THE UNIVERSITY OF AUCKLAND
Te Whare Wānanga o Tāmaki Makaurau
NEW ZEALAND

RETIREMENT POLICY AND RESEARCH CENTRE

RPRC Update

March 2018 | Volume 11, Issue 1 of the quarterly RPRC Update

New Zealand Government's 'Partner's Pension Penalty'

In March 2018, the Attorney-General was taken to the Human Rights Review Tribunal (HRRT) in Wellington by a group of superannuatants who receive little or no New Zealand Superannuation (NZS) because their partners receive overseas pensions. As the NZ Herald reported on 5 March, and 8 March, lawyer for the plaintiffs, Robert Kee suggested that if the Social Security Act were written in a less confusing way: "the injustice of it could be seen for what it is," and more people might be aware of its unfairness.

The plaintiffs claim that Section 70 of the Act breaches their human rights, robs them of their financial independence, and puts them at risk of financial abuse.

At issue is the rule that the Ministry of Social Development does not only deduct a person's overseas pension from their own NZS, but it reduces their spouses' NZS entitlement by any excess. Some spouses who may have worked all their lives in New Zealand, and even if they are in a short-duration relationship, may get no NZS payments at all, making them reliant financially on their spouse. It is more tragedy than irony that MSD has informed many of these people that if they moved overseas, they could receive both their NZS and their overseas pension.

NZS is an age-based entitlement, with low residency requirements. It is not means-tested, and is not contributions-based. As Kee describes it:

"It's supposed to be a dignified way for people who have gotten older to be able to live at a sensible level and to have an entitlement to a certain basic level of payment."

NZS is a universal, individual entitlement, and is distinguished from 'welfare payments' like unemployment, sickness or single parent benefits. While it is paid at a lower rate for couples, it is not means tested, and is taxed as part of an individual's income without regard to the other partner's earnings.

Perhaps the most egregious example of the application of Section 70 was the deduction of children's survivor benefits from their stepfather's NZS, as reported in the NZ Herald on 15 March. The two children's father was an American citizen. After his death, the US Government started paying their mother about $1,200 per month, with the money to go towards the children's needs. Their mother remarried, and when the children's stepfather turned 65, he applied for NZS. After a time, he enquired at MSD about a disability allowance. He was then informed that he should have been getting deductions from his NZS due to the children's survivor's benefits, and he would have to pay back $12,000 to $13,000. In the meantime, his NZS was reduced to $17 per fortnight.

The MSD's decision to deduct the children's survivor benefits from their stepfather's NZS was reversed after a couple of months, curiously preceding the Human Rights Review Tribunal hearing in March.

Section 70 is not a gendered policy. Both wives and husbands are impoverished with the same enthusiasm. The 'spousal deductions' are an especially offensive and unjust part of a much wider issue with section 70 of the SSA. When overseas pensions seem more like KiwiSaver than a basic state age pension, their full deduction against NZS is perceived as grossly unfair. While many such overseas pensions may be state-administered, they are accumulated via employee and employer contributions and are not taxpayer-funded. If justice is not achieved for the extreme case of the spousal deduction, it is unlikely that the wider section 70 issues will be addressed any time soon.

Continue to next page

Contents

New Zealand Government's 'Partner's Pension Penalty' continued...

The Retirement Policy and Research Centre has been publishing research, holding public forums, and challenging governments' interpretation and application of Section 70 since 2007. In recent years we have been approached by the Swiss, German and Irish governments to discuss this policy and possible actions toward changing it.

On 5 March, Associate Professor Susan St John, Director of the RPRC, published an article on NewsRoom, arguing there is no fiscal justification for delaying justice:

[The spousal deduction] is based on the outmoded assumption that one spouse's income is available to, and should be used to support, the other spouse.

While married superannuitants still get a lower rate than singles, NZS for those not affected by the spousal provision remains as an individual entitlement. Why then should you lose this individual entitlement just because you're married to someone getting an overseas pension?

