RPRC Update

Retirement Policy and Research Centre

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New Zealand Superannuation policy and overseas state pensions

Commissioned for the 2016 Retirement Commissioner's 3 yearly review of retirement income policies, this report by the RPRC's M.Claire Dale and Susan St John recognises both the complexities of how to treat people with overseas state pensions and the requirement for justice and equity when dealing with people's savings for retirement.

Because there is no internationally agreed qualifying age or state pension design, the fairness of rules concerning what state pensions should be offset against New Zealand Superannuation (NZS) are an increasingly critical issue as populations become more and more mobile.

In New Zealand, increasing numbers of those who qualify for NZS also have entitlement to an overseas state pension. Many people spend time working in more than one country and contributing to retirement savings schemes and/or accruing rights to a state pension in each of those countries.

Internationally, many countries are increasing their qualifying age to a minimum of 67 years. Also, to qualify for a full state pension, most countries require contributions for 30 to 50 years. Required residence in New Zealand to qualify for NZS is only 10 years after age 20, with 5 of those years after age 50. The low hurdle for access to NZS has the potential to make New Zealand a desirable retirement destination particularly for those not affected by the Direct Deduction Policy (DDP).

The Direct Deduction Policy (DDP) allows for deduction of state pensions analogous to NZS from the NZS entitlement. Many overseas pensions are accumulated through employer and employee contributions, without any government contributions. When the DDP is applied to such pensions, perhaps because they are state-administered, the deduction may appear unjust.

In addition, when the overseas pension is greater than NZS, the spousal provision allows a deduction to be applied to the spouse's NZS entitlement. Such deductions are widely perceived as an infringement of human rights as well as inequitable. The analysis suggests the DDP is deeply flawed.

Clear objectives and criteria are needed to guide policy better suited to the changed environment of the 21st century. This report proposes a framework for problem identification and policy reform. Fairness in the treatment of all retirees, especially requiring horizontal equity is paramount.

Removal of the spousal provision may require legislative change but is a relatively simple matter that could be actioned immediately. For the broader reform of the DDP, four options are outlined. Option 1 Enhancing the status quo: adapting the DDP; Option 2 Voluntary DDP and pro rata NZS; Option 3 Pro rata entitlement for all applications for NZS; Option 4 Abolish DDP and increase residency requirements to 25 years.

All the options are complex and have parameters requiring debate. Once a final option and any grandfathering provisions are decided, it can be fully evaluated and costed with a clear time table for implementation and an end to pension inequity.

The report is available on the Commission for Financial Capability website here.

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The Retirement Policy and Research Centre thanks its sponsors, close collaborators, partner organisations, and our host, CARE (Centre for Applied Research in Economics) in the Department of Economics at the University of Auckland.

RPRC seminar 21 October: International Guest Professor Pierre Pestieau discusses the policy implications of changing longevity:

Abstract: Our societies are witnessing a steady increase in longevity. This demographic evolution is accompanied by some convergence across countries, whereas substantial longevity inequalities persist within nations. The goal of this article is to survey some crucial implications of changing longevity on the design of optimal public policy. For that purpose, we first focus on some difficulties raised by risky and varying lifetime for the representation of individual and social preferences. Then, we explore some central implications of changing longevity for optimal policy making, regarding prevention against premature death, pension policies, and long-term care.

Presenter: After receiving his B.A and M.A degrees in economics from the University of Louvain and then his PhD from Yale, Pierre Pestieau has had over forty years of experience teaching and conducting research in public economics and population economics first at Cornell and then at Belgium's University of Liege. He is a member of CORE, Louvain-la-Neuve, associate member of PSE, Paris, and also IZA and CESIfo Fellow. He is currently associate editor of Finanzarchiv, Public Economic Theory and CESIfo Economic Studies. Professor Pestieau's major interests are pension economics, social insurance, inheritance taxation, redistributive policies and tax competition. His articles have been published in such leading journals as Econometrica, the Journal of Economic Theory, Economica, the Journal of Public Economics, the Journal of Population Economics and the Scandinavian Journal of Economics. He has published a number of books on the welfare state, public enterprises and tax evasion.

Pierre Pestieau's presentation slides are available here.

Co-hosted by the University of Auckland's Centre for Applied Research in Economics (CARE).

Proceedings: Social Security Summit – Investing in children

2 September 2016, The University of Auckland Business School.

The 2016 Summit builds on our 2015 summit, "*Welfare fit for families in a changing world*".

For more than two decades, the primary focus of governments in New Zealand has been workfare, not welfare. Welfare itself has become ever more targeted, especially under the social investment approach: "A social investment approach using actuarial valuations and evidence of what works will identify the best way of targeting early interventions, to ensure that vulnerable children receive the care and support they need, when they need it."

