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The Retirement Commissioner
The Commission for Financial literacy and Retirement Incomes
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Submission: Review of Retirement Income Policy, 2013

Thank you for this opportunity to offer a submission on the three-yearly Retirement Commissioner's Review of retirement income policies.

The Commission's 2010 Review recognised that there is a limited set of options for successfully meeting the many social and economic challenges of New Zealand's ageing population, and made recommendations accordingly.

The Government's lack of response to the 2010 recommendations is of grave concern. Of the seventeen recommendations arising out of the Review, six have been acted on, at least in part, while the other 11 recommendations have been ignored (see attached Appendix).

This submission draws on the online 'short submission' form supplied on the Commission for Financial Literacy and Retirement Incomes (CFLRI) website; and the terms of reference for the Review as stipulated by the Minister of Commerce. It references the Retirement Policy and Research Centre's (RPRC) relevant research and publications.

To increase the accessibility of our recommendations, the RPRC has provided links to our research publications that respond to each of the 2013 Review Topics.

2013 Short submission response:

Short submission question: *In general, do you think New Zealand's system of retirement income is fair?... Please give us any other thoughts on how to improve New Zealand's retirement income policy.*

> In general, and recognising that individuals and the Government have different responsibilities and abilities to act, New Zealand's system of retirement income is fair. In addition, also with some qualifications, New Zealand has one of the most sustainable overall retirement income arrangements in the developed world. The principal qualifications concern the following:

1. The Direct Deduction Policy (Social Security Act 1964, section 70) can be applied in ways that discriminate against people with private overseas-based retirement savings, and discriminate against their spouses.

To end this injustice, the Government must cease deducting from NZS those overseas-based private pension savings that are equivalent to KiwiSaver.

2. In addition, the Government needs to urgently reconsider the comparatively easy access to New Zealand Superannuation (NZS). The existing 10 year residency requirement creates a significant risk for taxpayers, given the pay-as-you-go funding method for NZS, combined with increasing numbers of immigrant retirees.

RPRC publications on the 'overseas pensions' issue include:

a) New Zealand's Overseas Pensions Policy. Enduring Anomalies and Inequities, 2012, Policy Quarterly, Volume 8, Issue 2, M.Claire Dale & Susan St John;
b) Working paper 2011-1: Overseas pension: The next steps, M.Claire Dale, Susan St John, Michael Littlewood & Andrew Smith;
c) Working Paper 2010-4. New Zealand Superannuation and Overseas Pensions: Reform Option 2, Michael Littlewood & M.Claire Dale;
d) Working Paper 2010-3: Option 1. Reforming New Zealand Superannuation for a mobile trans-Tasman population, Susan St John & M.Claire Dale;
e) New Zealand superannuation and overseas pensions forum series: Issues and principles for reform, 25 August 2010, Wellington;
f) New Zealand superannuation and overseas pensions forum series: Options for reform, 24 February 2010, Auckland;
g) Notes for Overseas Pensions Forum, 24 February 2010. New Zealand Superannuation and Overseas Pensions: Reform options 1 and 2;
h) Working Paper 2009-2: New Zealand superannuation and overseas pensions: Issues and principles for reform, Dale, M C, Lazonby, A, St John, S, Littlewood, M.;
i) Working Paper 2009-1: Literature review: New Zealand superannuation and overseas pensions, Dale, M C, Lazonby, A, St John, S, Littlewood, M.

3. Other issues that relate to a lack of fairness include:

a) outmoded distinctions in NZS rates: Married, Single sharing, Living alone;
b) absence of consideration of equity between different groups (as at a point in time) in determining age-pension policy (see Working Paper 2013-1. Save As You Go or Pay As You Go? The age old policy debate, Susan St John).
c) The income tax treatment of collective investment vehicles for private retirement savings is in need of urgent, extensive reform. Current tax treatment is complex and inconsistent and fails to use ordinary meanings of 'income' as the basis for the assessment of tax. See: Working Paper 2010-1: Towards a more rational tax treatment of collective investment vehicles and their investors, Chamberlain, M, Littlewood, M.
d) Flattening of the income tax scale has increased the value of net NZS delivered to higher income-earners over the last 30 years. This deserves debate (see Fiscal Sustainability in an Ageing Population: adapting universal provision. (2012) Paper for Treasury's long-term fiscal external panel, St John, S.).