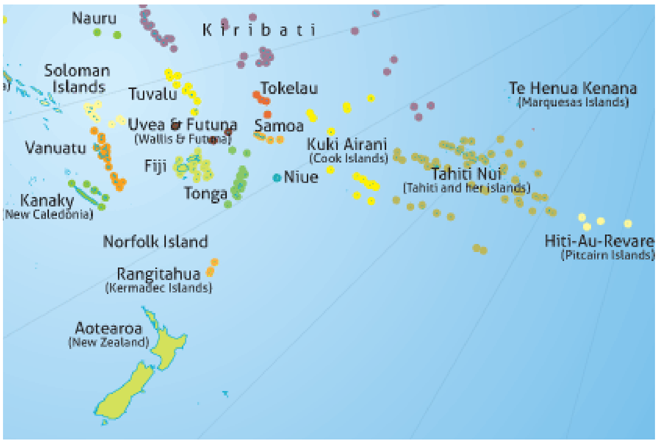
The best estimate from the Ministry for Social Development is that in 2016 there were 500 couples affected by the spousal provision, and the average amount deducted was $4,000 per year which amounted to a total of $2m per year.

Clearly, there is hardly a fiscal risk to removing this rule, yet the social costs of failing to address a clear injustice, including a loss of confidence that there is a rational policy making process, are enormous.

We are hoping this case will open the way for a thorough overhaul of the way overseas pensions are treated. The Spousal Deduction is only one part of this. This overhaul also requires a proper review of the low residency requirements for New Zealand Super and the highly favourable treatment of Australia immigrants under an outdated agreement.

The RPRC hope for a fair ruling from the Tribunal but have been warned that the HRRT is in overload and decisions can be up to three years away. Just as for Pacific pensions (see next) the government itself can and must solve this problem and act without delay.

View report by Dr Claire Dale and Associate Professor Susan St John on overseas pensions issues for the Retirement Commissioner's 2016 review.



Pension rules can be bent: More Pacific Islanders to receive NZS

Prime Minister Jacinda Ardern, when she arrived in Rarotonga on 8 March, announced that residents of Niue, Tokelau and the Cook Islands will be able to get New Zealand Superannuation (NZS) without having to return to New Zealand to meet the '5 years after age 50' rule.

Currently eligibility to NZS requires reaching age 65, and being resident in New Zealand for 10 years, with 5 of those years after age 50. Twenty years of residency is required to get the full NZS however. The change, to be introduced no later than January 2019, means NZS will be available for more Pacific retirees.

The PM said the change will mean an additional 200 people from the islands will be eligible for the age pension, which will cost New Zealand an extra $3.5 million.

Residents of Niue, Tokelau and the Cook Islands may get less NZS if they receive a social security benefit, pension or allowance from a country other than New Zealand.

See the full article at Newshub.

KiwiSaver fees to be shown in dollar figures for first time

FMA Media Release 27 March 2018

As part of its Review of Retirement Income Policy in 2016, the Commission for Financial Capability (CFFC) recommended to government that KiwiSaver members needed more accessible information regarding the various fees they were being charged by fund managers, and the amounts of the fees, so they could more easily compare the costs and benefits of the various funds.

Since then, the CFFC, the Ministry of Business, Innovation and Employment and the Financial Markets Authority (FMA) have worked together to improve the transparency of reporting for KiwiSaver members. The result is that now, for the first time, KiwiSaver members are able to see the fees they pay their fund managers in dollar figures.

They could be in for a nasty shock.

However, experts advise doing the research rather than bolting to a different provider with lower fees, or switching funds. They also advise comparing returns and fees over time, rather than a one-off panic response.

Read the full media release here.

Compare KiwiSaver fees, services and returns (powered by $orted).

New Zealand Superannuation rates from 1 April 2018

Before tax (gross)

	Per year	Per week
Single, living alone	$24,078.08	$463.04
Single, sharing	$22,128.60	$425.55
Married person (each)	$18,239.52	$350.76
Married couple	$36,479.04	$701.52

Post-tax (net)

	Per year	Per week
Single, living alone	$20,845.24	$400.87
Single, sharing	$19,241.56	$370.03
Married person (each)	$16,034.72	$308.36
Married couple	$32,069.44	$616.72

New Winter Energy Payment (WEP)

In December 2017, the Government announced a new winter energy payment (WEP) to help older people and people on a benefit stay warm and healthy through winter. People can choose to opt out of getting it, otherwise it will be paid automatically to everyone getting NZ Super, Veteran's Pension, Jobseeker Support, Sole Parent Support, Supported Living Payment or a Youth Service Payment.