The Treasury writes: "Social investment is an approach which seeks to improve the lives of New Zealanders by applying rigorous and evidence-based investment practices to social services." The four key indicators of higher risk for children aged up to 14 years identified by Treasury are: having a CYF finding of abuse or neglect, being mostly supported by benefits since birth, having a parent with a prison or community sentence, and having a mother with no formal qualifications. What Treasury avoids saying is that poverty is the principal indicator for higher risk for children. To support the investment approach the Government is rewriting the social security legislation. The Social Security Legislation Rewrite Bill is not as benign as its proponents claim. In NZCCSS's analysis, "The underlying focus of the Bill and current approach to social security is one built on driving people towards paid employment and a highly targeted and punitive approach to incentives, sanctions and income support."

Some presenters at the 2016 summit shared their own experiences of the Government's social investment approach, while others suggested alternative investment approaches that would genuinely put children at the centre.

The 2016 Summit Proceedings are now available here.

Working Paper 2016-1: Ageing and the Economics of Caring

by Dr M.Claire Dale, Research Fellow, RPRC.

The Retirement Policy and Research Centre is pleased to publish this Working Paper, '*Ageing and the economics of caring'*, which builds on presentations by Dr Dale and Associate Professor Susan St John at the NZ Dementia Summit 5-6 November 2015, Te Papa, Wellington.

The profound demographic change occurring in New Zealand is also occurring in most of the rest of the world. The difference in New Zealand is that there is little public discussion or recognition of the issue. Nor is New Zealand participating in the World Health Organisation's Ageing Cities' collaborative research project.

The ageing of the population has economic and social implications for the New Zealand care industry and for careworkers in particular. The ageing of the population is driven by the baby-boomer bulge, by markedly reduced fertility, and increased longevity, especially at older ages. A dramatic increase in the need for formal and informal care services is one outcome of this demographic change.

Partly as a response to the long tradition of undervaluing and under-rewarding this gendered work, the supply of trained caregivers is unlikely to meet the growing demand. In addition, fiscal considerations, and the long tradition of carework as low paid and unpaid, will constrain the State's willingness to pay adequately for care services or to support unpaid care work.

Whether or not we are ready, the change has already begun. This paper explores some of the economic and social issues of our ageing population.

Working Paper 2016-1 is available here.

The Irish Times, 1 November: *Time for Ireland to bite the bullet*

Associate Professor Susan St John's article begins: *I came to Ireland recently at the invitation of Insurance Ireland to discuss **KiwiSaver**, the far-sighted work-based personal retirement savings scheme that New Zealand has recently implemented.*

I found that Ireland still has a plethora of small workplace schemes, some of dubious quality and many no doubt not particularly transparent or accountable. But worse, coverage is under half of the workforce and, because women's participation in the labour force is low, women are much less likely than men of working age to have a pensions scheme. Tax concessions remain an expensive embedded part of the system.

For women, the outcomes of Irish pension policies appear worrying. I was shocked to discover how they are disadvantaged by the complex and confusing rules, with only a minority of women qualifying for a full Irish state pension. Sadly any system that relies on a contributory base puts women at a disadvantage.

New Zealand is one of the few countries in the world that has a credible comprehensive retirement policy that covers virtually all of the population.

In New Zealand we also got lucky when all tax concessions for private pensions were removed over twenty five years ago. Those concessions went largely to high-income career-based men and were highly inequitable. As a result many employment-based retirement schemes were closed, and many defined benefit (pension) schemes were replaced by defined contribution (lump-sum) schemes. Public-sector pension schemes were closed to new members in 1992. By the mid-2000s, coverage of the workforce in employment-based retirement schemes had fallen to very low levels.

To enable wide access to work-based saving to supplement the state pension, the world's first national auto-enrolment saving scheme was introduced in 2007. KiwiSaver is not restricted to those in paid work and over three-quarters of the working-age population belong, with equal rates of male and female membership.

The full article is available here.

Financial Advisers Annual Conference, Grosvenor Financial Services Group Ltd, 4 November 2016

Decumulation, Problems, policies and potentials?

Susan St John's presentation at the Financial Advisers conference began by suggesting that the ageing population is the elephant in the room everyone is ignoring. By 2060, the population aged 65+ is projected to double to reach 1.4 million, and we are likely to have one person aged 65+ to every 2 people aged 15 to 64. At the same time, longevity is increasing – people are living for longer, but they also have more years of frailty, requiring care and support. This increases the likelihood of needing long-term care, either in a resthome or hospital.

