

## Passing the Buck

# The impact of the direct deduction policy on recipients of overseas pension benefits in New Zealand

by

Annette Lazonby

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**Retirement Policy and Research Centre**

Economics Department

University of Auckland

Private Bag 92019

Auckland

New Zealand

[www.rprc.auckland.ac.nz](http://www.rprc.auckland.ac.nz)

## The Retirement Policy and Research Centre

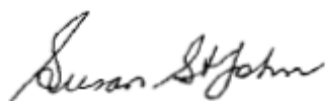
The Retirement Policy and Research Centre is pleased to publish this working paper on the treatment of people in New Zealand with pensions from overseas. We believe this paper provides essential background information on a difficult and contentious area and will inform the policy development process.

The implications of New Zealand's policy in the case of individual pensioners varies considerably depending on personal circumstance and the complexities of the other (sometimes several) countries' pension systems. The RPRC welcomes comments and criticisms of this paper. This paper will inform a further project which will set out and discuss suitable principles to guide future decision making in this area.

The Centre acknowledges the assistance of the University of Auckland in providing a summer scholarship to enable the research to be conducted. The assistance of the Ministry of Social Development, the Office of the Retirement Commission and the Ministry of Health are also acknowledged. The views expressed here however are those of the author Annette Lazonby.

Comments welcome to Annette Lazonby

[a.lazonby@auckland.ac.nz](mailto:a.lazonby@auckland.ac.nz)



Dr Susan St John

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Michael Littlewood

## 1. Introduction

Of the approximately half a million New Zealanders over the age of 65<sup>1</sup>, around 51,000 are entitled to at least two public pensions, one from New Zealand, and at least one other from abroad.<sup>2</sup> This means that around 10% of superannuitants are subject to the direct deduction policy as set out in section 70 of the Social Security Act 1964.

Section 70 mandates a dollar-for-dollar abatement of New Zealand Superannuation entitlements against a superannuitant's, or the spouse's, overseas entitlement. This treatment, which dates back to 1938 (Ministry of Social Development 2003a; Ministry of Social Development 2004) has been increasingly perceived as out of step with the times and inequitable by the individuals affected.

This paper will briefly examine New Zealand's current retirement income system as it affects the formation of social security agreements between the New Zealand government and other governments. It also reviews the origins of the direct deduction policy, its rationale and its impact on those receiving one or more pensions from overseas. There is some preliminary discussion of the policy implications including the merits of moving to a proportional system of pension receipt but these issues will be examined in greater detail in a later paper.

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<sup>1</sup> 495,600 according to the 2006 Census.

<sup>2</sup> According to Ministry of Social Development (2005); however, this number includes only those who have their NZ entitlement reduced by the value of their overseas pension. Pensioners who have not declared their overseas entitlement are not included.

## 2. Glossary and definitions

The following acronyms are used in the text:

AOW – Old Age Pension (Netherlands)  
AP – Age Pension (Australia)  
CPI-W – Consumer Price Index for Urban wage earners and clerical workers (New Zealand)  
CPP – Canada Pension Plan  
DDP – direct deduction policy  
FNPF – Fiji National Provident Fund  
GIS – Guaranteed Income Supplement (Australia)  
HRC - Human Rights Commission (New Zealand)  
NI – National Insurance (UK)  
NZS – New Zealand Superannuation  
OAS – Old Age Security (Canada)  
OECD – Organisation for Economic Cooperation and Development  
PAYG – Pay As You Go  
RRSP – Registered Retirement Savings Plan (Canada)  
S2P – State Second Pension (UK)  
SERPS – State Earnings Related Pension Scheme (UK), now replaced by the S2P  
SG – Superannuation Guarantee (Australia)  
SSA – Social Security agreement  
SSAd – Social Security Administration (US)  
SSI – Supplemental Security Income (US).

The following currencies are used in this paper:

\$ - the New Zealand dollar  
AUD – Australian dollar  
CAD – Canadian dollar  
CHF – Swiss franc  
EUR - Euro  
FJD – Fiji dollar  
GBP – British pound  
Hfl – Dutch currency prior to the EU and Euro  
USD – US dollar.

The paper also uses the following expressions – they are identified in the text with capital initial letters:

**10(5) Residency-Requirement** – the residency condition for New Zealanders to collect NZS. This requires them to have been resident in New Zealand for 10 years after the age of 20, with five of those being after the age of 50.

**Defined Benefit** - a retirement benefit plan (usually a pension) that promises benefits defined on the basis of earnings and/or membership prior to retirement. The earnings could be in the years just prior to retirement or even over a working life.

**Defined Contribution** - a retirement benefit plan that provides benefits based on individual contributions plus the investment return.

**Direct Deduction Policy** – where the pension from another country is deducted in full from a state pension payable in the country of residence.

**General Portability Arrangement** – enables New Zealanders, who meet the 10(5) Residency-Requirement, and who are retiring to countries where there is no SSA with , and Special Portability Arrangements (discussed below) do not apply, to receive 50% of their NZS entitlement in that country.

**Pay-As-You-Go (PAYG)** - method of financing in which current benefits are paid out of current revenues, often revenues from earmarked taxes (sometimes called “contributions”), and most often from payroll taxes.

**Pre-funded Pension** - accumulation of enough reserves of financial instruments to pay all promised benefits (sometimes referred to as a *funded* pension).

**Residence Condition** – the number of years and timing of residence for qualification for a state pension.

**Social Security Agreement** – a bilateral agreement (between two countries) that aims to coordinate the social security system of one country with that of another country.

**Special Portability Arrangement** – enables New Zealanders retiring to one of 22 Pacific nations (listed in the next section), and who have lived in New Zealand for 20 years since age 20 with five of those years after the age of 50, to receive 100% of their NZS entitlement in that country.

**State Pension Age** – the age from which a state pension is normally payable.

**Tier 1 Pension** – the state pension to which all the citizens and permanent residents of a country may be entitled. It is usually contributory but often counts periods out of the workforce if those are deemed to be socially contributive (such as caring for children).

**Tier 2 Pension** – a mandatory, work-related pension. It is normally contributory and may be either funded or PAYG; Defined Benefit or Defined Contribution; and privately or publicly delivered.

**Totalisation** – the process under a Social Security Agreement that deems periods spent in one country as counting towards the state pension entitlements of a second country.

### **3. Current picture of New Zealand's bilateral social security arrangements**

A Social Security Agreement (SSA) is a bilateral agreement (between two countries) that aims to coordinate the social security system of one country with that of the other country. It serves to eliminate residence and citizenship barriers of social security and ensure that individuals who have divided their working lives between two countries receive appropriate coverage when they retire in their country of choice. This can be achieved through "Totalisation", which involves treating periods a worker has spent employed in another country as equivalent to periods spent working in the country of retirement.

New Zealand currently has SSAs with the following eight countries:

- Australia
- The UK
- Canada
- Denmark
- Republic of Ireland
- Greece
- Jersey and Guernsey
- The Netherlands.

(Work and Income 2006)

There are several countries with which New Zealand has been unable to conclude SSAs. These include:

- The US<sup>3</sup>
- Germany
- Switzerland
- Austria
- Korea<sup>4</sup>.

(Ministry of Social Development 2004)

Special Portability Arrangements were negotiated by the Department of Social Welfare in 1993 with several Pacific nations and were intended to reflect the contributions of these nations to New Zealand's labour force. In 1999, they were extended so that after 20 years' residence in New Zealand, retirees to any of the following 22 nations of the Pacific could take 100% of NZS with them:

- American Samoa
- Cook Islands
- Federated States of Micronesia
- Fiji
- French Polynesia

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<sup>3</sup> New Zealand's Ministry of Social Development advises that the US didn't 'refuse', but rather the incompatibility of the US system with that of NZ prevented the conclusion of any social security agreement between the two countries.

<sup>4</sup> This refusal is about a decade old (MSD staff – personal communication)

- Guam
- Kiribati
- Marshall Islands
- Nauru
- New Caledonia
- Niue
- Northern Mariana Islands
- Palau
- Papua New Guinea
- Pitcairn Island
- Samoa
- Solomon Islands
- Tokelau
- Tonga
- Tuvalu
- Vanuatu
- Wallis and Futuna.

Migration trends of the last decade to New Zealand mean that the following countries of East Asia will become significant:

- Singapore
- Malaysia
- Japan
- China
- Taiwan
- Korea
- India.

We can therefore expect that the SSA issue will become increasingly important over coming years.

#### 4. Understanding the New Zealand Superannuation system

To see why New Zealand has concluded relatively few SSAs with other countries, it is necessary to first understand the New Zealand system, and in particular the goals and objectives of the state pension, New Zealand Superannuation (NZS).

Part 1 of The New Zealand Superannuation Act 2001, 'Entitlements to New Zealand Superannuation', stipulates that 'every person is entitled to receive New Zealand Superannuation who attains the age of 65 years'. However, that entitlement is subject to requirements in related acts, including the Social Security Act 1964, which sets out the terms and conditions of the Direct Deduction Policy (DDP) in section 70, and is also subject to the residence condition of having lived 10 years in New Zealand since the age of 20 with five of these being since the age of 50 ('the 10(5) Residency-Requirement').<sup>5</sup>

The age of 65 is a fairly standard State Pension Age for the majority of OECD members. The exceptions are Iceland, Norway and the US with a higher State Pension Age of 67 (to be phased in), and France and Turkey having a lower State Pension Age of 60 (OECD 2005).

Entitlement to NZS is not dependent at all on contributions from paid work, nor is it intended to be a poverty-alleviation device (though it serves this purpose well); rather, its intention is to recognise the paid and unpaid contributions of older citizens (Te Ara 2006). NZS is termed 'universal' as there is no means (income or asset) test and, after meeting the 10(5) Residency Requirement, every New Zealander over the age of 65 becomes eligible to receive it. That does not mean, however, that NZS is paid to everyone who is eligible, as this paper discusses.