In 2018, the WEP will run for 3 months from 1 July to 30 September and from 2019 it will run for 5 months from 1 May to 30 September.

The rate for single people (with no dependent children) will be $20.46 a week, and couples or people with dependent children will get $31.82. The annual WEP is $450 for single people, and $700 for couples or those with dependent children. The WEP won't affect other payments such as Disability Allowance, Accommodation Supplement, Temporary Additional Support or Childcare Assistance, but if people are overseas for longer than four weeks, their WEP will stop while they're out of the country. Susan St John responds to the WEP.

In New Zealand, we know there is only a small group of older people experiencing fuel poverty. As Ministry of Social Development 2017 found, around 4% of older New Zealanders "report having to put up with feeling cold "a lot" because of costs, compared with 10% for households with children and 7% overall".

Labour's original plan was a sensible opt-in scheme for superannuitants and those on main benefits, meaning people would have to apply for the WEP from Work and Income. Free choice is given, and the person decides whether they need it or not. The WEP is not paid unless a positive step is taken to ask for it, and better-off superannuitants who don't need it are unlikely to bother applying.

What then could possibly justify the change we got in the legislation pre-Christmas to an opt-out scheme, not just for those on welfare benefits but superannuitants too?

Approximately 1 million people will be eligible for the WEP. There is a lot of money at stake here with an overall annual cost of around $450m- roughly 70% of this goes to superannuitants.

The idea that some people will opt out because they don't need it is ludicrous. The very people who should be opting out won't even notice there was an increase. Many of the better-off don't need NZS or even know how much it is.

Opt-out schemes like KiwiSaver and now WEP require an active decision to opt out. Natural inertia makes this unlikely and that is the whole point. We want people to be enrolled in KiwiSaver. Labour's policy so far makes it look like they actually want wealthy old people to take the extra WEP. Labour have just made easier for rich old people to 'choose' more money for themselves.

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.

Fifty years on from the Woodhouse Report: A celebration and assessment of ACC

Susan St John, Policy Observatory Symposium, 15 December 2017

The Woodhouse report was radical and inspirational, but its full scope was not implemented. While ACC is largely unchanged, it has faced reforms and there is evidence of inequities in its application. While it was meant to end common law actions for personal injuries, the law courts are used extensively to determine the boundaries of ACC coverage, and the merits of individual decisions the Corporation has made.

Susan St John reflected on the Woodhouse report and its influence on her master's thesis on ACC's cost allocation. She commented on some of the controversies around the ACC scheme, and how it sits in the wider social security system.

View Susan's PowerPoints and those of the other presenters, including Grant Duncan, Nicola Kays, Rosemary Tobin and Hazel Armstrong.

View A Tribute to Sir Owen Woodhouse, Rt Hon Sir Owen Woodhouse ONZ, KBE, DSC, 1916-2014.

Irish connections

13 March

Susan St John met with Irish Minister of State, Jim Daly. Accompanying the Minister were Darren Hourihane, Advisor to the Minister, Eamonn Robinson, Deputy Head of Mission at the Embassy of Ireland in Canberra, and Niamh McMahon, Honorary Consul General of Ireland in New Zealand.

The discussion centred around the issue of overseas pensions that concerns many Irish immigrants to NZ.

18 March

Susan St John met with Dr Micheál Collins, Assistant Professor of Social Policy at School of Social Policy, Social Work and Social Justice, University College Dublin. Previously a Senior Economist at the Nevin Economic Research Institute (NERI), a member of the Commission on Taxation (2008-2009) and the Government's Advisory Group on Tax and Social Welfare (2011-2014). Former chair of the Irish Social Policy Association (ISPA) and the Regional Studies Association (RSA) of Ireland, he is currently a member of the National Competitiveness Council, the TCD Pensions Policy Research Group and the Living Wage Technical Group. His main research interests and publications are in the areas of income distribution, taxation, redistribution, economic evaluation and public policy.

