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NEW ZEALAND

RETIREMENT POLICY AND RESEARCH CENTRE

RPRC Update

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A cracked record. When will the worst of section 70 be fixed?

The Direct Deduction Policy, Section 70 of the Social Security Act 1964, has many flawed and unjust elements. While the Retirement Policy and Research Centre (RPRC) have long argued that we don't want people to have access to two basic state pensions eg both NZS and the age pension from Australia, there are many cases of overseas-accumulated pension-savings equivalent to KiwiSaver that are offset against NZS.

Section 70 is well overdue for reform. The Prime Minister said in Opposition, on 25th March 2015:

The issue with this policy is about making a judgment over what overseas pension schemes are similar to ours and what are not. And that is where there seems to be real injustice in the way that the direct deduction policy works.

The RPRC wrote about these complex issues in a paper, Overseas Pensions at for the 2016 Retirement Commissioner's review of retirement policies. The inaction to date has been hard to bear for those badly affected.

On 9 July 2018, the NZ Herald published "Age Pension fix looms after 80 years', profiling Marie and John Brophy who have to seek help from Work and Income to get by, due to the direct deduction policy of section 70 that allows their overseas pensions savings to be deducted. The couple are forced to request food grants and other assistance so they can make ends meet. Marie said:

> *"I don't like doing this, it's so embarrassing, I worked hard all my life . . . now I'm a social welfare beneficiary. I don't want to be a welfare bludger."*

View the full story.

Worst affected are those caught by the spousal provision. Paul Rea, former chair of the New Zealand Seniors' Party, said:

> *"The worst thing of all of it is the Spousal Provision .... Born-and-bred New Zealanders receive no or only a fraction of NZ Super if their partner's overseas pension exceeds the amount of NZ Super because they are combined to an economic unit."*

Read the full story here.

In opposition, PM Jacinda Ardern was very clear:

> *"What you cannot argue, in my mind, is that under that policy, if they deduct right down to zero, such is the generosity of that alternative scheme, the ministry will then start deducting from your partner's entitlement—someone who may not have even lived overseas, may have known you for only the last 10 years. They will have their pension deducted as well as yours because you have reached full entitlement. That cost, from memory, saves the New Zealand Government roughly $5 million a year, that specific provision, but it is totally unfair. In my mind, it is a human rights violation because it predominantly affects women who have their entitlement deducted. Their entitlement is their entitlement. It should never be affected by anyone else's."*

In March 2018, a case on the spousal provision was taken in the Human Rights Review Tribunal. It has been suggested that the decision will be some time perhaps 3 years away. Susan St John attended this hearing and concluded:

> *"The only solution is for principled politicians to call a halt. Judges are not qualified to make social policy. Just as Jacinda can improve Niuean pensions overnight, she could abolish the spousal deduction rule immediately. Her clear grasp of social fairness should allow her to cut through the morass and allow common sense and decency to prevail."*

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- It needs to be more than a BBQ Jacinda

Minister for Social Development Carmel Sepuloni has made no firm commitment but she has requested advice and is expected to say something in November. She said:

> *Any proposed system changes will be made with the best possible advice, in a careful and considered manner.*

View the full story.

The RPRC is alarmed at the delays. We have written and lobbied extensively on this issue since 2007. A list of publications is here and in the previous RPRC quarterly Update we asked "Is there hope for an end to New Zealand's 'Partner's Pension Penalty'?"

The Ministry of Social Development in their review reports (2004, 2005, 2008) on New Zealand's pension system and its relationship to those of other countries, have produced many recommendations, including:

- Remove foreign state pensions built up by voluntary contributions from the scope of section 70 of the Social Security Act; • discontinue the policy of deducting a person's overseas pension from their partner's NZS entitlement.
- Clarify the wording of section 70 so it is in plain English, and set out each country's pension regulations.
- Why have successive Ministers of Social Development not followed the recommendations from their own policy advisors and researchers?

This year, to celebrate the 125th anniversary of Women's Suffrage, the government could Implement these long overdue changes and right some enduring wrongs.