The New Zealand state pension differs in several respects from most other countries' Tier 1 arrangements:

- the residence requirement is very modest
- it is not means tested
- it is not proportional to number of years lived in New Zealand
- it is relatively generous.

Each of these attributes creates difficulties that make integration of New Zealand's system with those of other countries, under an SSA, more difficult.

To illustrate, eligibility criteria for NZS are different, for example, from those for Canada's Old Age Pension (OAS). Although these require a person who is resident in Canada to have been so for 10 years since the age of 18, this requirement increases to 20 years if the superannuitant is living abroad (Social Security Administration 2006), and the entitlement is then proportional to the number of years (up to 40) that the individual has lived in Canada.

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5 Most government-administered pension arrangements have citizenship or permanent residency of that country as a requirement. For example, Australia has a similar set of requirements to New Zealand - a claimant must be a citizen or hold a permanent resident's visa in order to claim the Australian Age Pension - Centrelink. (2007). "What residence requirements does age pension have." Retrieved 05/02/2007 from [http://www.centrelink.gov.au/internet/internet.nsf/payments/qual\\_res\\_agepens.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/qual_res_agepens.htm)



Australia has a similar set of requirements to New Zealand - a claimant must be a citizen or hold a permanent resident's visa in order to claim the Australian Age Pension (Centrelink 2007). Australia's Age Pension (AP) requires either 10 years' continuous residence, or 5 years' continuous residence within a non-continuous total exceeding 10 years.<sup>6</sup> The key difference with New Zealand is that the Australian AP is subject to means testing (against either income or assets).

## **Rationale for the design of NZS**

Having an entitlement based on residence, not earnings or contributions, has significant advantages:

**Administrative simplicity:** NZS is a very simple Tier 1 pension and requires only very modest evidence as to entitlement. This contrasts with, say, the UK where a male must have a National Insurance contribution record that covers at least 44 years<sup>7</sup>. A less than complete contribution record sees a proportionate reduction in the basic UK pension entitlement.

**Clear base entitlement:** A simple Tier 1 pension like NZS makes it easier for individuals to see what more they might need to save to provide for a replacement income in retirement.

**Equity:** Using residence is advantageous to those with gaps in their employment history, and/or those who earn low incomes. Many women spend time child rearing, or in similar unpaid roles so they might expect little from an earnings-based pension scheme. They may end up being dependent on their partners for their old-age security.<sup>8</sup> Those on low lifetime incomes who are unlikely to earn sufficient to save for their retirement, also are better protected under a residence-based system.

*Full* entitlement based on just 10 years of residence is directly advantageous only to a small group of people, namely those who have lived a relatively short time in New Zealand and who have no or little entitlement from the country in which they spent most of their lives.

New Zealand's all-or-nothing, or 'gateway' approach, giving full entitlement after such a limited number of years spent in the country, means that, at 65 years of age, people with, potentially, a very limited contribution to New Zealand either in terms of taxes paid (consumption, income, etc.) or the benefits they bring to society that are not related to being a tax-payer could receive exactly the same entitlement as someone who has contributed to New Zealand society for most or all of their lives.

While this may minimise the incidence of poverty in old age, there are potential implications for fairness. An individual with the minimum residence years in New Zealand is entitled to the same amount as the long-time New Zealand resident. This

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<sup>6</sup> Source: <http://www.centrelink.govt.au> Query 'age pension'. Page 5 of "Information you need to know about your claim for Age Pension and Pension Bonus Scheme". Retrieved 12/11/2007.

<sup>7</sup> The years between ages 16 and 65 with an 'allowance' of five years. Females have had a lesser requirement by five years because of their State Pension Age of 60 but that will gradually disappear as their State Pension Age increases to 65.

<sup>8</sup> Countries with work or contribution-based systems often have complex concessions to recognise the social value of such absences from the work force.

perceived unfairness might be compounded if NZS is added to their overseas pension putting immigrants potentially in a more favourable position than those who have worked here all their lives.

Providing universal entitlement to pensions for all New Zealanders over the age of 65 is also costly. In 2005, NZS comprised 13% of core crown expenses, at \$6,083m (New Zealand Treasury 2006) and is predicted to increase rapidly in the next 20 years as the baby-boom cohort reaches State Pension Age.

## 5. The Direct Deduction Policy: origins and rationale

The DDP involves a dollar-for-dollar abatement of an individual's NZS entitlement against 'analogous' retirement income received from overseas.

The Ministry of Social Development identifies the rationale behind the DDP as "[ensuring] all New Zealand residents get an equitable level of pension." It notes that our international social security arrangements have been developed in an "ad hoc" manner and that the DDP has "come to be seen" as a method of sharing the costs of providing social security to overseas pensioners (Ministry of Social Development 2003b).

Section 70 of the Social Security Act 1964 lays out the method for treating income from overseas pension entitlements received in New Zealand, with sections 69G, 69H and 69I requiring that all reasonable steps are taken by both the individual and the New Zealand government to assist in the application for and collection of these entitlements. These sections are accessed through links listed in the Appendix.

Section 70(1) is a very simple piece of legislation, basically stating that if a superannuitant living in New Zealand, or the spouse, receives a payment from anywhere else in the world which has been classified as equivalent to the New Zealand pension, and that can be abated against it, then this person's entitlement to NZS will be reduced by the value of that overseas pension. That is:

"If any person qualified to receive a benefit under this Part of this Act ... is entitled to receive or receives, in respect of that person or of that person's spouse or partner or of that person's dependants, or if that person's spouse or partner or any of that person's dependants is entitled to receive or receives, a benefit, pension, or periodical allowance granted elsewhere than in New Zealand ... [then] the rate of the benefit or benefits that would otherwise be payable under this Act ... shall, subject to subsection (3) of this section, be reduced by the amount of such overseas benefit, pension, or periodical allowance, or part thereof, as the case may be, being an amount determined by the chief executive in accordance with regulations made under this Act." (emphasis added).

Social Security Act 1964, section 70(1) (a) and (b) (1964)

Given the design of NZS, it is difficult to pin down one clearly-defined rationale for the DDP. The MSD reports point out the considerable cost-savings it enables the New Zealand government to make. Additionally, it claims that the DDP ensures equitable pension entitlements for all New Zealanders.

It would seem the fundamental basis for the New Zealand government's policy on overseas pensions would be that *no person in New Zealand should be entitled to a higher state-provided pension, due to having worked overseas, than someone who has worked all their life in New Zealand.* According to the (Ministry of Social Development 2003b): "a person with an overseas pension should not be advantaged over a person who had remained in New Zealand their entire working lives." (p.14)

This principle possibly reflects the time-period in which the original legislation was passed (1938), and has remained almost 70 years, now as part of the Social Security Act 1964. Pensions from non-agreement countries can also be abated against NZS. With multinationalisation of businesses and with increased international migration of individuals, there are increased concerns about the difficulties in marrying essentially incompatible systems as the MSD's reports frequently point out.

The (Ministry of Social Development 2004) describes the DDP as an “inexact and often unfair method of sharing social security costs between countries” (p.10). In fact, many affected superannuitants see the DDP as not a cost-sharing tool at all, but as a fairly effective cost-cutting tool, since the government reduces its obligation to provide NZS to otherwise qualifying individuals by, in most cases, the full value of their Tier 1 and Tier 2 overseas entitlements. The 2003 and 2005 reports noted the consequences of what many see as a relatively hard line on this – there is evasion and a feeling of ill-will by recipients of overseas pensions towards the New Zealand government.

It may also explain the refusal by some countries to enter into SSAs. The (Ministry of Social Development 2004) notes that: “It is customary overseas for each country in which a person has been resident to share a proportionate ‘burden’ of that person’s social security costs. The direct deduction policy means that the New Zealand Government often avoids doing so” (p.11) and because of this “a number of countries (e.g. Germany, Switzerland and Austria) do not wish to negotiate a social security agreement with the New Zealand Government.” (p. 12)

It is important to note that section 70’s DDP applies regardless of whether or not there is an SSA, but it is fundamentally a part of an SSA’s functions. The current SSAs facilitate information exchange, enabling the New Zealand Government to find out which pensioners are entitled to overseas qualifying pensions, the amount they are qualified to receive, and so to implement the abatement. Without an SSA, the abatement of NZS is more difficult to administer as the pension information has to be sought from the individual pensioners, who may be unwilling to provide it.

## 6. Integrating the New Zealand system with that of other countries.

Most countries covered in this report have pension systems that fall into one of two categories:

- a primarily contributory system (mostly employment based) with supplementary security or social assistance, (e.g. the U.S.), or
- a primarily non-contributory system with benefits based on residence and (usually) a growing employment-based component (e.g. Australia).

New Zealand's system falls into the latter category, but stands apart from its counterparts given there is no mandatory employment-based component, growing or otherwise, with only the beginnings of one, albeit voluntary, visible in KiwiSaver<sup>9</sup>.

In order to examine the situation faced by overseas pensioners and explore potential methods for dealing with this, we must first outline the social security systems of other countries, both those with which New Zealand has failed to form SSAs and those with which New Zealand has been successful. Of the 'agreement countries', Australia, Canada, the Netherlands and the UK are analysed and of the 'non-agreement countries', the US, Austria, Germany and Switzerland<sup>10</sup>.

We will then describe briefly how the DDP policy affects each of the countries described.

### 6.1 The Agreement Countries

#### 6.1.1 Australia

The Australian system has two components: the Tier 1 Age Pension (AP) financed from general revenues and the Superannuation Guarantee (SG), a mandatory privately managed, employment based, Defined Contribution savings scheme (Tier 2).

