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

RETIREMENT POLICY AND RESEARCH CENTRE

RPRC Update

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David Harris, international expert in pension policy, says "How do we start the needed debate about the future of age pensions in New Zealand?"

On 5 April at the University of Auckland, David Harris, director of TOR Financial Consulting Ltd, and Research Associate of the Retirement Policy and Research Centre, presented the seminar: Global Trends in Pension Reforms - Issues for New Zealand, which included key international issues with implications for New Zealand. Harris has vast experience in pensions policy around the world and a deep knowledge of global trends and worldwide developments in pensions policy. UK and Ireland are of particular interest.

Harris discussed the key international issues, with the implications for New Zealand and asked: "How do we start the needed debate about the future of age pensions in New Zealand?" He says that by failing to undertake a comprehensive review of its retirement policy, New Zealand is lagging behind and getting out of kilter with the rest of the world where many countries have increased the retirement age and pushed up savings rates. Harris says:

New Zealand needs to grasp the thorny needle of pension reform. It needs to have a comprehensive review. The biggest issues facing the country are that the contribution rate for the KiwiSaver scheme is too low while the fees being charged by providers are too high. Compare KiwiSaver's minimum contribution rate of 3% for workers and 3% from employers (and annual government subsidy of up to $521) with Ireland's increased rate of 6% from employers, 6% from employees and 2% from the government, and Australia's rate which is set to increase from 9.5% to 12% by 2025.

Harris questioned whether retirement policy was a priority for the new government. He said New Zealand's governments had taken a big snooze on retirement policy by saying things were okay:

"When the new PM says she will resign before raising the retirement age, how does that foster debate?"

View David Harris' 5 April presentation.
Read Tamsyn Parker's 8 April interview.
Read Tamsyn Parker's 16 April article.

RPRC Submission, 16 May 2018: Social Assistance (Residency Qualification) Legislation Bill

In Rarotonga on 8 March 2018, Prime Minister Jacinda Ardern 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. The change will make an additional 200 people from the islands eligible for NZS, and will cost New Zealand an extra $3.5 million.

To implement this, Parliament's Social Services and Community Committee put out for consultation the 'Social Assistance (Residency Qualification) Legislation Bill' which changes the residential qualifications for NZS and the veterans' pension for people born in the Cook Islands, Niue, and Tokelau who are New Zealand citizens. The Bill reflects the relationship those citizens have with New Zealand, and New Zealand's constitutional responsibility for them.

The purpose of the Bill is to alter the residential qualifications for NZS and the veteran's pension so that the requirement that a person also have 5 years residence and

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presence in New Zealand over the age of 50 years can be met with residence and presence in New Zealand, the Cook Islands, Niue, or Tokelau, or any combination of these.

While the RPRC supports this change, we saw the Bill as a lost opportunity to make other necessary changes to age pension legislation, including the introduction of clarity, consistency and transparency regarding equivalent or analogous 'state' pensions to be deducted from a qualifying person's NZS entitlement; and immediate removal of the provision that allows for abatement of a person's NZS by reason of their partner's overseas pension.

View the full submission.

RPRC Submission, 30 April 2018: To the Tax Working Group

From Michael Littlewood on:

1. Whether the preferential tax treatment of saving for retirement can be justified;
2. The inconsistent treatment of investments that might be used in the accumulation of retirement savings.

In summary: Tax breaks for retirement saving, such as the Member Tax Credit in KiwiSaver, are expensive, complex, inequitable, distortionary and regressive. But, worst of all, they seem not to work (raise saving levels). They could even reduce saving levels.

The tax treatment of 'income' favours some retirement saving investments over others. Definitions of 'income' also matter for income-tested state benefits like Working for Families. These both need fixing. We suggest a 'first principles' approach to reform. All 'income' should be taxed at the appropriate marginal rates

View the full submission.

Is there hope for an end to New Zealand's 'Partner's Pension Penalty'?

As reported in the last RPRC Update, 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. The plaintiffs claim that Section 70 of the Social Security 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 not only deducts a person's overseas pension from their own NZS, but also reduces their spouses' NZS entitlement by any excess. This is not an expensive injustice to fix:

"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." (RPRC, 2016)

On 6 May, Sunday Star Times quoted Susan St John on spousal deductions in a story about a Kiwi being denied his full NZS as he is married to a Russian partner.

RPRC argues that 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 unfair.