2013 Responses to Topics for Review:

1. An update of and commentary on the developments and emerging trends in the retirement income provision area since the 2010 review, both within New Zealand and internationally.

Emerging trends in retirement income provision include resurrection of the PAYGO vs SAYGO debate around paying for NZS, and the voluntary vs compulsory KiwiSaver contribution debate. The SAYGO and compulsion options are promoted by the Financial Services Council, the peak organisation for fund providers.

RPRC publications responding to the SAYGO option include:

a) Working Paper 2013-1. Save As You Go or Pay As You Go? The age old policy debate, Susan St John;
b) The SAYGO mirage: why the government should not pre-fund New Zealand Superannuation, not even partially (May 2013) Michael Littlewood;
c) RPRC Debate presentation: SAYGO versus PAYGO, what is the real question, 26 June 2012, Michael Littlewood;
d) RPRC Debate presentation: The argument for SAYGO is more SAYGO, more investment, bigger economy, 26 June 2012, Susan St John.

2. The intergenerational impacts of New Zealand's retirement income policy, with due consideration given to:

a. the effects of increased longevity on present retirement savings schemes;
b. alternative retirement savings approaches; and
c. the sustainability of New Zealand Superannuation.

Despite the Government's silence on these issues, there is increasing international action toward raising the state pension eligibility age. We have suggested that there should also be greater interest in the availability of annuity products including long-term care insurance.

RPRC publications include:

a) Working Paper 2012-2. Financing of Long-term Care and Long-term Care Insurance for the Aged: A Literature-based Comparison of Seven OECD Countries, Dale, M C, Hanna, J, St John, S.;
b) Fiscal Sustainability in an Ageing Population: adapting universal provision. (2012) Paper for Treasury's long-term fiscal external panel, St John, S.;
c) PensionCommentary 2012-3: We all have to talk about New Zealand Superannuation; Littlewood, M.;
d) 2012 RPRC Symposium Proceedings: Spending the savings: Decumulation and middle-income retirement, Dale, M.C.;
e) Preparing for the health and long-term care costs of an ageing population in New Zealand, July 2011, Susan St John and M.Claire Dale
f) PensionBriefing 2010-7. Improving the affordability and equity of New Zealand Superannuation, Susan St John and Andrew Familton;
g) PensionBriefing: 2010-4 How much will New Zealand Superannuation really cost? Michael Littlewood.

3. An assessment of the role of private savings for retirement, covering:

a. trends in KiwiSaver, particularly withdrawal patterns of those retiring and the issues that these may raise; and
b. the role of the financial services sector in helping to ensure the adequacy of retirement income for New Zealanders.

The voluntary vs compulsory KiwiSaver contribution debate has gained traction in recent years, with the compulsion option promoted by the Financial Services Council, the peak organisation for fund providers. Clearly there are benefits to fund providers from a policy of compulsion.

Current analysis of whether Kiwis are saving enough for retirement obscures the fact that while the 'average' New Zealander appears to be saving enough, our low-wage economy means that those at or below the median income are unable to save at all. "For a very large proportion of older New Zealanders (aged 65+), NZS provides the bulk of their income." (Perry, B. (2012). *Household Incomes in New Zealand*. Wellington, Ministry of Social Development, p. 155). Yet as O'Sullivan & Ashton show, NZS is inadequate for healthy living (O'Sullivan, J. and T. Ashton (2012). "A minimum income for healthy living (MIHL) - older New Zealanders." *Ageing and Society* **32**(5)).