The AP is means tested according to both income and assets.<sup>11</sup> The OECD (2005) noted that in 2003, since over 90% of pensioners had their AP benefits abated according to income and not assets, the former tends to be the determining factor in the means test. Abatement is at 40 cents in the dollar, for every dollar of income earned above the threshold, and these thresholds are as follows:

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<sup>9</sup> A national, auto-enrolment, opt-out contributory Defined Contribution retirement saving scheme with mandated employer contributions and significant taxpayer funded subsidies for New Zealanders who join.

<sup>10</sup> This relatively small sample of countries is for illustrative purposes only.

<sup>11</sup> Unless the pensioner is blind.

Table 1: Income Tests for Australian Age Pension as at February, 2007<sup>12</sup>.

Family Situation	For full payment (per month)	For part payment (per month)
Single	Up to AUD 277.33	Less than AUD 3,082.63
Single plus one child	Up to AUD 330.63	Less than AUD 3,135.93
Couple (combined)	Up to AUD 494.00	Less than AUD 5,156.83
Illness separated couple (combined)	Up to AUD 494.00	Less than AUD 6,104.58
Additional children	Add AUD 53.30 per child	

Source: <http://www.centrelink.gov.au/internet/internet.nsf/payments/chartc.htm> with proration of fortnightly data to monthly data.

The AP is adjusted twice a year, and the ‘free area’ (the income over which the AP can be received unabated) is adjusted annually. The full entitlement is given below:

Table 2: Age Pension Payment Rates as at February 2007.

Status	Maximum Pension Rate per Month <sup>13</sup>
Single	AUD 1,109.55
Couple	AUD 926.68 each

Source:

[http://www.centrelink.gov.au/internet/internet.nsf/payments/pay\\_how\\_agepens.htm](http://www.centrelink.gov.au/internet/internet.nsf/payments/pay_how_agepens.htm) with proration of fortnightly data to monthly data.

Note by contrast that NZS as from 1 April 2007<sup>14</sup> was, per month before tax:

- \$ 1,341.86 for a single person sharing accommodation,
- \$ 1,458.82 for a single person living alone and
- \$ 1,108.03 each for a couple (both partners qualify) and
- \$ 1,054.21 each for a couple (income tested) when only one partner qualifies.

Australia’s AP is adjusted according to prices and, occasionally, a special adjustment will take place to prevent it from falling below 25% of the average gross male weekly earnings.

The SG, established in 1992 and funded by mandatory employer contributions, makes up the other legislated component of the Australian pension system. The contribution rate is 9% of the employee’s earnings base (ordinary time earnings) up to a maximum of AUD35,240 quarterly (AUD140,960 annually). If the employee earns less than AUD450 per month (AUD5,400 per year) the employer is exempt from contributing but the government makes contributions instead (Australian Taxation Office 2007b).

Most employees belong to Defined Contribution plans and, though benefits can be taken out as a lump sum or as an income stream, most opt to receive their benefits as a lump sum or with phased withdrawals (OECD 2005).

<sup>12</sup> The rate of payment is calculated under both the income and assets tests. The test that results in the lower AP rate (or nil rate) will apply.

<sup>13</sup> This payment includes a pension supplement that is currently: single AUD18.20, couples AUD15.20 each. Couples separated due to ill health receive AUD18.20 each.

<sup>14</sup> [www.winz.govt.nz](http://www.winz.govt.nz) New Zealand Superannuation, prorated of fortnightly data to monthly data

The AP is taxable income to the recipient, but due to the tax-free first bracket and special tax credits, most pensioners do not pay any tax. Pensioners in receipt of the full rate of the AP will pay no tax; if they are receiving a portion of the AP, they will have a reduced tax liability (OECD 2005).

The senior Australians' tax offset, a tax credit, is available to Australians who satisfy a residency test and who earn less than AUD38,340 if single and AUD59,244 (combined) if married. This threshold increases to AUD71,046 (combined) if separated by illness (Australian Taxation Office 2007a). For incomes above these thresholds the tax credit is abated at a rate of 12.5% (ibid).

Australian pensioners also have the pensioner tax offset, which is a less generous tax concession than the senior Australians' tax offset. Since an individual may not claim both tax credits, if they are eligible for both, they should opt for the more generous senior Australians' offset (OECD 2005).

### **6.1.2 Canada**

Canada has two state pensions: the basic pension called Old Age Security (OAS) and an earnings-related scheme (the Canada/Quebec Pension Plan).

The OAS is funded through general taxation and is based on a residency test. It is accumulated over 40 years of residency, starting from the age of 18, with a minimum of 10 years' residency required to be eligible for any entitlement. Benefits are then payable at 1/40<sup>th</sup> of the maximum pension over the number of years spent living in Canada between 18 and 65 (which is the State Pension Age<sup>15</sup>), where the benefits of high-income earners are subject to abatement.

The rates are set out in the following Table 3.

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<sup>15</sup> Early pension claims can be made at 60, where benefits are reduced by 0.5% per month if collected between ages 60 and 65.

Table 3: Old Age Security Benefit Payment Rates, January to March 2007

Type of Benefit	Recipient	Average Monthly Benefit (Oct 2006)	Maximum Monthly Benefit	Maximum Annual Income
Old Age Security Pension	All recipients	CAD 467.21	CAD 491.93	Note <sup>16,17,18</sup>
Guaranteed Income Supplement	Single Person	CAD 418.87	CAD 620.91	CAD 14,904
	Spouse of Pensioner	CAD 261.30	CAD 410.04	CAD 19,728
	Spouse of Non-Pensioner	CAD 406.46	CAD 620.91	CAD 35,712
	Spouse of Allowance Recipient	CAD 337.29	CAD 410.04	CAD 35,712
Allowance	All recipients	CAD 351.69	CAD 901.97	CAD 27,600
Allowance for the Survivor	All recipients	CAD 559.05	CAD 999.81	CAD 20,064

Source: (Service Canada 2007b)

When the income threshold (far right column in the above Table 3) is met, the pension is then subject to a claw-back of 15% of annual income (less deductions).

The Guaranteed Income Supplement (GIS) is a monthly non-taxable entitlement for low income OAS recipients. To be eligible for GIS, the pensioner must first be eligible for OAS, then have income under the threshold given in the above Table 3, that is, have no more than CAD14,904 in annual income. Over this threshold, the GIS is abated at a 50% rate, until it is fully abated at CAD35,712.

The Canada Pension Plan (which has its parallel in the Quebec Pension Plan) was established in 1966 as an earnings-related pre-funded, defined benefit scheme (Tier 2). To receive a full pension, a person must have contributed from earnings for 40 years, but an entitlement can be accrued after only one year. The employer and employee each currently contribute 4.95% of the employee's earnings.

The CPP aims to produce a 25% replacement rate of adjusted lifetime salary; achievement of this is helped by a policy of 'dropping' periods of very low contributions (that may have occurred because an individual was ill and eligible for the disability benefit, or because they were raising children under the age of seven). The lowest 15% of the individual's contributory period is dropped, so that 25% replacement occurs over their highest 85% years' earnings.

<sup>16</sup> Pensioners with an individual net income above CAD63,511 must repay part or all of the maximum Old Age Security pension amount. The repayment amounts are normally deducted from their monthly payments before they are issued. The full OAS pension is eliminated when a pensioner's net income is CAD102,865 or above.

<sup>17</sup> The Allowance stops being paid at CAD27,600 while the GIS stops being paid at CAD35,712.

<sup>18</sup> The Allowance is a pension reduced to take into account the early payment of benefits.



Pensionable earnings<sup>19</sup> are over a range of CAD3,500 to CAD41,460<sup>19</sup> and contributions made from these are called ‘pension credits’, the minimum level is frozen, whereas the ceiling is indexed to prices (OECD 2005). The more pension credits earned, the greater the pension entitlement generated. In 2004, the average monthly pension was CAD457.99 (Service Canada 2007a) and this is indexed to prices.

Additionally there are tax credits available to pensioners. The Age Credit is a tax credit of CAD5,066 for over-65 Canadians. Phasing out of the age credit begins at CAD30,270 and the credit is entirely phased out at CAD64,043 (Department of Finance Canada 2007).

The pension income tax credit offsets up to CAD1,000 of private pension annuity income, i.e. from corporate pension plans, foreign pensions (but not the CPP or OAS). It is available only on annuity income, so cannot be used to offset income coming from investment or mutual fund returns, nor can it be used if an individual withdraws a lump-sum from a Registered Retirement Savings Plan (RRSP) (Powers G 2006).

### **6.1.3 The Netherlands.**

The Dutch public pension system has two components: a Tier 1 flat rate, Defined Benefit public scheme and earnings-related contributory plans.

The basic pension, a statutory old age pension (called AOW and often termed the ‘social minimum’) is financed by social contribution premiums paid as part of personal income tax. These AOW premiums are statutorily limited to a maximum of 17.9% over the first EUR30,631 of wages (1 January 2007).

The AOW is accumulated between the ages of 15 and 65 at a rate of 2% a year so, after 50 years, an individual has a 100% entitlement. Residence in the Netherlands during this time is all that is required to accrue this benefit. For example if an applicant spent ten years abroad between ages 15 and 65, the entitlement would be 80% of full AOW rate.

Table 4: Full AOW Rates as at 1 January 2007

<b>Type of Pension</b>	<b>Gross Monthly Rate</b>	<b>Holiday Allowance<sup>20</sup></b>
Single person, no child under 18	EUR 956.18	EUR 54.36
Single parent with child under 18	EUR 1,186.43	EUR 69.89
Married person <sup>21</sup> , partner 65 or over	EUR 653.73	EUR 38.83
Married person, partner under 65, full supplementary allowance	EUR 1,307.46	EUR 77.66
Married person, partner under 65, no supplementary allowance	EUR 653.73	EUR 38.83

Source: <http://www.szw.nl>

<sup>19</sup> As of 2007.

<sup>20</sup> The holiday allowance is accrued monthly and paid out once a year in May.

