

# RPRC Update

Retirement Policy and Research Centre

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## Intergenerational debate: Today's policy settings unfairly favour the baby boomer generation



The Retirement Policy and Research Centre is pleased to host this upcoming debate, sponsored by the Government Economics Network.

This debate is timely, especially given the recent media attention to the issue. For example, the TV Debate (June 6<sup>th</sup>) pitted baby boomers against the younger generations: see [clash-of-the-generations--part-one](#) and [part two](#) and the recent Radio New Zealand Insight programme: [Pensions and tensions between generations](#) (June 7<sup>th</sup>) which examined how younger people feel about superannuation policies, which features views of students, as well as the Retirement Commissioner Diane Maxwell, and the RPRC Co-directors, Susan St John and Michael Littlewood.

Do we too readily accept an intergenerational divide? Or do we take it too lightly?

In the UK, the Centre for Policy Studies characterises the baby boomers as “a generation that has become masters at perpetrating inter-generational injustice” and is proposing that draft legislation should be accompanied by an *Intergenerational Impact Assessment*, not least to provide transparency as to the extent to which costs are being deferred. In addition, they argue that an Office for Intergenerational Responsibility should be established to co-ordinate the production of the Impact Assessments and to scrutinise all tax reliefs and exemptions. The CPS Briefing Paper, available [here](#), follows on from a recent paper ‘Who will care for Generation Y?’, available [here](#).

Speakers have been assigned positions for our debate that may not necessarily reflect their personal views:

- **Ms. Becky Prebble**, a Senior Analyst at the Treasury, for the motion.
- **Dr Simon Chapple**, a Senior Research Fellow in the Dunedin Multi-disciplinary Health and Development Research Unit, University of Otago, against the motion.

After the Summary from the Chair, questions to the debaters will be accepted from the floor, and a vote will be taken. Following the debate there will be refreshments and a chance to engage in further discussion.

**10 July, 3.00-4.30pm, followed by refreshments**

Venue: Decima Glenn, level 3, the University of Auckland Business School, Owen Glenn Building, 12 Grafton Rd, Auckland.

**Please Register by 8 July [here](#).**

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## **PensionCommentary 2015-2: The coming debate on New Zealand Superannuation: the review process**

For the last 40+ years, New Zealand Superannuation has been the classic political football. We now have different political parties and other commentators suggesting changes to NZS to reduce the expected future cost. The usual suggestions include raising the pension age, reducing the amount and some form of means-test.

However, the Prime Minister John Key says that NZS will not change while he remains the country's leader. The Finance Minister Bill English went further. The Minister was reported (*National Business Review* 27 March 2015) as saying that the government "shouldn't prepare for the aging population", and continued:

*"So I am pleased that, in the past five or six years, because of a rational promise by the prime minister*

*which almost nobody agreed with, we haven't had to waste any time in retirement commissions...or arguing about retirement policy... There are only two fiscal answers to the aging population: pay fewer people or pay them less. That's it! Whether you are 83 or three years old, you need a robust growing economy."*

Because that is this Government's enduring position, Littlewood suggests "we can only prepare ourselves for the national debate the country needs to have on an age pension that is fit for the 21st Century. There is quite a lot to do before that debate can start."

The *PensionCommentary* by Michael Littlewood, co-director RPRC, is available [here](#).

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## **PensionCommentary 2015-3: Making responsible investment the new standard in KiwiSaver**

KiwiSaver will have an increasing impact on New Zealanders' financial wealth. The 'default' investment options offered by KiwiSaver schemes do not include 'socially responsible investments' (SRI).

Just as the government has regulated the investment strategy of the default option for the nine default schemes, perhaps the default options of all KiwiSaver schemes should be required to use 'socially responsible investments' in their investment strategy.

Since KiwiSaver was introduced in 2007, multiple changes of varying magnitude have been made. The changes proposed here, requiring introduction of SRI to the default provider options, are novel insofar as they aim to bring the

KiwiSaver system into better alignment with imperatives of economic, social, and environmental sustainability.

The KiwiSaver system is intended to ensure a prosperous future for New Zealand workers for many decades to come. It makes sense, therefore, that sustainable and responsible investment should be the norm in KiwiSaver.

Requiring default providers and default funds to incorporate principles of responsible investment would constitute a first step, with much deeper reforms to KiwiSaver and other sectors of the finance industry likely to be required in the years ahead.

The *PensionCommentary* by Matheson Russell, RPRC Research Associate, and Senior Lecturer in Philosophy, Faculty of Arts, University of Auckland, is available [here](#).

