

RPRC Update

Retirement Policy and Research Centre

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Does the UK's reform of pensions have lessons for New Zealand?

An RPRC Forum: 23 September 2013

This RPRC Forum, hosted at the University of Auckland Business School in association with the Centre for Applied Research in Economics, brought together academics, analysts, actuaries, KiwiSaver providers, financial advisors, as well as representatives from the Ministry of Social Development, the Financial Markets Authority, the Financial Services Council, the major banks, and the Auckland Council.



The UK's pension system is described as the most complex in the world, and New Zealand's is described as the simplest. After fifteen years of intense retirement income policy debate, consultation and legislation, the UK's pension system will become surprisingly like New Zealand's with a single tier of public pension and auto-enrolment into private pensions. However, reform will continue with significant future changes to the age of eligibility and major efforts to reinvigorate workplace pensions.

Dr Alison O'Connell, the keynote speaker, a policy adviser on longevity, pensions and risk issues, was founding Director of the UK's Pensions Policy Institute; is a board member of the Earthquake Commission; a Research Associate at New Zealand Public Finance; a Fellow of the Institute of Actuaries; and a panel member in 2013 in the Long-Term Fiscal process for The Treasury. She has maintained UK policy links as a government adviser and a Governor of the PPI since emigrating to New Zealand in 2006. She explained the UK reforms, and the policy areas where they are overtaking New Zealand, closing with her interpretation of some inevitable themes in pension policy reform that we ignore at our peril.

Michael Littlewood, Co-director of the RPRC, argued that NZS is affordable now, and may also be affordable in 2060. He suggested what needs to be talked about immediately is the shape of NZS likely to be acceptable to 2060 taxpayers; how to ensure we have better data including longitudinal data; and improving tax rules to level the playing field. Then, he said: "let employers and individuals make their own decisions about private provision".

Dr Susan St John, Co-director of the RPRC, listed the three main options to reduce the cost of NZS: raise the qualifying age; reduce the payment level; or clawback some cost with a well-designed 'means test'. While the costs of NZS alone do not look excessive, projections of government spending assume policies for the working age population will not change. The projected spending on these populations is unsustainably low. Using the tax system to claw back NZS from the top 10% of earners is one way to moderate these pressures.

Dr Malcolm Menzies, Research & Corporate Services Manager, Commission for Financial Literacy and Retirement Incomes, reflected on barriers to retirement income policy change. Rather than blame politicians with a short-term horizon for avoiding policy changes, Dr Menzies suggested perhaps governments respond to the public mood. And maybe barriers arise from how messages about change are communicated? Emotions about retirement income run deep and hot, and if people perceive disadvantage in the change, it's difficult to engage them in debate. He suggested framing the issues in terms of *fairness*.

The Forum Proceedings are available [here](#).

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Retirement Policy and Research Centre

www.rprc.auckland.ac.nz
 The University of Auckland
 Business School
 Owen G Glenn Building
 12 Grafton Road, Auckland

Co-directors:

Assoc.Prof. Susan St John:
 s.stjohn@auckland.ac.nz
 DDI (09) 923 7432

Michael Littlewood:
 michael.littlewood@auckland.ac.nz
 DDI (09) 9233 884

Research Fellow:

Dr M.Claire Dale:
 m.dale@auckland.ac.nz
 DDI (09) 923 6968

Minister's decision on premium-only aged residential care facilities

In February 2013, the RPRC made a [submission](#) to the Ministry of Health's Older People Policy Business Unit on the establishment of district health board (DHBs) funded premium-only aged residential care facilities. Such facilities would be able to charge all of their residents additional fees for premium rooms (eg, those with en suites or special views). Of the 43 submissions received, DHBs and consumer groups generally opposed the proposal and there was a mixed response from aged residential care providers. On this basis, it was decided that the premium-only proposal should not proceed at this time. On 27 June, the Associate Minister of Health, Hon Jo Goodhew, announced she would not proceed with the proposal. News item [here](#). Many submissions suggested ways to improve the current model, which



allows a mix of standard and premium beds in any one facility. Hon Jo Goodhew has referred these suggestions to health sector leaders for further consideration and has asked them to report back to her later this year.

Submission on Discussion Document: Flexible Superannuation

As the solution to the sustainability of NZS, the United Future party, supported by the National party, has released a Discussion Document proposing '[Flexible Superannuation](#)'. As the baby boomers move beyond the state pension age of 65 years and longevity continues to improve, NZS will cost taxpayers more. About 612,000 New Zealanders now receive NZS at an after-tax cost in 2013 of \$8.8 billion. The Treasury's latest estimates suggest that the net cost will increase from 4.1% of GDP now to 6.6% in 2060. There is no government proposal to increase the qualifying age of 65 or to even to discuss the possibility.