<sup>21</sup> Also applies to an unmarried person sharing a household with one other person.

The Netherlands also operates Tier 2 occupational pension schemes that offer nearly comprehensive coverage of workers. The OECD (2005, p.152) refers to these employer schemes as ‘quasi-mandatory’ due to the very high industry-wide coverage: 91% of employees are covered under these schemes due to industrial relations agreements (though they are not required by legislation).

These private pensions are contributory and pre-funded. Occupational funds operate at the employer or industry level. There are 64 industry-wide schemes. Admission to the schemes is generally defined by collective agreements between employers and trade-unions, though their broad framework will be defined by the state (Natali D 2004b).

Final salary schemes typically pay out between 1.75% and 2% of earnings for each year of service. If an individual has worked 40 years, this means they will receive a replacement rate of 70% (including AOW benefits). For average salary schemes, they typically get 2.25% for each year of service (OECD 2005). Because schemes are industry-wide, they tend to be portable, and pension rights belong to the individual (so are transferable when they switch jobs and available when they switch countries).

#### **6.1.4 The United Kingdom**

The public system has two tiers: a flat-rate ‘Basic State Pension’ system and an earnings-related State Second Pension (formerly SERPS; now S2P).

The Basic State Pension is not an automatic right; it is only available to individuals who have made the requisite National Insurance (NI) contributions to accumulate credits<sup>22</sup>. The maximum pension is available after working 44 years<sup>23</sup> (90% of a ‘full’ working life), and a person needs to have been working at least 11 years (25% of a ‘full’ working life) in order to qualify for the minimum entitlement. The full Basic State Pension is as follows:

Table 5: UK Basic State Pension

<b>Basis/pension-type</b>	<b>Amount per month(from 9 April 2007)</b>
Based on the pensioner’s or late husband’s, wife’s or civil partner’s NI contributions	GBP 87.30
Based on the pensioner’s husband’s, wife’s or civil partner’s NI contributions	GBP 52.30
Non-contributory over-80 pension	GBP 52.30
Age Addition	GBP 0.25

Source: <http://www.thepensionerservice.gov.uk/atoz/atozdetailed/retirement.asp#howmuch>

If the pension is the pensioner’s only source of income, these rates are judged to be too low to live on. There is therefore a means tested ‘Pension Credit’ to top up incomes of those over age 60 to ensure a minimum of GBP114.05 per week for singles and GBP174.05 for couples.

In addition to the Basic State Pension, there are other services such as the winter fuel payment and the housing and council tax benefits. The tax allowance is also graded for

<sup>22</sup> Or who rely on contribution credits attributable to spouse/partners.

<sup>23</sup> Until 2010, a woman’s ‘full’ working life was shorter by five years because of a State Pension Age of 60. That is gradually disappearing as the State Pension Age for women increases to 65 (by 2020).

age, meaning that people over the age of 65 get a greater amount of income exempt from taxation than those under 65, and this exempt amount increases at age 75.

The earnings-related component, called the 'State Second Pension' (S2P), replaced the former SERPS (State Earnings Related Pension Scheme) in April 2002. The S2P is more redistributive than SERPS, making those earning between GBP4,638 and GBP12,500 a year better off (they get a 40% replacement rate of the difference between these steps). Benefits are calculated based on average lifetime salary (with uprating occurring over earlier years' earnings). NI contributions to the S2P are also based on earnings between the two bounds.

With the S2P, it is possible to contract out of the state plan and into a private plan offered by the employer, or a personal plan (called 'stakeholder plans') offered by a financial services organisation.

Contracting out means employers and employees both pay lower rates of NI contributions to compensate for loss of state pension rights. These occupational schemes used to mainly be Defined Benefit but there has been a switch to Defined Contribution since the 1980s.

Importantly for the purpose of this paper, the contracting-out arrangements convert what would have been public pension entitlements to the S2P into seemingly private arrangements. In fact, they may technically be 'private' but they are subject to intricate state regulation, reflecting the fact that the state's pension obligation has, at least as to part, been 'contracted out'.

The two state pensions (and, in the case of contracted-out plans' pensions, the private pension) are subject to income tax. However, up to 25% of the private contracted-out pension (but not the state pension it replaces) can be exchanged for a tax-free lump sum.

## **6.2 The Non-agreement Countries**

### ***6.2.1 The United States***

The State Pension Age in the US is increasing from 65 to 67 by 2027, depending on when an individual was born (the early retirement age is 62; however it results in benefits being 20% lower throughout retirement).

The US social security system is based around an earnings-related scheme. Employers and employees each contribute 6.2% of the employee's wages into the Social Security Trust Funds<sup>24</sup>, one of which provides for retirement benefits, the other for disability benefits. There is therefore a total payroll tax of 12.4% for each employee going into the Funds. Workers must accumulate at least 40 credits to be eligible for any social security in retirement, and since one can earn no more than four credits a year, this amounts to a minimum of 10 years' work in paid employment.

For the majority of citizens who have accumulated a social security entitlement, what they get back is related to what they have put into the system, based on their highest

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<sup>24</sup> Self-employed individuals contribute 12.4% of their earnings up to the maximum threshold.

earning years<sup>25</sup>, though the system has a redistributive element allowing low-income workers to have a relatively higher replacement rate. Income up to USD592 per month has a 90% replacement rate, then up to USD3,567 the replacement rate is 32%, finally, from USD3,568 to the earnings ceiling (USD84,900<sup>26</sup> per year) the replacement rate is 15%<sup>27</sup>. Earners can receive a 50% dependant's addition if the spouse has built up a smaller entitlement, or for their qualifying dependent children.

Up to age 60, earnings are uprated in line with economy-wide earnings, between 60 and 62, no uprating occurs, and then from 62 to 67 earnings are uprated in line with prices. Once retired, benefits are adjusted annually in line with prices (using the CPI-W).

Supplemental security income (SSI) is a federal programme that ensures a minimum income for US residents (not necessarily citizens) of USD623 per month for singles and USD934 for couples. It is asset and income tested; assets (exclusive of residential home and usually car) must amount to less than USD2,000 for singles and USD3,000 for couples. Income tests may differ depending on the state the individual or couple lives in.

If a US citizen has not managed to accumulate 40 credits of paid work, they may be eligible for social assistance. They can apply to the state welfare assistance and to the federal food stamp programmes, and may have access to low income housing. These programmes are subject to strict asset and income tests; however, different states have different minimum income thresholds. There are around 50 different local systems. This kind of aid is legally separate from social security, though it is not completely separate since it is partly funded by the federal government.

Where one spouse gets less social security than the other, the minimum payment is one-half of the higher-earning spouse's social security payment.

Social security payments typically represent about 42% of income and are not intended to be the sole source of income in retirement - it is expected that individuals will supplement their social security with personal savings and other retirement funds (Grabionowski E 2005).

Over 65s in the United States are eligible for a greater tax-credit than their working-age counterparts, with USD5,850 of income being tax deductible for single over 65s and USD9,650 being tax exempt for married over-65s. Additional tax credits are available for low income and disabled retirees. Tax credits are abated against income.

### **6.2.2 Austria**

Although the Austrian pension system has undergone many reforms since 2000 (Kneil, 2006), it has maintained its major feature of having a dominant and generous Defined-Benefit public scheme that is supplemented by a limited private and voluntary tier.

The State Pension Age is 60 for women and 65 for men; however the age for women will move up to 65 over the years 2024 to 2033. There is also an early retirement option

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<sup>25</sup> Benefit level is based on the average covered earnings since 1950, or after age 21, whichever is later, and excludes the five lowest earning years (Social Security Administration, 2006).

<sup>26</sup> Now USD97,500.

<sup>27</sup> These numbers are for 2002-2003 taken from OECD (2005).

where benefits can be received with a discount; however this will be phased out by 2017 (Knell M 2006).

To receive coverage under the old system, an individual must have worked 15 years in the 30 prior to retirement, or 25 years over their full working life.

The new system of ‘guaranteed harmonised pension accounts’ became effective at the beginning of 2005 and is referred to as following a 45-65-80 formula, meaning pension benefits are accrued over a 45-year working life, individuals are eligible to receive benefits at age 65 and these benefits amount to 80% of the individual’s average life-time earnings. The assessment period will be extended from the initial 15-year minimum to 40 years of working life (Knell M 2006), the phasing in of this increase will be complete by 2028 (Austria: pension projections 2004-2050, 2004).

Benefits are mainly financed by working age people who pay 22.8% of the contributory wage (made up of 10.25% by the individual and 12.55% by the employer). Contributory months can be from employment or voluntary contributions, or they can be supplementary (credited months) (OECD 2005). In the case of child-rearing, only seven years of ‘contributory economic activity’ are required and the remaining eight years are credited for child-rearing to make up the minimum 15 (Austria: pension projections 2004-2050, 2004).

Accrual of pension benefits are at a rate of 2% a year of covered pay, and will be phased down to 1.78% a year by 2009 (OECD 2005). Contributions are indexed according to wage growth. Benefits are paid according to individual life-time earnings and are adjusted in line with prices. If the maximum (45-year) working life has been achieved, the individual receives 80% of average earnings in pension benefits.

Due to the comprehensive and generous nature of the public system, secondary contributory systems are less developed though they are increasing in popularity since being turned partly mandatory (Austria: pension projections 2004-2050, 2004). In July 2002, the Occupational Staff Provision Act, often called the “new severance pay” came into force, requiring that every employer withholds 1.53% of the employee’s monthly salary into a dedicated fund called a *Mitarbeitervorsorgekasse* (staff provision fund). When these benefits fall due, employees can choose to have these as a lump-sum or annuitised. Private and voluntary retirement savings are, like the tier below them, underdeveloped due to the comprehensive basic tier. But these are growing in popularity, especially life insurance contracts, the premium-aided pension savings scheme, launched in 2003, has since recorded strong growth (Austria: pension projections 2004-2050, 2004).