A new Working Paper from the RPRC

Working Paper 2018-1. Intergenerational equity: health and care policy and provision in New Zealand, by M Claire Dale

Abstract: The World Economic Forum 2015 ranked population ageing as one of the five top global risks in terms of likelihood and impact. When a population ages, intergenerational equity emerges as a critical issue. In addition to the rapidly rising costs of the universal age pension for the increasing numbers of those aged 65 and over, New Zealand's Ministry of Health projects the costs of health and care services for that age group will exceed 50% of Vote Health by 2026. Age pension and healthcare costs are met by current taxpayers. Will future taxpayers be willing to carry that burden? There is also the looming future cost of one child in four growing up in poverty and hardship and thus likely to suffer compromised health and reduced ability to contribute economically.

After the overview of intergenerational equity in the first section, the next section explores some of the existing and anticipated regional and ethnic variation in ageing and the issues arising. This is followed by more detailed evidence of the prevailing intergenerational inequity in New Zealand. While New Zealand is not alone in having an ageing population, it is unusual in taking so little action to address this permanent and profound change. The New Zealand SuperFund will not solve the future problem of funding the age pension, and while KiwiSaver is a boon, its benefits flow to those who can afford to save.

A survey of existing local and international measures aimed at increasing intergenerational equity and justice is followed by some concluding remarks. Actions that could be taken now to improve intergenerational equity include improving support for families and reducing child poverty; joining international organisations developing age-friendly communities; establishing a Parliamentary Commission for the Future; and introducing safe, fair, gender-neutral annuity products to enable intragenerational sharing of the costs of the ageing population.

View the working paper.

RPRC submission: Strategy for an ageing population

SuperSeniors, run by the Office for Seniors, is a gateway to information on government services for anyone aged 65+. In August 2018, SuperSeniors co-ordinated consultation for the development of a new strategy for an ageing population. The Discussion Document He Pukapuka Matapaki: Developing a new strategy to prepare for an ageing population on the SuperSeniors website.

RPRC's Background to the Submission stated:

> *As the profound and enduring ageing of the population occurs in New Zealand and most of the rest of the world, consideration of emerging issues, including intergenerational equity, is increasingly urgent. Almost 24% of New Zealand's workforce is aged 55-plus years; there are only four to five teachers/nurses to replace every 10 that will retire; and 44% of all GPs plan to retire within 10 years. Seniors currently make up around 6.2% of the workforce, and by 2033 they will make up 10.6% of the workforce. An ageing population, a declining birth rate and a deepening skills shortage demand that New Zealand intelligently manages its ageing workforce, yet little is being done. Where attention is being given, the focus is narrow and largely medical. Consequently, the RPRC has welcomed three recent initiatives which will have far-reaching consequences.*

View the Submission on The Strategy for an Ageing Population.

PensionReforms' re-launch

pensionreforms

Promoting high quality international debate on pension issues

veritas propter investigationem truth through research

Launched originally 12 years ago on 4 October 2006, the PensionReforms' web site was one of the RPRC's first projects. It offered a different voice on issues associated with retirement, pensions, saving, investment and decumulation. Principal editor Michael Littlewood, then a co-director of the RPRC, said that he wanted to hear a New Zealand voice in the international debates on public policy, given that we do things rather differently here.

When Littlewood retired as co-director in 2015, PensionReforms had a 'sabbatical', in part caused by a complete re-write of the site.

October marks the re-launch of PensionReforms.com Thanks to a pro bono project by PS+C Coroma of Australia the web site has converted to a Salesforce-based application that is cleaner, faster and more accurate than before.

PensionReforms' reason-for-being remains: to illustrate what 'good' policy on pensions and saving issues looks like and what might not be helpful. It aims to stimulate high quality, international debate on retirement and pension issues - both public and private – by sharing others' work. Its international Editorial Board guides PensionReforms as both an information broker and as a place where readers find insightful critiques on major issues and reviews of influential papers.

PensionReforms' library

PensionReforms started in 2006 with just 50 abstracts and now has a searchable library of about 750 academic reports from 260 institutions. More are being added. They presently cover five international country-groupings and 63 separate countries. All abstracts are tagged by topic (175 in all), authors (950 of those to date) and year of publication. All PensionReforms' abstracts can be searched by all or any of these tags.