Another inequity is found in the current difference between employees in a 'total remuneration' approach and those who are not (see *PensionBriefing* 2013-5, Employer and Employee contributions to KiwiSaver).

For this and other reasons, it is vital that there is an ongoing assessment of the impact of KiwiSaver on the financial decisions of households. KiwiSaver imposes direct costs on the country through tax incentives, administration and oversight. The indirect costs are less easy to quantify: sub-optimal decisions by individuals, regressive impact of tax breaks and compensation in a 'pay + benefits' remuneration environment. New Zealand needs to understand whether the costs are justified. To that end, the RPRC supports the work described in the Inland Revenue's *Annual report July 2011 to June 2012* (p. 5):

> *Further work will be undertaken next year to evaluate the initial impact of the scheme on individuals' saving and net worth. This work is based on providing a comprehensive basis for assessing changes in individual or household saving behaviour over time from the longitudinal survey, Survey of Family Income and Employment (SoFIE), a longitudinal survey that was run by Statistics New Zealand from 2002 to 2010, which is now matched with KiwiSaver administrative data from Inland Revenue in one anonymised linked dataset.*

We note with concern that there is no commitment to continue the longitudinal work started by SoFIE, and that we are yet to see data from 2008 and 2010.

Other relevant RPRC publications and presentations include:

a) PensionBriefing 2013-2: New evidence on household wealth from the Reserve Bank;
b) PensionCommentary 2012-2: Investment performance: Publication of "gross" returns should be banned, Michael Chamberlain and Michael Littlewood;
c) PensionCommentary 2012-1: KiwiSaver: Changing the default provider regime, Michael Littlewood;
d) Working paper 2011-2: KiwiSaver: Four years on, Dale, M C, St John, S, and Littlewood, M.**;**
e) PensionBriefing 2010-5: Household wealth in Australia and New Zealand;
f) Working Paper 2010-2: KiwiSaver the first three years: Lessons for Ireland? St John, S, Littlewood, M, Dale, M C.;
g) Working Paper 2010-1: Towards a more rational tax treatment of collective investment vehicles and their investors; Chamberlain, M, Littlewood, M.;
h) What is it with compulsory saving? Presentation, 2010, Littlewood, M.

4. The contributions made by other policies and programmes, such as in housing and health, to maintaining New Zealanders' retirement income.

RPRC publications include:

a) PensionBriefing 2013-4: Census 2013 – shortcomings in questions about housing;
b) A New Approach to Funding the Costs of New Zealand's Ageing Population, 2012, *New Zealand Population Review, 38:55-76,* St John,S., Dale, M.C. & Ashton, T.
c) PensionCommentary 2012-4: A commentary on older workers and some HR issues facing employers, Michael Littlewood.

5. Women's future retirement income prospects.

With a widening gender pay gap (Wade, NZH 27 April 2013), including a vast difference in median weekly income, reflecting differing patterns and options of labour force participation, with males at $707 and females at $450 in the June 2012 quarter (Statistics NZ, 2012), the lack of opportunity for saving makes many women's future retirement income prospects look bleak. It follows that many women cannot rely on KiwiSaver or any other retirement savings plan to bridge any shortfall in self-funding their retirement.

Added to this is recognition that, particularly for those in rented accommodation, NZS, no matter how carefully budgeted, is not adequate for rent, utilities, medical bills, and a healthy diet (O'Sullivan & Ashton, 2012).

RPRC publications include:

a) PensionBriefing: 2009-6 Modelling the distributional aspects of KiwiSaver: methodology and results, Susan St John.

6. The role of financial education and financial literacy in retirement income policy.

Financial education and financial literacy are important aspects of retirement income policy. However they should not be overplayed in the role of the Retirement Commission at the expense of attention to pension policy and retirement income issues.

RPRC publications include:

a) National Strategy for financial literacy and retirement savings: the New Zealand experience, (2010) Michael Littlewood.