Pension benefits are taxable income and there are no tax concessions specifically targeted towards pension income (OECD 2005).

### ***6.2.3 Switzerland***

The three tiers of the Swiss pension system, public, occupational and private, are embodied in the 1972 Swiss Constitution. The first tier comprises the AHV and IV, the old-age and survivors’ insurance system, which is mandatory for everyone over the age of 20; this tier is PAYG (Federal Social Insurance Office Switzerland 2007). Participation in

the first tier, public scheme is compulsory and includes the self-employed, the unemployed and parents who care for their children full-time.

Participation in the occupational schemes is mandatory only for salaried workers (Federal Social Insurance Office Switzerland 2007). Contributions are made by the employee and employer equally and benefits are paid out at age 65 for men, 64 for women, with entitlement being achieved after at least one year's contributions by way of employment (Old-age insurance guide: Switzerland,2007). Benefits are indexed 50% to prices and 50% to nominal earnings once in payment (OECD 2005).

The second tier involves mandatory occupational pensions and was introduced in 1985. Individuals accumulate credits while they work and these are augmented in line with interest rates so that the value of an individual's credits in retirement depends on credits earned and the interest rate (which has been cut from 4% to 3.25% with planned reductions in future) (OECD 2005). If individuals earn over CHF25,320 they must join an occupational plan and recently the Swiss Federal Council revised the BVG law (pertaining to mandatory occupational pensions) to increase the maximum threshold over which credits could be accrued ten-fold, to CHF759,600 (Social Security Administration 2005).

The private (insurance) tier three is entirely voluntary, through saving via private schemes and is subject to tax breaks (contributions are made from pre-tax income and tax is paid on withdrawal of funds).

According to the OECD (2005, p.179), Swiss pensioners are "often" granted special allowances by their cantons, but there are no concessions for pension income at the Federal level.

#### ***6.2.4 Germany***

The German pension system is a PAYG social insurance system (Borsche-Supan A H 2003). Contributions are made by employed persons and are compulsory for most workers (self-employed tradespeople are compulsorily insured, self-employed artists and those in the publishing professions may apply to be insured).

The contribution rate is 19.9% of the employee's gross monthly assessable income, half of which is contributed by the employee, the other half being contributed by the employer. The maximum contribution assessment income is EUR63,000 for West Germany and EUR54,600 for East Germany.

'Earnings points' are collected annually. A person earning the average income (EUR29,202 and EUR24,691 for West and East Germany, respectively) gains one earnings point over the year; those earning half this amount earn half an earnings point and those earning at or over the maximum threshold (given above) earn two earnings points.

Points earned during a person's working life are multiplied by a monthly 'pension point value' which has been updated annually and has a limit of 22% of gross wages (OECD 2005). As of 30 June 2006, this was EUR26.13 (Social Security Administration 2006). The first three years' contributions before age 25 are adjusted upwards to 75% of the

individual's total pension entitlement or 75% of their lifetime average pay, whichever is less.

A person qualifies for the old age pension if they have reached age 65 and have accumulated contributions over at least five years. Under a range of conditions, a person may retire at age 60.

Benefits via social assistance are determined regionally with the government paying the health and long-term care contributions of those receiving social assistance as well as providing housing and fuel supplements. Tax exemptions are also available for income under a statutory maximum.

## **7. The impact of section 70 (the DDP) on persons receiving overseas pensions in New Zealand**

According to MSD reports, the formation of SSAs is difficult because New Zealand's superannuation system (NZS) is fundamentally different from overseas systems. A universal superannuation system has a number of advantages and benefits to those who come to New Zealand having accrued no or minimal pension entitlement from another country. However, this system does not fit well with those of other developed countries where migrants have built up benefits, usually by having made direct contributions to create those entitlements.

Under the current system, to take account of individuals who have pension entitlements from more than one country, they become subject to the abatement measure as prescribed by the DDP.

However the DDP is imprecise as a method of integrating retirement incomes for superannuitants and leads to anomalous and, sometimes, illogical treatment of entitlements of individuals who have divided their working time between New Zealand and other countries.

The following cases of individuals and couples affected by the DPP abatement illustrate some of the difficulties<sup>28</sup>:

### ***Case 1: A – the Netherlands***

A and his wife immigrated to New Zealand from Holland in 1982 when he was age 45 and she was age 38. He had spent 30 years building up his Dutch pension entitlement and then worked an additional 20 years in New Zealand, 15 of which were over the age of 50. On retirement, he became eligible for NZS and 60% of the Dutch AOW, called the *Voksverzekeringen* (or “people’s insurance”). During his working life in Holland, he paid a social insurance premium on his income, which was 11.5% on a maximum of Hfl60,000 (approximately 30,000 New Zealand dollars, as of 1982).

He is currently paid the “married or civil union couple (partner not included)” NZS rate of \$1,053.26 a month. His Dutch pension amounts to \$750 a month (being 60% of the full entitlement that is built up over 50 years), which falls short of his individual entitlement to NZS by \$303.26.

However, under the Dutch system, he is also paid an allowance for his spouse that is tested against *her* income and, since she has none, this allowance is equal to 60% of the Dutch pension entitlement, and is likewise \$750. This is paid to A, as the qualifier for the pension, bringing his total pension received from the Dutch government up to \$1,500.

Work and Income treats this spouse-allowance as part of his pension, and since \$1,500 exceeds \$1,053.26, he currently gets no NZS payment. His wife is age 63 and is not yet entitled to NZS in her own right.

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<sup>28</sup> All figures relating to overseas entitlements are those provided in February 2007 and all figures relating to NZS rates are as of February 2007.



If he opted to have his non-qualifying wife ‘included’ in the NZS pension payment, they could each receive \$1,001.48 a month to give a combined gross entitlement of \$2,002.96 less the \$1,500.00 of overseas pension. This residue is subject to an income test on *both* their other incomes and, since he still works part-time as a consultant, any income over \$80 a week he earns sees his and his wife’s NZS abated at 70 cents in the dollar. Depending on his consultancy income, this means there is not much point in applying to have his wife included.

Problems: the income test for NZS is against combined income, whereas the spousal entitlement coming from the AOW is tested against only the spouse’s employment income (if any).

**Case 2: P – Canada.**

P was born in New Zealand and immigrated to Canada at age 24. She lived in Canada for 31 years and worked there for 15 of them. She has lived in New Zealand a total of 39 years and has worked here for 17 of them. She receives two forms of pension income from Canada, the OAS (basic state pension) and benefits from the CPP into which she and her husband contributed.

The monthly amount she receives from Canada ranges from \$1,200 to \$1,400 a month after Canadian tax, depending on the exchange rate. She is on the ‘single living alone’ NZS rate, which gives her a gross entitlement of \$1,387.23 per month. Since her gross Canadian entitlement often exceeds her gross New Zealand entitlement, she receives no NZS, all of her pension being paid from Canada.

At age 70 she still works full time.

Problems: abatement of a tier 1 pension (NZS) against Tiers 1 and 2 pensions (OAP and CPP).

P notes: *“The NZ Government has taken my Canada Pension Plan that my husband and I paid into and said it is part of my NZS, which it is not. The NZS comes out of taxes and The Canada Pension Plan comes out of savings. This Government contends that as the CPP is run by the Government and it is compulsory and therefore it is part of the NZS.”*

*“I am still working and am now 70, as unfortunately I thought I would get a top-up from NZ NZS as I am fully entitled to it and with that and my CPP I could retire. All I do is pay taxes from which I get no NZS benefit.”*

**Case 3: R and I - Canada**

I and R will be eligible for NZS as of July 2007 and January 2008, respectively. I immigrated to New Zealand in 1975 so has lived here for 32 years; R was born here. Both worked in Canada, I for a period of 14 years and R for four years.

As of January 2008, they will be on the ‘married or civil union couple (both partners qualify)’ rate and will have their \$350 monthly gross entitlement from Canada abated off their NZS entitlement, leaving them with \$1,756.52 (from an entitlement of \$2,106.52).

Problems: both partners lose some of their NZS entitlement when they spent so relatively few years working abroad. R effectively loses \$175 per month from having worked four years in Canada.

R & I note: *“Might it be better if we got divorced??!”*

***Case 4: B – Switzerland***

B immigrated to New Zealand in 1961, has worked a total of nine years in Switzerland and 41 years in New Zealand. He started work at the age of 15 and had the AHV deducted from his wages from then until he emigrated.

His monthly gross pension entitlement from Switzerland is approximately \$270, depending on the exchange rate. He and his wife (a New Zealand national who has worked here all her life) are on the ‘married or civil union couple (both partners qualify)’ rate and are entitled to \$2,106.52 per month, which after abatement of his Swiss entitlement amounts to \$1,836.52.

Problems: as with case 3, both partners lose this relatively large amount from their NZ pension. There is also a sense that the AHV is a relatively large tax and that, had B worked in New Zealand all his life, he would have paid less in tax for the same benefit as he currently gets.

B notes: *It seems mean and inappropriate to deduct money from the NZ pension. The Swiss scheme is a compulsory scheme which nobody can avoid.”*

***Case 5: H – Fiji***

H immigrated to New Zealand in 1991 after having worked for 42 years in Fiji. He has lived and worked for 17 years in New Zealand. He became a member of the compulsory superannuation scheme in Fiji (called the FNPF) when it was first set up, and belonged to it for 15 years before he reached the compulsory retirement age of 55. His employer took the option of recovering 50% of its mandated contributions towards FNPF from his pay, therefore he and his employer each contributed half of his mandatory pension savings in the FNPF scheme.

On retirement, he opted to have his payments as a pension, rather than in lump-sum form, and upon coming to New Zealand, this was abated off his NZS entitlement. His Fijian entitlement amounts to FJD1,171.31 gross per month, this is approximately \$1,034.73 (\$1 buys FJD1.13 according to the New Zealand Customs Service), his New Zealand entitlement, on the ‘single living alone’ rate is \$1,387.23 after abatement, he is left with around \$350 a month, depending on the exchange rate.