Is there hope of sensible action by this Government? On 9 July, the NZ Herald writes: Pensions fix looms after 80 years:

"Minister for Social Development Carmel Sepuloni has requested advice on New Zealand Superannuation. This includes a section that is currently before the Human Rights Review Tribunal amid concerns it unfairly penalises some superannuitants."

RPRC's concern is that the Minister has asked for advice on these issues from the same MSD officials who argued so strongly before the HRRT against any changes to current policy and practice. Watch this space!

Governments have it wrong on pensions - personal lessons from a consulting career

By Michael Littlewood, published in the United States' The Journal of Retirement, Spring 2018 issue

Abstract:

Governments cannot persuade or force citizens to save more for retirement than citizens want to save. They should instead focus on doing things that only governments can do.

Only governments can reliably eliminate or reduce poverty in retirement through a liveable, universal state pension. Only governments can (and should) level the tax and regulatory playing fields for all financial services. Next, only governments can obtain high quality data so that we understand what households are doing, financially and otherwise, about their retirement incomes. Finally, only governments can deliver believable information that helps citizens to understand their retirement saving needs.

Littlewood says that both governments and employers should stay away from subsidised or forced saving schemes as there is no international evidence that they 'work'.

Provision of safe, fair credit needs to be a government priority.

On 18 April, responding to Sarah Hall's story on Newsroom about truck vendors inflating prices, misinforming customers and generally predatory practices, Kris Faafoi, the Commerce and Consumer Affairs Minister, said there would be a consumer finance review that would include issues like high interest, debt collection practices, and high fees. On 19 April, in response to this issue, Kiwibank's Group Manager Marketing Mark Wilkshire, said:

Kiwibank is inviting others in the New Zealand banking and financial sector to join it in cutting predatory lenders off from accessing services. Our stance is to not do any business with these predatory lenders. But to really make change it is crucial that other financial institutions do the same.

The next day, Westpac, ANZ, BNZ and ASB joined Kiwibank in not offering banking facilities to truck shops, and disengaging if they uncover the companies operating these types of predatory businesses.

Kiwibank also provides the loan capital for Ngā Tangata Microfinance's (NTM) no-interest loans that help vulnerable Kiwis escape the punishing cycle of debt caused by predatory lending practices.

M.Claire Dale, founder and Director of NTM, and Research Fellow, RPRC, says:

The government needs to make the provision and protection of safe, fair credit an urgent priority. At NTM, around 20% of our clients are aged 60 or more, so access to safe, fair credit is clearly an issue for the whole population. New Zealand Superannuation is a boon, but it is swiftly eroded when people are caught in the trap of high cost credit. What we need is a 'total cost of credit' cap, so the cost of credit is controlled, and borrowers know exactly how much they have to repay. It is disgraceful that the poorest people in New Zealand have to deal with predators who can legally charge more than 500% interest.

View Sarah Hall's NewsRoom investigation of reprehensible mobile trucks on Stuff NZ.

FinancialServicesCouncil.
growing and protecting the wealth of New Zealanders

FSC research delivers a wake-up call for Generation KiwiSaver

On 30 June, the FSC published the 'Generation KiwiSaver' research, conducted by Horizon Research, that focused on New Zealanders aged 18-34 and their attitudes towards retirement planning. Richard Klipin, CEO of the FSC, reported an increasing reliance on KiwiSaver as a majority source of income in retirement planning for this group, and a plea for more help with financial advice and retirement planning.

For younger New Zealanders, only 54% of respondents aged 18-34 expected to have their own home, and only 30% expected to have New Zealand Superannuation at retirement. It's clear that millennials are going to be Generation KiwiSaver. Owning a house and relying on New Zealand Superannuation are options younger New Zealanders simply aren't counting on.

KiwiSaver Poua he Oranga

The research shows that millennials more than any other age group support financial advice being provided in new ways such as via robo-advice, and want a personalised financial plan. So there is a clear wake-up call for industry about the importance of continuing to innovate and improve the ways in which financial advice is provided. And perhaps most importantly of all it's a wake-up call for young New Zealanders to begin to diversify away from a pure KiwiSaver approach, and to start becoming more engaged with their KiwiSaver investment.

This is the third piece of research on KiwiSaver commissioned by the Financial Services Council.

View the first 'Growing the KiwiSaver Pie.'
View the second 'Great Expectations – Retirement Realities for Older New Zealanders'.
View General KiwiSaver.