PensionReforms provides links to original articles on the Internet, covering research on pension issues (both public and private provision), taxation, compulsory saving regimes, funding, pre-funding and pay-as-you-go controversies, employment patterns of older workers, household wealth and decumulation issues. It chooses articles for their insights, relevance and coverage and offer its own brief abstract and commentary.

Editorial board

PensionReforms has just added three contributing editors to the Editorial Board:

- Claire Dale, Research Fellow at the RPRC;
- Grant Scobie, formerly Principal Advisor at the New Zealand Treasury and then at the New Zealand Productivity Commission; now a research affiliate at Motu;
- Michael Chamberlain an actuary with his own actuarial firm MCA NZ Limited. He sold his interests in superannuation manager SuperLife to NZX in 2015.

Littlewood says that all governments face familiar pension challenges, no matter what their economic or political environments. However, he says:

> *"Not all commentary illuminates; not all proposals answer the questions that should be asked; some even answer questions that should not be asked. PensionReforms wants to help readers understand the problems in their own and other countries, offering new perspectives on familiar issues."*

PensionReforms contact

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RPRC welcomes new Research Associate, Rosemary Johnson

Rosemary is a Director of the My Future Career Academy, an on-line resource designed to guide the user's thinking which provides instructional resources and networking resources as to how they navigate their career. She is interested in working with individuals to successfully navigate the future of work and their career, particularly older women whom she considers are an undervalued resource. As a coach, Rosemary draws on over 30 years' experience working in the corporate and public sector, both in New Zealand and the UK. Committed to lifelong learning, she recently graduated with a Graduate Diploma in Psychology from Massey University. She has also graduated with a Post Graduate Diploma in Theology from the University of Auckland, a Graduate Diploma in Health and Safety and a Bachelor of Science with Honours in Textile Design from universities in the UK. She mentors high school students in the First Foundation programme. She has won a rowing World championship and has coached many fellow rowers in the art of winning.

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

pensioncommentary

An article from the Retirement Policy and Research Centre

PC 2018-1: An analysis of the changing nature of work in New Zealand, and its implications for older female workers

By Rosemary Johnson

It is widely recognised that as people live longer the model of a working career is changing and will continue to change. The traditional three stage model of, education-work-retire is no longer viable. In particular, individuals are working longer and in different formats. Older men are affected. However, women face different challenges including an average longevity that exceeds that of men.

This paper draws together research and discussions on the issues affecting the future of work for women, particularly older women, 50+, in New Zealand. Time out from full time (FT) employment, restricted training and development opportunities, the gender pay, age and sex discrimination, all significantly impact on their working life and future career prospects, including financial resources. The constrained ability to provide adequate resources for their future may affect women's choice of when they can stop working.

View the PensionCommentary.

PC 2018-2: Divestment and decumulation - Planning for post-retirement

By Susan St John

Older people are living longer on average but the real problem is the size of the tail of those who live longer, sometimes much longer, than the average and who need extensive and expensive long term care. As well, rapidly increasing numbers of those over 65 are suffering dementia. Many may be exposed to being exploited financially if they have only a 'Do it Yourself' (DiY) decumulation plan.

View the PensionCommentary.

Press release: KiwiSaver default provider arrangements

KiwiSaver default provider arrangements - important issues raised from the Independent Advisors 2018. The major concern is that new KiwiSaver members who do not make their own decisions are put into the default fund of one of nine selected default providers. The nature of these funds is prescribed to be 'conservative' and so, as the Independent Advisers have identified, unsuited for most members to remain permanently in that fund. (17 July 2018).

The Retirement Policy and Research Centre is pleased to see the Independent Advisors raising important issues regarding the KiwiSaver default provider arrangements.

The major concern is that new KiwiSaver members who do not make their own decisions are put into the default fund of one of nine selected default providers. The nature of these funds is prescribed to be 'conservative' and so, as the Independent Advisers have identified, unsuited for most members to remain permanently in that fund.