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## **PensionCommentary 2015-4: Default socially responsible investment for KiwiSaver – an alternative view**

Managers used to be measured and compared by the key indicators of short and long term returns, volatility, fees, risk, liquidity and access. Some now suggest an additional dimension, known under a range of descriptive titles: 'socially responsible investing' (SRI), 'environmental, social and governance' (ESG), 'sustainable', 'socially conscious', 'green' or 'ethical investing'.

The United Nations has sponsored the Principles for Responsible Investment Initiative (PRI) to establish an international network of investors to put the six PRIs into practice. The principles are designed to "contribute to the development of a more sustainable global financial system", and enable "good governance, integrity and accountability" as part of a signatory's programme.

While *PensionCommentary* 2015-3 suggests making responsible investment the new standard in KiwiSaver, and requiring default providers to sign on to the PRI and/or default funds to incorporate SRI principles, this *PensionCommentary* suggests that 'socially responsible investing' is not a robust concept.

Further, all KiwiSaver schemes should be allowed to set their own default investment strategy. "Legislating SRI into the default investment options of the default schemes is more complicated and a lot harder than it looks."

The *PensionCommentary* by Michael Littlewood, co-director RPRC, is available [here](#).

# pension reforms

Two recent New Zealand Treasury reports reviewed on PensionReforms illustrate the impact of public policy decisions on private behaviour.

One (*Pensions, Savings and Housing: A Life-cycle Framework with Policy Simulations* (2014) New Zealand Treasury, accessible [here](#)) looked at the inter-relationship of decisions that individuals make about consumption, saving, housing and retirement incomes. It uses a model to explore possible policy changes. The report illustrates the knock-on effects of changes in tax rates, interest rates and house prices.

Despite the limitations of economic models, the report suggests "...the model provides a rigorous and internally consistent framework for assessing the direction and magnitude of key responses in saving, consumption,

housing and pensions to potential changes in a range of tax and retirement income policies."

The second report, also from the Treasury, looked at what happened to private savings when New Zealand's State Pension Age increased from 60 to 65 between 1992 and 2002. Households in the increase window lifted private savings by 2 percentage points for each year of increase. The impact of a future increase in age might be smaller. The report is accessible [here](#).

[PensionReforms](#) now has 727 abstracts of reports from around the world on all aspects of public and private provision for retirement. They are sortable by author, institution, country, topic and year of publication. For example, there are now 50 reports from New Zealand, 55 from Australia and 236 from the United States.



## Overseas Pensions: The RPRC welcomes NZ First members' bill drawn from the ballot box

**RPRC Press Release:** The RPRC welcomes NZ First member's bill, New Zealand Superannuation and Retirement Income (Pro Rata Entitlement) Amendment Bill, being drawn from the ballot box, 25 June. For many years the RPRC has highlighted the growing inequities of the treatments of migrants under the policies on overseas state pensions. NZ First is concerned about the early access to our generous universal pension by increasing numbers of older immigrants who have not contributed many if any years to the our economy.

"But there are many associated issues" says RPRC Director Associate Professor Susan St John. "A married retiree may be deprived of all or part of their NZ Super because of their spouse's overseas pension. There is little fairness or reciprocity in our current policies."

Over the last 6 years, the RPRC has run regular public forums that summarise the broad inequity and inconsistency of current policies and offer some options for the way forward. "It's hoped that the NZ First Bill now opens up the opportunity for dialogue and actual policy changes" says Susan St John. "A select committee process would enable us at long last to review the interpretation of Section 70 of the Social Security Act.

The RPRC 2014 forum ([here](#)) offered other options instead of the pro-rata of NZ Superannuation that NZ First favours for all superannuitants. "We would like the residency requirement to 25 years debated. This would be simpler and solve a lot of other issues with overseas pensions" says Susan St John.

## New RPRC Research Associate: Dr Matheson Russell

Matheson Russell, BA (Hons), PhD, is a Senior Lecturer in Philosophy at the University of Auckland. He has broad research interests which include the philosophy of social interaction, theories of modernity, and social and political responses to climate change. He was recently the recipient of a Marsden Grant to support a three-year research project on the politics of recognition.

The RPRC welcomes Russell's *PensionCommentary* 2015-3: Making responsible investment the new standard in KiwiSaver, available [here](#).



## Working Paper 2014-2 Turning silver to gold

A revised edition of Dr M.Claire Dale's December 2014 Working Paper was published in April 2015. The demographic change often referred to as 'the silver tsunami' is testing labour market, health, pension and retirement policies across the developed world. In New Zealand, the population aged 65+ is projected to almost double from 635,200 in 2013 to 1,100,000 by 2030.

This Paper provides an estimate of the total policy-driven state costs of aged services and support, including health care, in 2013, 2017 and 2022. Affordability of this array of services and support to the aged will be challenged by a diminishing proportion of the population contributing to economic output.