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Appendix

2010 Retirement Policy Review Recommendations and Government Responses
(numbering relates to the relevant chapter number in the 2010 Review report)

The savings environment
Recommendation 2.1: That the Ministry of Social Development (MSD) and the Ministry of Economic Development (MED) develop quality standards for the provision of budget advice and that government funding to nongovernment organisations for the provision of budget advice (primarily via the MSD) be contingent on these providers meeting established quality standards.

> Recommendation acted on: In July 2010 the Social Services Guidelines were replaced with Budget Services Service Agreement Practice Guidelines, to be audited by Family and Community Services. However, despite overwhelming consumer demand, in 2013 Budget Services are threatened with cuts to or withdrawal of government funding. The quality standards will serve little purpose if there are no Budget Services they can be applied to.

Recommendation 2.2: That, in the development of any regulation of the financial services sector, government agencies establish processes to ensure the consumer voice is given sufficient weight.

> Recommendation ignored. The Financial Markets Authority has 12 Board and Associate members. Of these, only one Member, Mary Holm, could be said to bring a consumer perspective. Of the 9 members of the FMA's Leadership Team, none have specific oversight for consumers, or responsibility for ensuring the consumer voice is given sufficient weight. While it is not essential to have people specifically representing those interests, we suggest there is insufficient evidence that consumers' needs are considered.

Vulnerable groups
Recommendation 4.1: That the Retirement Commission works with the Ministry of Women's Affairs, Te Puni Kökiri, the Ministry for Social Development and Statistics New Zealand to develop a clearer picture of factors affecting the wellbeing and living circumstances of non-partnered older New Zealanders, particularly women living alone.

Recommendation partially acted on: As part of its "Raising Women's Future Retirement Prospects" project, the CFLRI has hypothesised ten factors thought most likely to carry risks of negative impact on women's financial wellbeing in retirement, and has commissioned the following research to test these hypotheses. <u>The Impact of Cultural factors on Women's Retirement Income</u>, 2012, is based on 14 formal and 7 informal interviews with fourteen women from Chinese, Chinese/ Malaysian, Korean, Indian, Fijian/Indian, Philippines, Cook Island and Samoan cultural backgrounds (p. 6) and did not include Maori or Pakeha women. <u>To what extent do individual superannuation schemes in New Zealand address needs for retirement income in a gender-neutral manner?</u> 2012, amounts to a call for better data. <u>Property (Relationships) Amendment Act 2001 and retirement: are separated women more disadvantaged than men?</u> 2012, concludes that social reform rather than legal reform is required, for example, of gender pay disparity. <u>A Comparative Analysis of Four Women's Stories</u>, 2012, is too small a qualitative study for conclusions to be drawn. <u>A Summary of Key Issues from the Literature</u>, 2012, provides insufficient reference to sources, as for example, on page 6: "… Mäori women, Pacific women, women from a non-English-speaking background and women with disabilities are all more likely to have low levels of savings".

Recommendation 4.2: That the Ministry of Health and MSD develop additional and co-ordinated information resources on the likely costs of health and residential care to assist those planning for, and in, retirement.

> Recommendation not clearly acted on. While government assistance through the Residential Care Subsidy and private contributions are described, there are no indications of the likely lifetime costs of residential long term care. This lack of information discourages financial understanding and financial planning.

Strengthening NZS as a universal, individual entitlement
Recommendation 4.3: That the non-qualified partner rate of NZS should be removed as an option for new applicants and that existing recipients should be allowed to continue to receive it for a

maximum of five years. Beyond that they would be entitled to claim any applicable benefit through the welfare system.

Recommendation ignored.

Recommendation 4.4: That the partnership distinction in the NZS rate structure be removed, by gradually merging the individual sharing and individual partnered rates of NZS over time.

Recommendation ignored.