The RPRC agrees with the Independent Advisers that the default system needs reform. Auto-enrolment requires a default arrangement, but the current system doesn't work well. Importantly, the system could be fixed.

For example, Michael Littlewood RPRC honorary academic says:

> *"All qualifying providers should be allowed to be default providers, not just a chosen few. If the requirements are met by any provider and there is a robust system of policing default providers, picking only some to be advantaged as now is the worst of all worlds."*

In addition, the current prescriptive default investment option that the default provider must offer is inappropriate for most savers. The RPRC suggests that if the default providers were open and transparent about the default option offered, and they are regularly monitored for achieving all the requirements of default status, then there should be no prescription. Susan St John director of the RPRC says:

> *"Providers should then be encouraged to offer tailored default funds based on their own judgement of what is appropriate"*

A further problem lies with the banks' investments:

> *"The idea that providers owned by banks can invest in themselves is untenable and should be prohibited as self-investment," say St John and Littlewood. "However, being too prescriptive, such as by banning particular investments, runs the danger of the Financial Markets Authority, as regulator, seeming to know best in a changing environment. Ideal solutions are never easy."*

View the press release.

Age Concern New Zealand Infographic: Valuing Age: The economic contribution of older New Zealanders

Population ageing is often portrayed in terms of increased costs of New Zealand Superannuation, health care, and residential care. At the same time, the contributions made by older people deserves much wider recognition and respect.

Older people, as paid workers and as volunteers, help to keep our public and private communities intact. As Age Concern reports:

Many families, communities and organisations depend on older people for their skills, knowledge and experience; older people provide care and support to thousands of others who benefit from their assistance.

The active involvement of those over 65 enriches every aspect of New Zealand life. This Valuing Age infographic from Age Concern draws on existing research to show the positive economic impact and contribution made by older New Zealanders.

View the infographic.

Canstar KiwiSaver Report 2018

In 2018, Canstar reviewed 119 funds and 20 schemes, across 15 providers, as part of its annual KiwiSaver star ratings. Canstar also introduced an 'Outstanding Value KiwiSaver Scheme' award, to showcase what they considered to be top-value KiwiSaver schemes across the Balanced, Conservative and Growth fund profiles (See the table below for the results). Canstar's research is based on an average KiwiSaver balance of $15,000.

These fee discrepancies have the potential to affect hundreds of thousands of KiwiSaver members. According to the 2017 Financial Markets Authority (FMA) KiwiSaver report, 943, 453 members are in Growth funds – that's more than a third (34.65%) of the total KiwiSaver membership of 2, 722, 147.

This was the first year KiwiSaver providers had to display their fees as dollar figures in member statements, not just as percentages. As recommended in the 2016 Review of Retirement Income Policies, the FMA ordered the changes in a bid to get greater transparency for investors on what they were really paying in fees. Unfortunately, their follow-up survey found that 50% of survey respondents said they didn't notice the change in how fees were displayed and 18% were unsure if they had seen the information or not.

View Canstar's 2018 KiwiSaver report.

Profile	# of ratred funds	Average total cost	Minimum total cost	Maximum total cost	Avg annual returns
Agressive	14	$223.72	$152.88	$437.84	9.07%
Growth	22	$194.94	$113.56	$284.62	8.54%
Balanced	29	$174.02	$104.22	$255.09	6.26%
Conservative	15	$129.46	$78.17	$197.17	4.57%
Defensive	10	$116.15	$92.64	$185.94	3.51%
Cash	12	$98.84	$65.72	$164.48	2.01%

Revised Social Security Agreement between Australia and New Zealand came into force with effect from 1 July 2017

The qualifying age for the Australian age pension increased from 65 to 67 years on 1 July 2017. To account for the 2 years difference in pensions eligibility between Australia and New Zealand, the revised Agreement provides that in order to claim the Australian Pension or New Zealand Superannuation under the agreement, an individual must have reached the higher of the pension eligibility age in both countries, regardless of the country in which the claim is made.

Under the previous agreement, recipients of social security payments covered by the agreement were able to continue receiving these payments for up to 26 weeks where the person was present in a country other than Australia and New Zealand. Under the revised Agreement the specified period of 26 weeks in relation to an Australian benefit has been removed to align the portability provisions with Australia's domestic social security law. Payments such as carer and disability support payments are generally payable outside Australia for six weeks and four weeks respectively.

