working Group that led to the Government's tax switch that saw personal taxes cut and GST rise to 15 per cent.

Treasury Secretary Gabriel Makhlouf said the Treasury was required to report every four years and its next report was due by October 2013, but it would be published in April 2013.

"These statements, which provide 40-year projections on the Crown's fiscal position, identify challenges that will face future governments, such as those arising out society's ageing population, and provide Members of Parliament with evidence-based options on how to meet those challenges", Makhlouf said. The panel would help strengthen the quality of analysis contained in the Treasury's 2006 and 2009 reports.

RPRC Seminars:

Aaron Bruhn, Australian National University, 9 February 2012

Putting a human face on the financial services industry: What happens when it all goes wrong?

One impact of the Global Financial Crisis has been the collapse of several financial products and service providers. This has resulted in many thousands of people in Australia and New Zealand losing their life savings, house ownership, and any semblance of financial security. In some cases these losses have resulted from inappropriate financial advice being given.

This seminar discussed the extent of the impact on the lives of some Australian individuals when Storm Financial Services collapsed. In particular, it suggests that being empowered to have a degree of control in one's life is the fundamental service that should be provided by the financial services industry. The seminar was well-attended by academic and industry representatives.

Aaron Bruhn lectures in actuarial studies at the Australian National University, having moved to Canberra four years ago after working as an actuary in the New Zealand life insurance industry, and public service. He is a Fellow of the Australian Institute of Actuaries and the New Zealand Society of Actuaries. The seminar described part of his PhD research.

The seminar slides are available **here**.
A *Good Returns* article followed, available **here**.

Associate Professor Sue Newberry, University of Sydney, 9 March 2012

Accounting for the government: Is GAAP a step forward or a step back?

Newberry, who previously taught at New Zealand's University of Canterbury, is a recognised expert in Australasia on GAAP issues.

Her research covers two main areas: financial accounting and standard-setting; and public sector financial management reforms. She believes many accounting and financial management issues have public policy implications and should be better understood by the wider public.

New Zealand and Australia have been at the forefront of adopting the 'Generally Accepted Accounting Practice' (GAAP) framework for the government's accounts. GAAP however is primarily designed for business and is based on a philosophy to 'protect investors and ensure the stability of capital markets'. Thus while principles of transparency and accountability are promoted, they do not incorporate social objectives.

In this seminar, Newberry addressed the following questions: Is the generally accepted accounting standards (GAAP) approach appropriate for a government's financial reports given its wide involvement in social insurance? What about public-private partnerships? Has line by line accounting improved the New Zealand accounts? Has it improved transparency, or has it created a façade of transparency that does not tell us what we need to know?

Newberry suggested that GAAP has led to a narrow interpretation of the role of the state and how it should be monitored.

The seminar slides are available **here**.

Media coverage: Sunday Star Times 1 April 2012: ***Government in $112b barney*** available **here**

RPRC PensionBriefing 2012-1, 14 February

Part of our pensions past: the 1898 Old Age Pension

New Zealand was an early adopter of non-contributory pensions for the old. The pension started on 1 November 1898 but was payable only once a long list of conditions was satisfied. It was introduced by Richard Seddon's Liberal government following the 'Long Depression' of the 1880s and 1890s.

The pension was, as now, paid from general government revenues on a pay-as-you-go basis, did not have any contribution requirement, and with some exceptions, all residents were potentially eligible. However, it was subject to stringent income, asset and other tests, including a requirement that the applicant must have resided continuously in the colony for twenty-five years.

"This innovative social policy was a pragmatic response to prolonged depression during the 1880s. Its need arose primarily because, as a young developing nation, New Zealand did not enjoy the community and traditional family structures that in older countries might have been expected to provide for the elderly poor. There was no time to institute a contributory scheme, or to encourage private provision." (St John and Ashton 1993, p.8.)

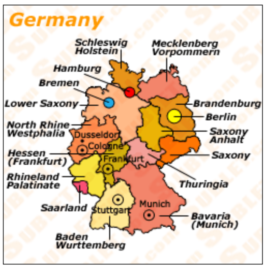
This *PensionBriefing* is available **here**.

pensionreforms

PensionReforms added 30 new abstracts in the first three months of 2012. There are now 544 reports on the sortable database at www.PensionReforms.com.

One recent report deserves particular attention. PensionReforms' front page 'thumbnail' states:

Comparing just pension systems in different countries is difficult. Worse, such limited comparisons are simplistic. Germany and Australia have very different systems. Comparing just the pensions misleads rather than illuminates more .



The point is important and has been picked up in a number of reports on New Zealanders' saving habits (see for example Le, Scobie & Gibson's 2007 report: *Are Kiwis saving enough for retirement? Preliminary evidence from SOFIE*, **here**, and Scobie & Henderson's 2009 report: *Saving Rates of New Zealanders: A Net Wealth Approach*, **here**).

What really matters when assessing the financial preparedness of citizens for retirement is their total wealth including housing, other real estate, financial assets, and state and private pension benefits.

The 2009 comparison between Germany and Australia (using 2002 household wealth data) illustrates that point well. Germans have significant pension entitlements (50% of the average German's retirement wealth compared with just 21% for Australians) but somewhat lower property wealth (37% for Germans vs. 47% for Australians) and also lower financial wealth (10% for Germans vs. 29% for Australians).

Despite very different retirement saving environments, the striking aspect of the comparison was that overall retirement wealth was virtually the same for Germans and Australians. This, the report concluded seemed true "…whether the focus is on measure of central tendency (means, medians), or on measures of dispersion or inequality."

The retirement saving environments in each country certainly influenced the make-up of retirement wealth but seemingly not the overall result.

Other news in the sector

Encouraging all New Zealanders to make a money plan

Free, independent money guide *Sorted* is running a new campaign encouraging all New Zealanders to make a plan for their money – and they're seeking support to spread the word. The campaign is part of a longer term programme of activity focused on motivating New Zealanders to take action on their money matters, based around a framework called '*Think, Shrink & Grow*': '*think* ahead, *shrink* your debt and *grow* your savings'.

Making a money plan is part of 'Think', and the current campaign features on television, online, and from late April, it will appear in bus-stops. Having a money plan is about making sure your money goes where you want it to. Sorted has ideas and tips to help make a plan at www.sorted.org.nz/think.

There are lots of ways to support the campaign:

- From 20 April, order *free* Sorted 'Think' posters from Jasmine Baker: jasmine@gslnetwork.co.nz
- Encourage people to visit www.sorted.org.nz/think and share their money tips
- Share this article with your community
- Order *free* Sorted booklets from www.sorted.org.nz/a-z-guides/booklets

Sorted is hosted by the Commission for Financial Literacy & Retirement Income. Sorted's resources are free, independent and impartial. For questions please contact Marketing Communications Manager Anna Griffiths at anna.griffiths@cflri.org.nz.

Please note: the ***2011 RPRC Annual Report*** is now available on request from RPRC Co-director Susan St John at s.stjohn@auckland.ac.nz.