New Zealand Superannuation (NZS) provides basic longevity insurance, but there are few products available to support the decumulation of KiwiSaver, and home equity release remains a fraught option. Increasing inequality, and reduced levels of home ownership are also causes for concern. As well as private concerns, there are public concerns, and we don't have the policies in place to deal with the anticipated demographic transformation.

The ppt presentation is available here.

UoA Ballot Box: Action needed to reverse creeping "ghettoisation" of Auckland

Associate Professor Susan St John joined a panel at the University of Auckland Business School with Alan Johnson, a South Auckland-based public policy analyst and community activist; independent economist Shamubeel Eaqub; and Rangimarie Hunia, Chief Executive of Ngāti Whātua Ōrākei's social development company, Whai Maia.

Speakers delivered the stark warning that an increasingly divided Auckland of "ghettos and gated communities" lies ahead if the city and nation fail to tackle the widening gap between rich and poor. They said solutions must come from all quarters: local and central government, iwi, community grassroots, business and philanthropy, and spring from empathy, caring, and aroha.

Speakers described how the concentration of poverty into certain neighbourhoods undermine the whole city. "Auckland is a city that is increasingly divided: those who have good jobs versus those who don't; those who own a home, versus those who don't. It is called the ghettoisation of Auckland, and it is completely unacceptable," said Eaqub. "Although Auckland has the highest average household income of all regions in New Zealand, once housing costs are taken into account, disposable income is the lowest of all regions."
St John spoke of a "two-speed city: "On one hand we have Real Auckland Housewives, on the other we have desperate people living in cars in winter". At the same time, she emphasised the role of central government and the need for tax reform, while encouraging NZers to celebrate the success of universal superannuation.

Johnson gave examples of the concentration of disadvantage in the south, including: recorded assaults being up to twice as common in some parts of South Auckland as elsewhere in the city; more than half of all children in South Auckland being taught at decile one schools; twice as many pupils from South Auckland as elsewhere leaving with less than NCEA Level 1.

"Auckland is meant to be our most competitive city, our one big hope of competing with cities around the world. How are we going to do it when there isn't enough disposable income for even people on good incomes to live their lives in dignity?"

The full report of the debate is available here.

RPRC in the media and public presentations and contributions

3 October 2016, RadioNZ, Susan St John in an interview "Deadline proposed to get 10 percent of children out of poverty".
12 October 2016, RadioNZ, Susan St John in an interview "Migrants' parents cost NZ 'tens of millions'".
13 October 2016, NZHerald, Opinion, Susan St John: "We really don't know how lucky we are.
17 October, 2016, University of Auckland Law School Guest Lecture, Susan St John: Child Poverty, Policy and the law, Part 1 and Part 2.
1 November 2016, The Irish Times, Susan St John: Simple state payment is critical.
4 November 2016, Financial Advisers Boosters Annual Conference, Grosvenor Financial Services Group Ltd, Wellington, Susan St John keynote: Decumulation, Problems, policies and potentials?
25 November 2016, ANZ Transactional Analysis Association Conference 'Rupture Repair Restore', Auckland, Susan St John guest presenter: Families adrift: The social and economic climate of the 21st century.
6 December 2016, Marlborough Express, M.Claire Dale quoted in "Business as usual despite PM's notice".
6 December 2016, Nelson Mail, M.Claire Dale quoted in "Business as usual despite PM's notice".
12 December 2016, RNZ Morning Report, Michael Littlewood interviewed on whether the change of PM is a reason to change the government's policy on superannuation.
14 December 2016, RadioLive, Michael Littlewood interviewed by Duncan Garner on whether NZS is sustainable in its current form.
15 December 2016, Scoop.business, Susan St John says "Time to scrap unfair spouse pension rule".

Commission for Financial Capability
Building wealthy lives

Review of retirement income policies 2016
Retirement Commissioner's Recommendations

On 14 December Retirement Commissioner Diane Maxwell delivered her Review of retirement income policies to Parliament. The NZHerald reports Steven Joyce, Acting Minister of Finance, saying: "*We've said that we'll do a stocktake of all our policies over the break and that's what we'll do. But we're not anticipating any big changes in superannuation settings*."

Instead of delivering, as past Reviews, a substantial book containing and explaining her Recommendations, Maxwell has published a short report, available here, and created an interactive website.

More importantly the Retirement Commissioner and her team spent most of 2016 encouraging individuals and employers to talk about ageing and retirement issues.

The RPRC suggests the next step is to assemble a task force to assess future needs and ensure New Zealand doesn't remain out of step with the rest of the world who have been preparing for 10 years for public and social policy changes at local and national levels driven by population ageing.

The RPRC media release on the Review is available here.

Retirement Policy and Research Centre: www.rprc.auckland.ac.nz

Now based in the Centre for Applied Research in Economics (CARE)
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