ANZ Financial Wellbeing Research Report

ANZ

In April 2018, ANZ undertook a survey using a broader view of financial wellbeing than previous studies. Instead of focussing on financial literacy, the survey estimated an overall financial wellbeing score for each respondent, derived from measures of three components of financial wellbeing:

- The ability to meet financial commitments such as bills and loan payments;
- The extent to which people felt comfortable with their current and future financial situation, and to which their finances enabled them to enjoy life; and
- Resilience for the future or the ability to cope with a significant unexpected expense or fall in income.

Respondents received a score out of 100 for each of these components; the three scores were then added together and divided by three to provide an overall financial wellbeing score out of 100.

Worryingly, 23% of New Zealand respondents had no savings, but unsurprisingly the results indicate that having a savings buffer of at least $1,000 was associated with higher financial wellbeing. The mean financial wellbeing score for those with less than $1,000 in savings was only 35, compared with 59 for the total population.

View the full report.

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.

Preparations for population ageing

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

SuperSeniors

In late June 2018, the Minister for Seniors, Hon Tracey Martin, launched "Discussion Document He Pukapuka Matapaki: Developing a new strategy to prepare for an ageing population". The Office for Seniors Te Tari Kaumātua, part of the Ministry for Social Development, has close links with community organisations representing the interests of older people, like Grey Power and Age Concern NZ.

Seniors currently make up around 6.2% of the workforce. By 2033 the number of seniors at work will nearly double and they will make up 10.6% of the workforce. It is estimated that by 2061 seniors will contribute $31 billion to the economy through paid and unpaid work, up from $6.5 billion today.

In a message introducing the Discussion Document, the Minister said how we respond to our ageing population will have a huge impact on New Zealand's economic growth:

Not only will Seniors be a vital part of a 21st century workplace, but in the next twenty years our country will turn to them more and more for the contribution they make as taxpayers, carers, consumers, volunteers, and employees. If, in a little under 20 years, people aged 65+ are to make up almost a quarter of our population, the implications for our economy, workforce, healthcare and government services will be significant. We need more than a "whole-of-government approach". We need everyone – government, local government, non-governmental organisations, communities, whānau, family, individuals, and businesses – to work together.

While the Discussion Document outlines some of the issues, the aim is to find out what Kiwis of all ages want for the future, and to understand their priorities.

The new Strategy will inform the development of a common platform to support central and local government, nongovernmental organisations, businesses and communities to work together to respond effectively to the changing shape of society. The new Strategy will need to support and complement some key strategies that have already gone through a comprehensive public consultation process, including the Healthy Ageing Strategy 2016, Carers' Strategy 2008 and Carers' Strategy Action Plan for 2014 to 2018, and the Disability Strategy 2016.

View the Discussion Document He Pukapuka Matapaki: Developing a new strategy to prepare for an ageing population on the SuperSeniors website.

The consultation is open from 29 June to 24 August. Following the consultation officials will draft the new strategy and an action plan. A second round of consultation on the proposed strategy will take place in early 2019.

Also in late June 2018, the Hon Tracey Martin launched a white paper from a working group co-ordinated by the Employers & Manufacturers Association and the Commission For Financial Capability on the ageing workforce: "Act Now Age Later: Unlocking the potential of our ageing workforce".

An ageing population, a declining birth rate and a deepening skills shortage demand that New Zealand intelligently manages its ageing workforce. The impact of an ageing workforce on some sectors is already starting to bite. For example, with almost 24% of New Zealand's workforce aged 55-plus years there are only four to five teachers/nurses to replace every 10 that will retire. Similarly, a 2016 workforce survey by the Royal New Zealand College of General Practitioners found 44% of all GPs plan to retire within 10 years (up from 36% two years prior).

The most recent EMA Employers Survey showed 83% of employers have no plans to address the challenge presented by the ageing population. At the launch of the white paper, Kim Campbell, CEO, EMA said:

There are many dimensions to an ageing population, however by focusing on the workforce we are able to weave together the strands of government, employers and workers.

The white paper outlines three key recommendations for consideration. 1. A national strategy on the ageing workforce to ensure Government agencies work collaboratively on key policies; 2. Establishment of a Government-led taskforce, or similar, responsible for designing key outcomes and co-ordination of key stakeholders in an independent manner; and 3. Development of an ageing workforce tool-kit for both employers and workers to ensure their future needs are met.

View the white paper Act Now Age Later from EMA.

Then on 10 July 2018, the Environment and Community Committee of Auckland City resolved to join the World Health Organisation Global Network of Age-friendly Cities and Communities.