The increasing cost of increasing numbers of elderly is the source of the 'silver tsunami' metaphor, signalling the threat this demographic change holds for the working-age population.

The paper closes with suggestions of policy options that could be applied in the future to 'turn silver to gold', so the older population is recognized as a *taonga* rather than a threat. Such policies would also strengthen the younger population's confidence in intergenerational equity: that when they age, they will enjoy the level of physical and financial support provided for the aged of today.

The Working Paper is available [here](#).



## Farewell to RPRC Co-Director Michael Littlewood

Michael Littlewood retires as a Co-Director of the Retirement Policy and Research Centre from 1 July. In 2006, he helped Dr Susan St John establish the RPRC at the University of Auckland. He says: "The formation and development of the RPRC over the last nine years has been a very rewarding part of my career."

Littlewood qualified as a lawyer in New Zealand, the Pacific and England but worked mostly as a superannuation and employee benefit adviser in the UK and New Zealand for what is now called Towers Watson. He was then Employee Benefits Director at Fletcher Challenge. Following that, he started his own business that is now SuperLife.

Littlewood was a member of the first Task Force (1991-92), led by Jeff Todd. He is the author of *How to create a competitive market in pensions – the international lessons* (IEA, London 1998) and has written many papers, submissions, commentaries and op-eds on public policy issues associated with saving, pensions and taxation.

Littlewood will continue his long history of commenting on pension and retirement policy. He will retain his email address: [michael.littlewood@auckland.ac.nz](mailto:michael.littlewood@auckland.ac.nz) for the next two years as an 'Honorary Academic' in the Department of Economics. Littlewood will also continue as the principal editor of [www.PensionReforms.com](http://www.PensionReforms.com), and will maintain links with, and continue to support the work of, the RPRC.



### LEANZ 21 April, Wellington: Retirement income policies in New Zealand – what really matters

Michael Littlewood, Co-director RPRC, was invited to a panel discussion at the Wellington branch of the Law and Economics Association of New Zealand on 21 April 2015. Andrew Coleman suggested that more pre-funding of pensions would lower the cost of an ageing population.

**Littlewood's Abstract:** *New Zealand faces an ageing population but has one of the most sustainable and effective sets of retirement income policies in the developed world. That does not mean those policies are*

*'right'. We need to discuss all aspects of the public policy environment from first principles to test their suitability for the 21<sup>st</sup> century. The government should focus its public policy attention on the things that only governments can do. That does not include forcing people to save or offering incentives to save for retirement. So, what can governments do? How do we get a discussion going on the things that actually matter?*

Littlewood's presentation available [here](#)

### RPRC in the media and public presentations and contributions

**4 April 2015, New Zealand Herald**, Michael Littlewood quoted in Mary Holm's column '[Super options can get you a home](#)'.

**21 April 2015, LEANZ, Wellington**. Michael Littlewood's presentation topic was "[Retirement income policies in New Zealand – what really matters](#)".

**22 April 2015, RadioNZ**, Michael Littlewood on Morning Report on the [data needed for a debate on New Zealand Superannuation](#).

**11 May 2015, New Zealand Herald**, Michael Littlewood quoted in '[Safety-first KiwiSavers risk losing out when it comes to pension pot](#)'

**18 May 2015, Presentation** to Kiwibank bank managers at *Better Backyards* workshop: M.Claire Dale talks about Nga Tangata Microfinance partnership with Kiwibank.

**26 May 2015, RadioLive**, Duncan Garner interviews Michael Littlewood on the [reform options for New Zealand Superannuation](#).

**28 May 2015, DailyBlog**, Susan St John asks '[Can we please debate New Zealand Superannuation?](#)'

**7 June 2015, RadioNZ Insight**, and Michael Littlewood quoted in [The Superannuation Conundrum on reforming New Zealand Superannuation](#).

**7 June 2015, RadioNZ Insight**, Susan St John interviewed on the future of New Zealand Superannuation, [Pensions and tensions between generations](#).

**8 June 2015, RadioNZ**, Michael Littlewood quoted on Morning Report in [Renters more likely to be poor late in life on home ownership data](#).

**9 June 2015, IKA forum panel**, Susan St John discusses '[Privatisation of Social Services](#)'.

**16 June 2015, Press Release**, Susan St John says '[OECD report indicates a better policy direction is needed](#)'.

**22 June, DailyBlog**, Susan St John writes '[Sex and beneficiaries – 19th century morality in 21st century](#)'.

**25 June 2015, Good Returns** notes [Michael Littlewood's retirement announcement](#).

**26 June 2016, National Business Review**, Michael Littlewood's Letter to the Editor, [Tax-free savings 'don't work'](#).

**28 June 2015, Sunday Star Times**, Michael Littlewood answers nine questions about financial planning and retirement in [Cashing in on life](#).

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