Ongoing collaborations with RPRC will explore the lessons that can be learned from New Zealand for Irish pension reform. Susan St John is very concerned that that Irish look at the totality of the New Zealand pension system not just KiwiSaver. The success of the New Zealand arrangements revolve around having a good secure basic pension floor to build on. See articles on this issue:

- Susan St John, *Time for Ireland to bite the bullet* Irish Times, 1 November 2016
- Susan St John, *We really don't know how lucky we are* New Zealand Herald, 12 October 2016

A pathway toward financial inclusion and improved wellbeing

In February 2018, Ngā Tangata Microfinance celebrated seven years of providing no-interest, no-fee loans in low income communities. More than 300 loans and almost $700,000 have been disbursed since operations began in 2011 and this event acknowledged the supporters who have enabled this milestone to be reached.

In particular, Ngā Tangata Microfinance (NTM) celebrated the partnership with Kiwibank, whose loan capital allows the safe, fair financial support of low income families. Kiwibank has more than doubled the loan capital provided to $500,000 a year – a boost Executive Officer Robert Choy says is huge for NTM and for the people NTM helps.

Minister for Social Development and Disability Issues and MP for Kelston, Carmel Sepuloni, joined Ngā Tangata to support this important occasion, and shared her knowledge of debt-driven hardship in her community.

Mark Wilkshire, Kiwibank Group Manager Marketing, said "We've seen the extraordinary success Ngā Tangata has had in helping people out of the cycle of debt. Coupled with support from budgeting services and their advisors, Ngā Tangata is creating long-term financial inclusion, capability and independence. It's life-changing stuff."

Nga Tangata Microfinance founder and director, and RPRC Research Fellow Dr M Claire Dale stated the vision for building a more just and equitable society that is economically and socially inclusive for all those living in Aotearoa New Zealand, and shared the findings of the recent impact evaluation. View the findings.

Save the date: Ageing, Work, Money and Health Conference 2018

Purpose:
The purpose of the conference is twofold. Ffirst, to obtain a "demand" side perspective of the issues facing older adults. The second purpose is to bring together key researchers from across the University of Auckland disciplines to share their research and thoughts on how the University could contribute to policy development for the ageing population. We are in the benign part of the demographic change and propose using this time to plan for the very different future. Our future social and economic health and prosperity can be protected if we invest now in solutions that support the transition to an ageing society.

Date: Tuesday 4 September 2018

Time: 8.30am to 4.30pm

Venue: University of Auckland Business School, Level 0, OGGB3 (Room 092), 12 Grafton Rd, Auckland, 1010

Conference Sponsors:

- Retirement Policy and Research Centre, UoA
- Centre for Applied Research in Economics
- Public Policy Institute

Media, presentations and contributions

17 January 2018, Daily Blog, Susan St John, *Use of Nudge theory: The Winter Energy Payment*

24 January 2018, Newsroom, and 31 January 2018, UABS Knowledge, Susan St John, *Labour's power policy rewards elderly rich*

13 March 2018, Daily Blog, Susan St John, *It needs to be more than a bbq, Jacinda*

8 March 2018, TVNZ Breakfast, Michael Littlewood interviewed on NZ SuperFund

11 March 2018, Herald on Sunday, Letters, M Claire Dale, *As old as you feel*

18 March 2018, Sunday Star Times, Susan Edmunds quotes Susan St John and Michael Littlewood in *Pondering the Future*

21 March 2018, NZHerald, Letters, Michael Littlewood, *Taxing Savings*

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.

THE UNIVERSITY OF AUCKLAND
Te Whare Wānanga o Tāmaki Makaurau
NEW ZEALAND

RETIREMENT POLICY AND RESEARCH CENTRE

Retirement Policy and Research Centre
The University of Auckland Business School
Owen G Glenn Building
12 Grafton Road, Auckland 1010

Director:
Honorary Associate Professor Susan St John
s.stjohn@auckland.ac.nz
09 923 7432

Research Fellow:
Dr M Claire Dale
m.dale@auckland.ac.nz
09 923 6968

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

Visit the RPRC's facebook page for local and international news items, and add your comments.

www.rprc.auckland.ac.nz