The Discussion Document proposes that New Zealanders choose when they first receive NZS between ages 60 to 70. The 'early' pension will be less because it will be paid from an earlier date and probably for a longer period. Conversely, the 'late'

pension will be higher to reflect both the deferral and also the fact that the expected payment period will be shorter, once NZS starts. A number of details are unclear, including the actual rate of reduction for 'early' pensions and the rate of increase for 'late' pensions. Flexibility is, in theory, a good thing. As the Discussion Document says: "Flexi-Super would enable New Zealand residents to manage their retirement income and lifestyle with more flexibility than they currently have by giving them greater choice in when to first take NZS. Flexi-Super would aim to achieve this while being fiscally neutral." (p. 10) However, choice comes at a cost. The RPRC Submission discusses what those disadvantages may be, and suggests that fiscal neutrality is impossible if the adjustment rates are actuarially neutral.

RPRC Submission, 10 October 2013, available [here](#).

Pension Briefing 2013-6

New Zealand Superannuation's real costs – looking to 2060

The Treasury has released a slew of papers giving its own and others' views on some of the fiscal challenges New Zealand faces over the next 50 years. A total of 41 reports and spreadsheets are involved with 19 pieces of "externally commissioned research", including one by RPRC's Susan St John, available [here](#).

The last Treasury review was in 2009. The RPRC analysis of that is in *Pension Briefing 2010-4*, [How much will New Zealand Superannuation really cost?](#) The Treasury's main 2013 report is [Affording Our Future: Statement on New Zealand's Long-term Fiscal Position](#). Although the fiscal environment has improved in the last four years, the Treasury is justifiably concerned about our fiscal future. New Zealand has an ageing population and the costs associated with ageing (pensions, healthcare and long-term care) are expected to more than double over the next 50 years, if current settings persist.

The older groups in our population will be making larger claims on the country's economic output. That should put

New Zealand's expected growth at the centre of the discussions about the size of NZS, the qualifying age and other conditions, and the basis on which it is protected against inflation. But those are not the only things we need to discuss, for example, some think New Zealanders should be compelled to save for retirement or that the government should itself pre-fund NZS.

When discussing the future affordability of expenditure on the old, we need to be concerned if economic output grows insufficiently to support the claims of the growing aged population. Showing expected costs as a proportion of New Zealand's future economic output is one way of expressing that connection. It presents a less alarming picture than many might expect. The Treasury has run an annual estimate of the long-term costs of NZS, measured against expected GDP. Since the first estimate in 2000 (net 9.7% of GDP by 2060) the latest estimate puts the expected cost at 6.6% by 2060.

The full *Pension Briefing* is accessible [here](#).

Conferences and academic presentations

St John, S. "The SAYGO PAYGO debate is there another view?" at the *Annual Colloquium of Superannuation Researchers*, hosted by the Centre for Pensions and Superannuation Research Group and the School of Risk and Actuarial Studies, University of New South Wales, 9-10th July 2013: Sydney

St John, S. "Can saving for an ageing population save us?" *Australian Demographic & Social Research Institute*, ANU College of Arts & Social Sciences, 9th August 2013

St John, S. "Helping the older population pay for itself: Decumulation policy in New Zealand", *Research School of Finance, Actuarial Studies and Applied Statistics*, Australian National University, Canberra, 9th August 2013

RPRC in the media and public presentations and contributions

NZ Centre for Political Research, 6 July, Michael Littlewood: [Are home ownership rates really falling?](#)
DominionPost, 9 July, Vivien Engler on overseas pensions [Net widens on double-dip pensioners](#)
Radio NZ's Nine to Noon, 10 July, Vivien Engler & Susan St John [Govt push to save on superannuation payments](#)
Dominion Post, 10 July, Susan St John & Michael Littlewood quoted in Editorial: [Double-dip pensioners](#)
Dominion Post, 12 July, Michael Littlewood article, [Time for pensions debate](#)
LarryWilmorePensionsBlog, 16 July, Michael Littlewood quoted: [New Zealand's Universal Pension](#)
Radio NZ's MorningReport, 22 July, Michael Littlewood quoted: [KiwiSaver tweaks to help first-home home buyers](#)
Sunday Star Times, 7 August, Michael Littlewood posts on Bernard Hickey, [Justification for resuming contributions](#)
New Zealand Economic Papers, 12 August, M.Claire Dale requested to provide a Review for a submitted article
New Zealand Herald, 15 August, Simon Collins on PensionBriefing 2013-6: [More Kiwis working beyond pension age](#)
Kiwiblog, 15 August, Michael Littlewood quoted: [the retirement age](#)
HR Development, 15 August, Michael Littlewood quoted: [Growing trend of working beyond 65 in New Zealand](#)
Newstalk ZB, 15 August, Susan St John: [Higher tax on retirees could deal with baby boomers](#)
NZ Centre for Political Research, 24 August, Michael Littlewood: [NZS is expected to be cheaper?](#)
National Radio, 27 August, Susan St John: [Peter Dunne down plays cost of lowering retirement age](#)
National Radio, 27 August, Michael Littlewood: [Should NZ introduce flexible superannuation?](#)
Parliamentary Q & A, 28 August, Michael Littlewood cited in question by Denis O'Rourke and answer by John Key on [the proposal for a flexible state pension age](#)
New Zealand Herald, 29 August, Susan St John: [Nothing super about Dunne's new plan](#)
Money Week, 30 August, M.Claire Dale presents to CYFs and SWiS managers: Nga Tangata Microfinance Loans

Review of Retirement Income Policies 2013: on overseas pensions...