Recommendation 4.5: That an individual's overseas state pension entitlements should be directly deducted against their own individual entitlement to NZS and that any excess should not then be offset against the individual NZS entitlement of their partner.

Recommendation ignored.

Recommendation 4.6: That the Ministry of Social Development implement programmes to:
»» Provide information and advice for recent and prospective migrants and returning New Zealanders on the implications of the direct deduction policy for their future retirement income.
»» Improve the public availability of decisions on the classification of overseas pension schemes whose pension payouts are subject to the direct deduction policy.
»» Explain the rationale behind each pension scheme classification decision.

Recommendation ignored.

KiwiSaver

Recommendation 5.1: That KiwiSaver default funds should continue to be based on products with a conservative risk profile and that KiwiSaver default fund providers be encouraged to provide members with information to help them to make a more active choice of investment, even if this means that they choose to stay where they are.

Recommendation is under consideration. Submissions have been sought – see the RPRC's own 'Submission on: the KiwiSaver Default Provider Arrangements', December 2012; also the RPRC's *PensionCommentary 2012-1 KiwiSaver: changing the default provider regime*, here.

Recommendation 5.2: That, for the sake of transparency and ease of understanding, and to allow comparisons by consumers, a standardised approach to the calculation of KiwiSaver fees and performance, as well as fees and performance on other investment products, be adopted.

Recommendation partially acted on. See, however, PensionCommentary: KiwiSaver (and other superannuation) schemes – Comparing the uncomparable (2008), Michael Littlewood (published by the National Business Review, 8 August 2008).

Recommendation 5.3: That the evaluation of KiwiSaver continues as planned until 2012/13, when the main findings will be available.

Recommendation acted on, with the Inland Revenue's *Annual report July 2011 to June 2012* being the most recent. However, that report advises that the 2013 review "…is the last planned year of the KiwiSaver evaluation." (p. 5) Other related work will continue but the RPRC suggests there needs to be a formal framework to maintain oversight of KiwiSaver after 2013. The Inland Revenue agrees:

> *Given KiwiSaver represents an integral part of New Zealand's retirement income policies, it will be important to continue ongoing evaluation of the performance of the scheme as it matures, particularly in this period of early retirement withdrawals*. (at p.5)

Recommendation 5.4: That the Retirement Commissioner's 2013 Review of Retirement Income Policy should include a thorough assessment of KiwiSaver, including the emerging pattern of withdrawals and reinvestments by people aged over 65.

Recommendation acted on and reflected in the terms of reference for the 2013 Review.

Recommendation 5.5: That the recommendations relating to saving and wealth statistics from Statistics New Zealand's review of economic living standards be actioned in a timely way and in conjunction with key data users.

> Recommendation not obviously acted on. Further, as SoFIE has now been 'retired' (as of 2010), valuable data on which to base future fiscal and social decision-making will not now be collected. We think this should be a key priority.

Recommendation 5.6: That Statistics New Zealand include KiwiSaver questions in the most appropriate household surveys of assets and liabilities in order that the impact and effectiveness of KiwiSaver can be assessed and informed decisions made about adjustments to the scheme beyond 2012/13.

> Recommendation ignored.

Keeping NZS affordable
Recommendation 6.1: That, with effect from 2020, NZS rates should be adjusted each year by the average of the percentage change in consumer prices and earnings, subject to no less than price inflation in any year.

> Recommendation ignored. Unlike other social welfare payments, NZS remains related to the average wage.

Recommendation 6.2: That a future rise in the age of eligibility for NZS should be announced. The age would be gradually increased from 65 years starting in 2020 and would rise by two months per year until it reached 67 years in 2033.

> Recommendation ignored.

Recommendation 6.3: That, as the age of eligibility for NZS is increased above 65 years, a transitional, means-tested benefit should be introduced to address the particular situation of people who are aged 65 and at risk of hardship because of their inability to continue to financially support themselves over an extended period.

> Recommendation ignored.