At age 75, he continues to work full time and hopes that his employer can continue to accommodate his need to do so.

Problems: abatement of a Tier 1 NZS benefit due to the receipt of a Tier 2 overseas pension. This case also illustrates another issue: had H elected to receive his FNPF benefit in lump-sum form on retirement before emigration, there would probably have been no abatement of the income equivalent against NZS.

***Case 6: E – Austria***

E immigrated to New Zealand in 1988 and has lived here for 19 years. He spent 20 years in Austria during which time he paid monthly contributions into the pension insurance plan which were matched by his employer, according to the legislation, to meet the required percentage of salary.

His pension entitlement exceeds the New Zealand entitlement so he gets no NZS.

At age 67, he continues to work full time.

Problems: similar to case 4.

E notes: *“This system does not appreciate the fundamental difference between the Austrian employees’ pension-fund orientated system where parts of one’s salary on top of general tax payments are subtracted to go into a pension fund, and the NZ pension system, which is based on general taxation only.*

*“The NZS rates are too small to enable a decent living. They force a person to continue working when over 65 or beg for a benefit, rent a state house, sell real estate, survive without dignity.*

*“Under such conditions the concerned elderly are aging without proper medical support as to general health including teeth care, hygiene, transportation and general quality of life, to name a few.*

*“If I were born in NZ and worked here for all my life, I had the chance to pay off real estate or pay into a private pension system or accumulate savings, to make up for the low NZS. But my 19 years in NZ were not enough for that. For this reason, the NZ pension legislation should accept my overseas earnings in the shape of an overseas pension to be not an obstacle for receiving the NZS.”*

#### **Case 7: Anon (1) – Norway and Sweden**

The pensioner immigrated to New Zealand at the end of 1979 (having lived here for three years previously from 1965 to 1968), and has lived and worked here a total of 30 years. He previously spent eight years in Norway and five years in Sweden.

From age 67, he receives a basic pension of NOK891 a month and a contributory pension in addition to this. From age 70, he is entitled to a basic Swedish pension, but this does not get paid to New Zealand residents (only to those of EU, Switzerland and Canada) and the contributory component of the Swedish pension.

He is entitled to \$1,053.26 monthly gross from the New Zealand pension, and, after abatement, this amount is reduced to \$338.99.

Problems: The general issue of abatement

#### **Case 8: Anon (2) – UK**

A fifth generation New Zealander, who was born and lived here most of her life, married a former resident of both Norway and Sweden. She has lived in New Zealand for 51 years and worked here for 33 of them. She worked in the UK for four years and is entitled to a pension of approximately \$1,500 per annum (coming from a contributory state provided retirement pension scheme) and which is abated off her NZS entitlement to leave \$928.26 monthly.

Problems: Abatement

Anon (2) notes: *“I returned to NZ with my Norwegian husband [Anon(1) in] 1965 and we lived here for 3 years before returning to Norway then Sweden then Norway before returning to NZ 1979. During that time I was at home as a mother of 4 sons while my husband worked. In Norway and Sweden there were two types of pension savings. For every year worked my husband paid into his employed based pension fund one seventh of his salary and his employer paid two sevenths. This is*

*regarded as part of the conditions of his salary. (Similar to Kiwi Saver) Each individual has his own pension fund and on retirement he receives an annual sum according to his personal contributions. In addition the government provides a basic pension paid for out of taxes and everyone is entitled to this or part of this provided they have lived in the country for 20 years or worked in that country for over 3 years. They receive a proportion of the basic pension.*

*“These pensions are organized by the governments and it is compulsory to pay into them. However as we always intended to return to NZ we questioned whether we should elect to join this system as we could have sought temporary residency for this period. I actually sought my father’s advice and he recommended that we contribute as the NZ pension was not means tested (so he thought) and this would be a good way to save for our old age.*

*“We fully understand why countries should share the basic pension between them and in my husband’s case we do. He has worked and lived here for 30 years but has approximately \$200.00 before tax deducted from his super per month. The difference is made up from his basic pension in Norway.*

*“NZ does not distinguish between the two pensions and wants to deduct his employer-based pension as well. Please note I have worked and paid taxes in this country for 33 years. My husband has worked and paid taxes here for 30 years. Why should our private contributions be deducted from NZ super? Why should another country have to provide us with most of our superannuation when we have spent most of our working lives here?*

*“I have written to every MP re this problem. I am supporting a change in the law whereby immigrants should receive super according to the years of employment or residency. We should only give them a proportion of full super and allow them to keep their entitlements from overseas. This is how most other countries in Europe do it.”*

#### **Case 9: D – the UK**

D immigrated to New Zealand in 1968 and has been resident here for 33 years. After working in the UK for 12 years and making NI contributions for those years she is now entitled to GBP167 monthly, gross. On average she receives about \$900 per month of the \$1,387.26 benefit under the ‘single, living alone’ rate.

Problem: Issues about taxation of gross benefits.

D notes: *“[The issues under the current NZS system include] deduction of English pension from NZ National Superannuation and having to pay tax on the UK portion when the deductions from wages were tax paid. I have confirmation from IRD UK that National Insurance deductions were made after PAYE was deduct-ed.”*

#### **Case 10: H-M – Germany, Switzerland and the UK**

H-M immigrated to New Zealand in 1984. She worked here for 22 years, retiring in 2006.

Having worked in Germany for 16 years (193 months), she receives a pension of EUR516.08 gross monthly; from working a year and eight months in Switzerland, she receives a Swiss pension of CHF57 per month and from working 15 months in England, she receives a British NI pension of GBP19.48 per month. Her husband, a New Zealand national, who has lived here all his life, has received NZS (or its equivalent) since 1989. They are on the ‘married or civil union (both partners qualify)’ rate which entitles them to \$2,106.52 gross monthly, and from this, her overseas pension

entitlement is abated so both she and her husband have their pensions abated because of her entitlement from working overseas.

Problems: Use of joint benefit for abatement purposes. Pensions paid to one partner being deducted from another partner's NZS.

H-M notes: *"The tax requirements for the above overseas pensions have become a nightmare and we have to, for the first time, engage an accountant to sort this out for us.*

*"We also have to consider the bank fees which is for the monthly entitlement from Germany \$NZ20 WINZ has agreed to reimburse us by deducting less from my husband's NZ Super.*

*"I was a fully qualified, 42 years old and had accumulated many years of specialised experience in my work area before coming to NZ. I have not drawn the spouse's early retirement. Instead I have contributed to the NZ General Fund until 3 months before I turned 65. Besides owning our own modest home we have saved. We do not have a Trust and any help from the State is means tested and we do not qualify.*

*"The amount of pension entitlements from overseas will never be adjusted because it relates directly to the amount I have paid into the three Government administered Pension Funds. At the time when I worked and paid into these Pension Funds, about 18% off my wages were deducted and put into the Retirement Fund. This money was always to be my savings on retirement. The 18% were taken off once I had paid the usual taxes and other general obligations were covered e.g. Invalid Fund, and Funds for the jobless....*

*"New Zealanders tell me that they did not have the chance to live and work overseas and therefore do not get and agree to a second pension. But during their lifetime work in NZ were they not able to save for retirement? (18% was not deducted off their wages); therefore there was more money to put into buying their own home.*

*"My view is that I earned a percentage of NZ Superannuation regardless of what I receive from overseas.*

*"My even stronger view is that it is unfair for the NZ Government to deduct any money off my husband's superannuation. (Just imagine the tension it has created in our marriage!)"*

### **Case 11: M – Germany.**

M immigrated to New Zealand in 1959 and has lived here for 31 years. She spent seven years working in Germany, five of which she spent making voluntary contributions to the pension plan there. Her monthly net entitlement from Germany is exchange rate dependent and, evaluated in Jan 2007 at \$212.74. She is on the 'single living alone' rate for NZS which gives her a monthly gross entitlement of \$1,387.23 which, after abatement, is reduced to \$1,174.49 (gross monthly).

Problem: Abatement of voluntary and compulsory pensions from NZS.

### **Case 12: W – Ireland.**

W immigrated to New Zealand in 1956 and has lived here for approximately 48 years. He worked in Ireland for 6 years. The pension he receives is commonly known as the pre-'53 pension, a contributory pension that was very small until changes took place in the 1990s that saw it increase to half the standard pension, EUR193.30 fortnightly. This is paid via the special banking arrangement which means that, with the EUR to New

Zealand \$ exchange rate at the beginning of 2007 being 1.8645, his fortnightly Irish pension would be \$360.41.

He and his wife are entitled to the 'married or civil union couple (both partners qualify)' NZS fortnightly rate of \$486.12 each which, after abatement, would give them a combined fortnightly pension of \$611.83.

## **8. The key issues**

There seem to be several competing influences that need to be taken into consideration when a government decides what might happen to the DDP. This is an issue that has been under active consideration by the government for a number of years and that fact alone indicates the difficulty of rationalising the various influences. We think it is important for all parties involved to understand what the issues are.

Without according any particular priorities to these issues, the following seem relevant. They are in three groups – the first group looks at issues from the government’s perspective; the second group from the perspective of the individuals who are affected – New Zealand residents who have a foreign pension. There is then the perspective of the other countries involved. There is another group of individuals who raise issues beyond the scope of this paper – former New Zealand residents who no longer live in this country.