The Commission for Financial Literacy and Retirement Incomes (CFLRI) has released the discussion document: [Focus on the Future](#). Of particular interest to the RPRC were the comments on overseas pensions.

The RPRC continues to work in the area of overseas pensions and sees it affecting an increasing number of people. The Retirement Commissioner's review *Focus on the future* notes (p. 22) that the number of pensioners affected by direct deductions from NZS and Veterans Pension recipients has increased from 47,232 (9.3%) in 2007 to 65,042 people (10.3% of those aged 65+) in 2013, with an average annual deduction of \$3,532.

The CFLRI 2013 discussion document makes four recommendations around overseas pensions, noting that there has been no progress in this area since 2010:

- That an individual's overseas state pension entitlements should be directly deducted against their own individual entitlement to New Zealand Superannuation and that any excess should not then be offset against the individual entitlement of their partner;
- That the Ministry of Social Development (MSD) improves information and advice for recent and prospective migrants and returning New Zealanders on the implications of the direct deductions policy for their future retirement income;
- That the MSD improves the public availability of decisions on the classification of overseas pension schemes whose pension payouts are subject to the direct deduction policy;
- That the MSD explains the rationale behind each international pension scheme classification.

The RPRC would like to see immediate action taken on these issues. There can be no justification for the continuation of the spousal deduction under section 70 and the RPRC supports the Retirement Commissioner in her efforts to have this resolved.



Other publications:

Essentials of Elder Law in New Zealand, Book Chapter: "Critical policy perspectives on the law regarding benefits and pensions", Susan St John and M Claire Dale.

Excerpt from Introduction: New Zealand's approach to retirement income policy, with its relatively simple legislative framework, is unique in the Organisation for Economic Co-operation and Development. The system comprises New Zealand Superannuation (NZS), a universal pension, and KiwiSaver, a quasi-compulsory savings scheme introduced in 2007. The US and many countries in Europe have complex, compulsory, contributory, earnings-related social insurance schemes that provide a state pension, backed up by tax incentives encouraging or compelling private and/or work-based supplemental saving. Australia and Chile have tax-favoured compulsory employment-related retirement savings schemes. Whatever the mix, these countries have a degree of state involvement in regulation and monitoring not found in New Zealand. One consequence is that complex interactions may occur when immigrants have coverage under another country's regime, or when New Zealanders migrate.



Journal of Pension Economics and Finance Vol 12, Issue 4, 2013. Book Review: "Reforming Pensions for Civil and Military Servants", Susan St John.

Excerpt from the Review: This book summarises an international seminar held in January 2011 where academic experts

discussed the arrangements for public sector employees' pensions in a range of countries... In some countries, ... public sector pensions are paid in addition to other basic state pensions or social insurance pensions. In others, there is some degree of integration and comparability

with private sector schemes. Critically, in most countries, there has been a tradition of favoured treatment for pensions for civil servants. The book asks whether this dualism makes sense any more. As the Global Financial Crisis continues to affect sovereign states, and as Defined Benefit (DB) plans in the private sector have struggled, the favoured situation of civil servants has been put under increased scrutiny.

Journal of Social Policy & Administration, 2013, "Wage-Earners' Welfare after Economic Reform: Refurbishing, Retrenching or Hollowing Out Social Protection in Australia and New Zealand?" S. Wilson, B. Spies-Butcher, A. Stebbing, S. St John.



Excerpt from the Abstract: Australia and New Zealand developed distinctive 'wage-earner welfare states', with social protection largely delivered through high bread-winner basic incomes and residual social policies. Market reforms then pursued in both countries during the 1980s and 1990s retrenched important elements of the Antipodean model.... Voters rejected the Employment Contracts Act in New Zealand in 2000 and WorkChoices in Australia in 2007.... We argue these changes taken together produced a 'hollowing out' of wage-earner welfare in both countries.... But, we also note persistent differences, reflecting the more radical and 'pure' New Zealand experiment, its relatively centralized politics and stronger liberal tradition. Hence, Australia retains more progressive taxation and family support less connected with employment status, while making greater use of tax expenditures to support private welfare.

pension reforms

After a long delay, www.PensionReforms.com is back on-line. The website is now cloud-based on Microsoft's Azure. Some tidying up is still needed but the sortable, searchable facilities have been restored to the, now, 637 abstracts.

Congratulations to RPRC's Advisory Board member, Professor Natalie Jackson, University of Waikato on Marsden Funding success, announced 29 October 2013:

The project: *The sub-national mechanisms of the ending of population growth. Towards a theory of depopulation.* Population growth is theorised to cease globally about 2100, resulting in irreversible population shrinkage in most countries. This research project led by Professor Jackson is designed to develop a theory of depopulation, and the unfolding mechanisms underlying it to assist policymakers to respond. Awarded \$748,000.



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