Pressure points in our policies
Facing up to the aging population

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Retirement Commission (formerly CFFC)

Te Ara Ahunga Ora Retirement Commission aims to help New Zealanders retire with confidence
• meaning New Zealanders feel secure they’ll have resources to live and the know-how to make ends meet.

Three focus areas: Retirement Income Policies, Retirement Villages and Financial Capability.
• Raise public understanding and advise Government on policies that will enhance retirement outcomes for New Zealanders
• Monitor the retirement villages legal framework
• Help New Zealanders think long-term to improve their financial outcomes and prepare for retirement
Retirement Income Purpose Statement

A stable retirement income framework enables trust and confidence that older New Zealand residents can live with dignity and mana, participate in and contribute to society, and enjoy a high level of belonging and connection to their whānau, community and country.

To help current and future retirees to achieve this, a sustainable retirement income framework’s purpose is twofold:

1. To provide NZ Superannuation to ensure an adequate standard of living for New Zealanders of eligible age. NZ Super is the Government’s primary contribution to financial security for the remainder of a person’s life.
2. To actively support New Zealanders to build and manage independent savings that contribute to their ability to maintain their own relative standard of living.

The retirement income system sits within the broader government provision of infrastructure also needed to enable older New Zealanders to live well, such as health care, housing, and transport.
What do we know?

• Aging population – perhaps 25% over 65 by 2056
• Not a baby boomer blip – lower birth rates, increased longevity
• COVID-19 has dented ability to manage individual long-term saving as well as the Crown’s fiscal position
• Seniors’ housing costs will be seriously impacted within two decades. NZS not designed to include significant housing costs
• Who’s financially comfortable now? Mainly older Pakeha men
• MSD reports increasing uptake of supplementary assistance amongst NZS recipients (Accommodation Supplement, Special Needs Grant, Temporary Additional Support)
• Low interest rates affect older people more
Individual savings

• Fine for those who can do it - are there enough carrots?
• KiwiSaver great (voluntary Tier 3 scheme) – average balance $25k
• Reliance on an unchanged KiwiSaver will further disadvantage those already disadvantaged (gender and ethnic pay gaps, time out of the labour market)
• Our latest research show two thirds of NZers make poorly informed choices about financial products
• People earning below $30k have better impulsivity control than those earning over $100k
• Motivation to save is heavily dependent on trust and confidence in the retirement income system
A universal pension

• Easy to administer
  o Do the few recipients that don’t need NZS outweigh simple universality?
  o Avoidance schemes

• Fair to all
  o Māori? Pasifika?
  o Of current NZS recipients, only 5.6% are Māori and just 2.6% are Pasifika (MSD June 2021)

• "Generous"
  o Not necessarily, given difference between increasing housing costs and average wages
  o We don’t have a tier 2 pension policy so reliant only tier 1 (NZS) and tier 3 KiwiSaver (equity issues)
But we can’t afford it

• Who says?
• Treasury’s draft LTFS projects gross NZS will represent –
  ○ 5.6% of GDP by 2030, 6.5% by 2045, and 7.6% by 2061
• Is 7.6% too much for a quarter of the population?
• What kind of society do we want?
• NZS (like other transfers) is funded largely through tax revenue
• Is it time to think harder about our tax settings (we are
  international outliers for not taxing capital gains,
  inheritance or land/property)
• Rising health costs need funding too...
Is Oscar Wilde right?

Can we afford not to properly provide for seniors' wellbeing?
Options for NZS

• Be rigorous: is a settings change necessary? Not just a platform, but actually necessary

• Be people-centred: ensure any change is implemented with a decade’s notice

• Be thoughtful: impact on a diverse population
  - age/ethnicity/time in NZ/ means testing/equity/ workforce profile
  - Who does each option affect the worst?

• The Treaty?

• Simple is good: the harder NZS gets, the worse to administer fairly
What now?

• Think more broadly than just cost: think purpose
• NZS is less a cost than support for up to a quarter of the population to help their wellbeing in old age
• Avoiding pension poverty is as important as child poverty
• System certainty is what will help younger people add to their savings preparation
• Radical thinking?
  o More savings incentives
  o Compulsory KiwiSaver
  o Affordable health insurance
  o Seniors included in list of housing issues
  o Introduce capital gains tax before changing pension age if affordability really is pressing (or the FER model?)
  o Avoid reductionism: not all boomers are rich, not all young people are profligate

He waka eke noa