### **8.1 From the government’s perspective:**

1. The shape and size of NZS reflect the wishes of New Zealand governments of at least the last 30 years to ensure that older New Zealanders have enough to live on with some financial capacity for “participation in and belonging to” the community.
2. For citizens who have never left New Zealand, that fundamental objective is best served by imposing minimum conditions before they qualify in full for the pension. The conditions also reflect the administrative convenience of requiring relatively low levels of “proof of entitlement”. Residence alone is the only requirement for the basic entitlement, once the State Pension Age is reached.
3. New Zealand is almost alone in offering low entitlement thresholds and no identified “Social Security contributions” or work period to receive a relatively generous Tier 1 pension. That necessarily creates tensions as soon as individuals present with entitlements from other jurisdictions for which they have contributed, or for which identified taxes have been paid.
4. Other pension systems can be complex as the brief descriptions of the subject countries earlier in this paper have demonstrated. Multiplying that complexity across all the countries’ systems that might be affected by the DDP necessarily means that detailed rules to cover every possible case are impractical. A general regulation-making power of the kind already included in section 70 is probably the only way to accommodate this particular issue.
5. The general regulation-making power need not preclude the statement of some key principles that might guide the formation of the particular regulations that affect each country’s pensions.
6. Good, clear information should be freely available to prospective immigrants and returning New Zealanders so there is wide understanding of the public policy principles adopted in New Zealand.

## 8.2 From the superannuitant's perspective

1. Overseas pension systems normally require citizens to contribute, even for the Tier 1 pension (analogous to NZS) and it is usually the period of years of contributions that determine a citizen's pension at State Pension Age. This reinforces the notion of self-provision and entitlement that is missing with NZS. The DDP therefore seems to be an attack on private property rights.
2. The DDP rules are not well explained and to some seem capricious.
3. There seem to be inconsistencies in the way the DDP applies to different components of state pensions from different jurisdictions.
4. Where other countries have Tier 2 pensions that are work-related and arguably part of employees' overall remuneration arrangements, some believe that the character of those pensions is different from NZS and so should not be part of the DDP.
5. It seems to matter to the DDP which type of institution manages a Tier 2 pension. If it is publicly managed, it counts; if it is privately managed (even if publicly mandated) such as happens in Australia and Chile, the DDP does not apply.
6. The DDP is complex and, given the volatility of exchange rates, produces uncertain results from year to year.
7. Income tax arrangements in the paying country do not apply in New Zealand. What might have been favoured treatment had the foreign pension been paid to a resident of the paying country is lost when the recipient lives in New Zealand (where world-wide income is all taxed).
8. Spousal entitlements that are common in other jurisdictions, often attach to the benefit of the "principal" contributor of a couple. They are not the spouse/partner's direct entitlement. NZS has separate entitlements for each and the interaction of the two types of system can produce seemingly unjust outcomes for both the principal contributor and the spouse/partner.
9. SSAs allow for information sharing between countries of pensioners who might be subject to the DDP. The same information sharing does not apply where there is no SSA so the DDP for those countries depends on voluntary disclosure. The MSD has noted that evasion (by those from non-agreement countries) can be a problem. That can lead to uneven outcomes between different groups.
10. The unpopularity of the DDP extends beyond overseas pensioners and to the countries from which they emigrate.
11. The inability of New Zealand to conclude a SSA with the US (due to incompatibility of the two systems), coupled with rules in the US regarding citizenship requirements affect receipt of US pensions and imposes some peculiar requirements of US pensioners residing in New Zealand (they must return to the US every 180 days to collect their social security).



12. The DDP pays no recognition to the periods of ‘contribution’ made by pensioners to the two or more countries involved. It is a cost reduction programme run by the New Zealand government to reduce the total amount paid through NZS by abating the total qualifying overseas pension against NZS.

### **8.3 From other countries’ perspectives**

1. As mentioned before, countries (e.g. Germany, Switzerland, Austria and Korea) have refused to conclude SSAs with New Zealand apparently due to the DDP. It is incompatible with countries where the pension entitlement is ‘built up’, since it works in the opposite direction, cutting down the individual’s New Zealand entitlement by the value of their overseas entitlement.
2. Due to the pro rata nature of accruing pension entitlements in other countries, the DDP may be perceived as unfair by these countries, which do not practice abatement of the individual’s NZS entitlement when it is received in those countries (either under a SSA or under the general portability provisions); this is discussed further in section 9.5.

## 9 Discussion

What follows amplifies some of the issues identified in section 8. This does not pretend to be comprehensive and draws on the case studies given in section 7 by way of illustration.

### 9.1 What is a Tier 1 pension?

The principle of abating a foreign Tier 1 pension against NZS seems reasonably accepted amongst affected pensioners. However, the definition of a Tier 1 pension can cause difficulties.

In some countries (the UK, for example), Tier 1 is relatively modest and probably could not remain so without Tier 2 (SERPS/S2P) and its private equivalents. In other countries (such as the US), Tier 1 is insignificant and is purely a welfare-style safety net. Although the state-managed Tier 2 (so-called “Social Security”) may be directly related to work and pay in those countries (much like private equivalents), it seems difficult to give those Tier 2 pensions exemptions from the DDP. New Zealand’s NZS effectively performs both roles. It is a Tier 1 pension but it also intrudes into the pension territory occupied by Tier 2 pensions in other countries.

### 9.2 Private or public?

The UK offers another illustration of the difficulties the DDP encounters. Private pension schemes can “contract out” of the Tier 2 SERPS/S2P by offering benefits as least as good as the member would have received under the state scheme. The NI contributions payable by both the employer and member are reduced.

Publicly provided SERPS/S2P counts in the DDP. The privately provided equivalent does not. That seems illogical.

### 9.3 Publicly or privately managed?

The fact that the foreign Tier 2 scheme is compulsory seems not to be material to the present operation of the DPP. What seems to matter is whether the scheme is privately or publicly managed. So, the pension from Chile’s compulsory arrangements does not count because private AFPs are the way in which the government’s public policy is implemented. In Chile’s case, this seems doubly curious because the Tier 2 compulsory pension has the potential to replace the Tier 1 pension that would, presumably count in the DDP.

That also explains why Canada’s Tier 2 ‘Canada Pension Plan’ counts in the DDP because, although it is entirely privately pre-funded (as with the Chilean arrangements), it is publicly managed.

### 9.4 Spousal entitlements

New Zealand’s treatment of couples under NZS is uncommon (possibly unique). Countries (including New Zealand) recognise that a couple that shares accommodation and expenses is entitled to more than a single person who lives alone – but not twice as much. In addition, and illogically, NZ pays a single rate for individuals who share accommodation; the single living-alone rate is 65% of the couple rate, the single sharing rate is 60% of the couple rate.

For a couple, the full NZS couple entitlement is divided in two and becomes the entitlement of each of the couple.

Elsewhere, the spousal entitlement would be added to the ‘principal’<sup>29</sup> beneficiary’s pension and then paid to that beneficiary. The whole pension is then used to reduce NZS under the DDP.

Treatment of the married couple as an economic unit is a feature of New Zealand’s welfare legislation but not NZS. According to the Crown Law Office, “it is legitimate for the government to expect that married couples will financially support each other and thereby be treated as a single economic unit.” This is used as justification for the abatement of one spouse’s entitlement against the other’s. Any marriage or marriage-type arrangement is subject to abatement, so that includes de facto and civil union partners.

The DDP effectively changes the underpinning philosophy of NZS from one based on the individual entitlement of each spouse to one based on the couple as the economic unit. In part, that is a New Zealand response to the relatively common overseas approach of adding the spousal entitlement to the principal beneficiary’s pension and paying the combined benefit as a single amount. Given the principles of NZS’s design, it might be more logical to recognise the true nature of the overseas entitlement rather than change NZS. This is not a simple issue.

#### **9.5 Abatement or apportionment?**

The DDP is an abatement regime – every dollar of the foreign pension that counts goes directly to reduce the gross amount of NZS. That probably fairly reflects the benefit design of NZS. It is paid regardless of income, past contributions and, virtually, residence in New Zealand (the requirements are so modest as to be relatively insignificant). There is an ‘all or nothing’ test and so no form of accrual of entitlement.

The more traditional practice in other SSAs is to apportion pension entitlements between countries based on periods of residence or working lives spent in each. That may be more ‘equitable’ as between the countries but it also more fairly reflects the typical benefit designs involved. They do tend to be earned by accrual or contribution periods. So matching two “accrual systems” can work.

Without analysing which of the two systems is preferable, it is in their interaction under SSAs that the conflict of benefit philosophy crystallises.

The prescription for treatment of overseas pensions under section 70 seems a major roadblock to New Zealand’s forming SSAs with several countries, including Germany, Austria, Switzerland and South Korea. New Zealand’s eight SSAs with other countries is a relatively small number: Australia has 18 SSAs<sup>30</sup>

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<sup>29</sup> Usually determined by years of contributions or work period and often with complex arrangements to deal with couples who have both worked or otherwise qualified.

<sup>30</sup> Austria, Belgium, Canada, Chile, Croatia, Cyprus, Denmark, Germany, Ireland, Italy, Malta, the Netherlands, New Zealand, Norway, Portugal, Slovenia, Spain and the US (Centrelink, 2007).

and the US has 21<sup>31</sup>. It seems that Germany, Austria and Switzerland refuse to conclude social security agreements with New Zealand and their reasons are likely to be reflective of other EU countries.

The May 2004 MSD report refers several times to the DDP as a “cost-sharing” arrangement. However, cost-sharing through abatement is not an accepted practice in many countries. In particular, the EU frowns upon such an arrangement. In ruling 1408/71 of the European Convention on Social Security, the EU explicitly rules against the cost-sharing principle and in favour of aggregation and apportionment. Sixto Molina, Legal Officer of the Social Security Division of the Council of Europe, states, in reference to ruling 1408/71:

“The principle reflecting the protection of rights in course of acquisition refers in the first place to the aggregation of periods of insurance, employment or residence completed under the legislation of various states.