View the full EY tax alert.

2018 Retirement Expenditure

Expenditure guidelines from Westpac-Massey Fin-Ed Centre suggest that for a couple aged 65+ the cost of a "no-frills" lifestyle in a city was $872.22 a week at the end of June in 2017. That was $271.92 more than New Zealand Superannuation (NZS) paid to a couple. That shortfall was more than 10 times greater in the city than in the provinces where it was only $21.18. However, $21.18 a week mounts up to over $1,100 annually, and that can quickly empty a small savings pot. See the full NZ Retirement Expenditure Guidelines June 2017 report.

In fact, many retiring Kiwis are meeting the shortfall from their savings, while many others are delaying their retirement well beyond the NZS qualifying age of 65 years.

In Auckland, pensioners are struggling to pay high rents and are relying on food banks and flatmates to survive. A Budgeting Services' food bank in Mangere reports a more than 50% increase in demand from pensioners in 2018 compared to 2017.

Grey Power president Mac Welch said he had heard of pensioners moving in with each other, going to bed early so they didn't use heating and downsizing their accommodation to try and survive.

View the full story.

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Media, presentations and contributions

9 May 2018, NZHerald, Michael Littlewood is quoted in "NZ Super Fund wants aboard $6b Auckland tram project"

1 July 2018, Institute for Governance and Policy Studies, Susan St John & Yun So, "How effective are 2018 policy settings for the worst-off children?" Working paper 18/2, Victoria University of Wellington.

4 July 2018, NZCCSS Policy Watch: Susan St John wants to see rates of WFF payment and threshold levels annually adjusted to reflect price increases and wage growth in the same way as NZS.

4 July 2018, Newsroom, M Claire Dale in a video report describes NZ loan sharks 'a real underbelly'

11 July 2018, Daily Blog, Susan St John writes: "Policy changes to a festering sore are sadly in the far distance"

16 July 2018, NewsRoom, Susan St John writes: 'Working for Families perversely misunderstood'

18 July 2018, NBR, Michael Littlewood and Susan St John quoted in "Academics wade into KiwiSaver default fund debacle"

25 July 2018, Daily Blog, Susan St John writes: Working for Families under attack

1 August 2018, info.scoop.co.nz, in CPAG calls for a legal limit on the total cost of credit, M.Claire Dale states "Child poverty will not be solved until there is a safe, ethical credit environment for low-income consumers in Aotearoa"

2 August 2018, Daily Blog, Susan St John's Reply to Eric Crampton: "Working for families is a payment for children"

1 August 2018, Review of Consumer Credit, M.Claire Dale calls for "a safe, ethical credit environment for low-income consumers in Aotearoa"

17 August 2018, NZHerald Op-ed, Michael Littlewood writes: "Our pensions are affordable for future taxpayers"

27 August 2018, Daily Blog, Susan St John's Reply to Jane Clifton, Listener, "Myths that hurt children"

28 August 2018, Daily Blog, Chris Trotter's reply "Working For Families: Keeping The Wheels Of Capitalism Turning"

1 September 2018, NZHerald Canvas & Britannia, Susan St John quoted: "The word 'retirement' doesn't have any meaning for a lot of people anymore"

6 - 7 September 2018, Panel, Financials Services Council Conference: Shaping Futures, Susan St John: "Divestment and Decumulation – Planning for Post-Retirement" Pullman Hotel, Auckland

12 September 2018, Child Poverty Action Group Summit, Rethinking welfare in the 21st century, Susan St John, Opening speech, University of Otago, Wellington

16 September 2018, Auckland, 'by invitation' of the Prime Minister Jacinda Ardern, Susan St John attended an afternoon event that involved a short facilitated Q&A panel at its conclusion with the Prime Minister and Ministers Grant Robertson, Tracey Martin and James Shaw.

30 September 2018, stuff.co.nz, Michael Littlewood writes: "KiwiSaver is a government-subsidised holiday fund to many"


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