Councillor Penny Hulse, Committee Chair, explained the importance of this decision:

Auckland will be home to larger numbers and greater proportions of ethnically and culturally diverse older people over the next few decades. Our older population is growing faster than any other age-group and is predicted to increase from 11% in 2013 to 19% by 2046.

Age Concern and many other organisations and individuals have been advocating for this since 2011 when Age Concern held their first symposium on the subject. Membership of the network requires a commitment to a continuous improvement process for creating age-friendly environments. International membership of the global network has increased from 302 cities in 2016 to 600 cities today, sharing the expectation that an age-friendly city is more inclusive and beneficial for everyone, regardless of their age.

View the press release, Auckland to join global network of age-friendly cities.

Population ageing – Do we understand and accept the challenge?

Chartered Accountants Australia and New Zealand, a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over, has combined with NZIER, a non-profit incorporated society with the aim of being the premier centre of applied economic research in New Zealand, to produce this report.

They worked with ResearchNow to produce the first survey that compares New Zealanders' and Australians' attitudes to retirement income and their preferences on how retirement incomes policies should be reformed. Both New Zealand and Australia face similar ageing populations but the future settings for retirement policy, and their fiscal outlooks, are different. As a result, the medium term fiscal impact of population ageing is quite different, with the pension cost to GDP ratio in New Zealand projected to rise by 60% in 40 years. In Australia by contrast, the corresponding increase is around 25% under current policies and a small decline if the announced entitlement age increase to 70 is enacted.

On both sides of the Tasman, the public's dominant preference is that the status quo persists and that the government pension should be provided universally, without a means-test in New Zealand and with continued means testing in Australia. Opposition to making changes, such as increasing the age and changing the basis of indexation, reduced if the policy changes are phased in over 10-20 years. Younger and older cohorts were more open to considering changes perhaps because they either had time to adjust to new rules or because any changes would not impact them.

View the full report.

RPRC and Public Policy Conference - Ageing: Work, money and health

is perfectly underpinned by these very positive developments. At the conference, organised and sponsored by the University of Auckland's Retirement Policy and Research Centre, Public Policy Institute, Department of Economics and Centre for Applied Research in Economics, presentations will inform the argument that future social and economic health and prosperity can be protected by investing now in solutions that support the transition to an ageing society.

When: TBC April 2019
Where: The University of Auckland Business School
Conference sponsors: The University of Auckland's Retirement Policy and Research Centre, Centre for Applied Research in Economics, Department of Economics, and The Public Policy Institute.

Media, presentations and contributions

3 April 2018, DailyBlog, Susan St John,
The huge white elephant landlord in the tax living room

5 April 2018, Otago Daily Times, Susan St John quoted in
NZ has one of least generous pensions in OECD

8 April 2018, NZHerald, Tamsyn Parker interviews David Harris, RPRC Associate,
NZ lagging behind rest of the world, says retirement expert

10 April 2018, Newsroom, Susan St John, Landlords,
Save your crocodile tears

18 April 2018, NewsRoom, Sarah Hall interviews M Claire Dale on Truck vendors

18 April 2018, Stuff.co.nz, *Inside NZ's 'reprehensible' mobile shopping trucks targeting poorer communities*

19 April 2018 NZHerald Letter to the editor Susan St John,
Pension comparison

19 April 2018, DailyBlog Susan St John, *The fiscal stranglehold*

20 April 2018, NZHerald, Tamsyn Parker interviews Susan St John in *A super future: Are we on track to pay for our pensions?*

30 April 2018, Tax Working Group, Submission by Alan Johnson and Susan St John

6 May 2018, Sunday Star Times Eugene Bingham quotes Susan St John in *He's paid taxes for 60 years but is being denied full pension as his partner is Russian*

8 May 2018, Blog, M.Claire Dale on *Banks and Commerce Commission against truck vendors and predatory lenders. Time for the Government to act*

17 May 2018, CPAG and PSA Budget breakfast presentation at The boatshed, Wellington, Susan St John presentation
A budget analysis for children: Does this budget turn the tide?

5 June 2018, DailyBlog, Susan St John, *We can help solve child poverty – here is one crucial way how*

13 June 2018, NewsRoom, Susan St John,
A-new-way-to-fix-our-housing-bubble

16 June 2018, DailyBlog Susan St John, *Universal super, no steps forward, two steps back*

29 June 2018, Morning Report, Susan St John comments on
the new Families Package that comes into effect 1 July

29 June 2018, NewsRoom Dale Owens interviews M Claire Dale in *The war on loan sharks*

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