“For example a man lives and works in State A for 15 years where he pays residential tax to cover the costs of his social security. If this man then moves to State B where he works for 10 years before retiring and claiming an old age pension it would be unfair to expect State B to pay him a pension equal to that man having worked in State B for 25 years. The affect [sic] would be that State A benefits from 15 years of contributions without having to pay anything and State B has to pay a long-term benefit even though it only received contributions for 10 years. This unfairness is avoided by the "pro-rata temporis rule" this means that each state provides a pension according to the time that the recipient of the pension paid taxes/contributions in that particular state. So in the case of our example State A would pay a pension reflecting the 15 years of residence and State B a pension reflecting the 10 years of employment. The man would therefore receive two pensions, one from one state and one from the other. How these proportional pensions are calculated can vary from one social security co-ordination agreement to another.”

(Molina S 2005) (pp.10, 11)

## 9.6 The US case

Section 70 is not the only aspect of New Zealand’s pension system that stands in the way of its ability to conclude SSAs with other countries. In the case of the US, there are two road-blocks to New Zealand’s being able to secure a SSA. The first, according to the Ministry of Social Development (2004) report (and discussed above) is the DDP; the second has to do with the nature of our social security system (independent of section 70). According to Greenfield (year unknown), two factors to do with our social security system prevent portability of US Social Security entitlements. These are: the provisions of sections 202(t) and 233 of the US Social Security Act.

Section 202(t) prohibits payments of benefits to non-US citizens who are outside the US for more than six months unless the provisions of section 202(t)(2) are

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<sup>31</sup> Austria, Australia, Belgium, Canada, Chile, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, Norway, Portugal, South Korea, Spain, Sweden, Switzerland and the UK (SSA. 2007)

met, that is, “unless the individual is a citizen of a foreign country which has a social insurance or pension system which is of general application under which:

- A) Periodic benefits are paid for old age, retirement or death and
- B) US citizens can apply for and receive benefits outside that country without restriction”.

A “social insurance or pension system which is of general application” is judged to be so using the US Code of Federal Regulations 404.463(1). These define a pension system to be “a governmental plan which pays benefits based on residence or age...provided that...the *financial need of the beneficiary is not a consideration.*”

Australia conforms to part B but does not conform to part A. They have a social security agreement with the US because they can make use of the exemption in section 202(t)(4); Australian citizens can receive benefits under this exemption if they have resided in the US for 10 years or more (40 quarters). New Zealand, which does conform to part A but fails to conform to part B, cannot have a social security agreement because there is no exception to part B.

If we removed the general portability at 50% rate, thereby allowing all New Zealanders to take full NZS to the country they choose to reside in during retirement, or at least did this for the US, then we would conform to section 202(t)(B), because US citizens could apply for receive New Zealand benefits outside New Zealand *without restriction*. Failure to comply with these regulations means that the US refuses to pay out social security payments to New Zealand citizens unless they reside in the US.

However, the other roadblock is section 233 of the US Social Security Act. Section 233(c)(1)(B)(I) prohibits agreements with countries where a US citizen would be covered by the social security systems of both countries. It is considered that since, when US citizens are seconded to work in New Zealand, they must pay New Zealand taxes (as well as social security taxes to the US), and since NZS is funded out of general taxation, they are paying a social security tax in New Zealand as well as to the US. That seemingly constitutes double taxation.

Section 233(b)(2) states that, for the purposes of totalisation, an agreement must combine ‘periods of coverage’ under the two systems which must be periods of work or contributions, and not simply residence. New Zealand could resolve this if we had a similar programme to Australia’s SG. There, exempting US employers from paying contributions on behalf of seconded workers from the US who currently worked in Australia allowed compliance with 233(b)(2).

New Zealand’s system, being neither comparable nor compatible with that of the US, makes it hard for us to comply. The US refuses to amend its legislation and that prevents portability of their social security benefits for New Zealand citizens who have accrued entitlements.

It does not, however, prevent New Zealand from applying the DDP under section 70 for US citizens who retain their entitlements. That abatement does not depend on the presence of a SSA.

## 10. The MSD's proposed solution – proportional accruals

As mentioned before, one rationale for the DDP seems to be that those who have worked overseas should not receive a higher taxpayer-funded pension than those who have chosen to live and work all their lives in New Zealand. That sentiment pervades a lot of the correspondence received by overseas pensioners making complaints to the HRC and the Crown Law Office.

According to the MSD, of the approximately 51,000 New Zealanders who have their overseas pensions directly deducted from their NZS entitlements<sup>32</sup> “the majority of these [85%] have been in New Zealand for more than 30 years and are living on modest incomes” with 60% having income below the threshold necessary to qualify for a community services card. Additionally, seven percent of ‘overseas pensioners’ were actually born in New Zealand (Ministry of Social Development 2005).

The Ministry of Social Development’s 2003 and 2004 Reviews proposed a proportional system of retirement income. In the 2003 paper, the MSD proposes two packages which align with apportionment:

- *Package A changes the residence provisions of NZS for **all** New Zealanders. Under the current system, if they meet the 10(5) residence requirement, they get full entitlement to NZS; under the proposed system, New Zealanders’ entitlements to NZS will be proportional to how many years between the ages of 20 and 65 they have spent resident in New Zealand (with allowances made for ‘overseas experience’ travel or study abroad and other forms of “time-out” as the MSD refers to them). An individual’s entitlement is then 1/45<sup>th</sup> of the NZS multiplied by the number of years they’ve lived in New Zealand. Under this package there will be no deduction of their overseas pension entitlement.*
- *Package B is similar to Package A but restricts the proportional system only to those with overseas pensions. It is considered inferior to Package A because “it is discriminatory on the grounds of ethnic or national origins, as it has the greatest effect on non-New Zealanders” (Ministry of Social Development, 2005) (though section 70 likewise has its greatest (93%) effect on non-New Zealanders).*

Package A was again proposed in the 2004 paper.

Moving to a system of apportionment will clearly advantage those with significant overseas pension entitlements that are currently subject to the DDP.

However, there will also be losers under this policy. They include

- those with minimal residence in New Zealand and no pension entitlement from overseas, who under the current system get full NZS but under the apportionment system will get a somewhat reduced NZS. Abating NZS for these may result in the rise of supplementary benefits to avoid poverty.

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<sup>32</sup> This number reflects those who actually receive some portion of their NZS entitlement – it does not count those who have their NZS completely abated by their overseas pension (these drop off WINZ’s books since they have no positive NZS entitlement). This gap in the official numbers needs repairing.

- those with small gaps in their New Zealand residence history who will get a reduced NZS entitlement compared with the current pension.
- those coming from abroad who have gaps in their employment history. This is likely to include women who took time out from working to raise children.
- those, probably a very large group, New Zealanders who spend relatively short periods (up to 10 years) working overseas when younger. That is not normally long enough to raise an entitlement to a pension in that country but it would be enough to reduce NZS under the apportionment system. Ten years is a common minimum entitlement period in many jurisdictions (e.g. US, UK, Canada).

Already the “special portability countries” (listed in section 3 of this report) receive special treatment in that, after 20 years’ New Zealand residence, individuals emigrating to any of those countries for retirement can receive their full NZS entitlement. The justification for this special treatment is the contribution these countries have made to the New Zealand labour market (Ministry of Social Development, 2003; 2004; 2005). The Ministry of Social Development (2003) proposes that, under an apportionment system, the special portability countries would be able to continue this arrangement. However, the logic of that “special” treatment would then seem difficult to follow if all other New Zealander residents were subject to apportionment.

If Package A were implemented, for the purposes only of fixing the issues raised by Section 70 and the DDP, it would seem to be a “tail wagging the dog” policy. There would need to be other reasons for making such a fundamental change to the design of NZS. It would require significant research and debate.

## 11 Conclusion

The purpose of this paper has been to describe the issues raised by the DDP applied under section 70 of the Social Security Act 1964. There is much misinformation about this topic and a surprising absence of good information and debate.

This is an issue that currently touches a significant group of New Zealanders. It also affects relationships between countries with respect to government-to-government pension agreements. New Zealand's NZS is an outlier with respect to its benefit philosophy and one ministry proposal to address the issues raised by the DDP would be to change NZS for all citizens, not just for those with overseas pensions. That would be a very significant shift and is likely to raise more problems than it resolves.

A further paper will take a first principles approach and develop options to improve equity for all stakeholders.



## APPENDIX LINKS

Reasonable steps to be taken to obtain an overseas pension

[http://www.legislation.govt.nz/libraries/contents/om\\_isapi.dll?clientID=16068025&infobase=pal\\_statutes.nfo&jump=a1964-136%2fs.69g&softpage=DOC#JUMPDEST\\_a1964-136/s.69g](http://www.legislation.govt.nz/libraries/contents/om_isapi.dll?clientID=16068025&infobase=pal_statutes.nfo&jump=a1964-136%2fs.69g&softpage=DOC#JUMPDEST_a1964-136/s.69g)

Duty of Chief Executive to Assist

[http://www.legislation.govt.nz/libraries/contents/om\\_isapi.dll?clientID=16068025&infobase=pal\\_statutes.nfo&jump=a1964-136%2fs.69i&softpage=DOC#JUMPDEST\\_a1964-136/s.69i](http://www.legislation.govt.nz/libraries/contents/om_isapi.dll?clientID=16068025&infobase=pal_statutes.nfo&jump=a1964-136%2fs.69i&softpage=DOC#JUMPDEST_a1964-136/s.69i)

Rate of benefits if overseas pension payable

[http://www.legislation.govt.nz/libraries/contents/om\\_isapi.dll?clientID=16068025&infobase=pal\\_statutes.nfo&jump=a1964-136%2fs.70&softpage=DOC#JUMPDEST\\_a1964-136/s.70](http://www.legislation.govt.nz/libraries/contents/om_isapi.dll?clientID=16068025&infobase=pal_statutes.nfo&jump=a1964-136%2fs.70&softpage=DOC#JUMPDEST_a1964-136/s.70)

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