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RPRC Update

Retirement Policy and Research Centre

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New Zealand's age pension policy: catching up with the rest of the world?

Most of the rest of the world has been preparing \for public and social policy changes at local and national levels in response to population ageing. In the UK, for example, there is the possibility for the pension-qualifying age to be raised to 70 years and it will be 67 in Australia by 2024. New Zealand has been either ignoring the profound and enduring demographic change, or loudly denying that there is a problem.

In response to Retirement Commissioner Diane Maxwell's recommendations in the 2016 Review of retirement income policies, on 6 March 2017 Prime Minister Bill English announced two significant changes to NZ Superannuation (NZS). The Treasury's cabinet paper on the proposals was released the same day.

The first change is progressively lifting the age of eligibility for NZS from 65 to 67, starting in 20 years' from 1 July 2037. English said: "New Zealanders are healthier and living longer so adjusting the long-term settings of NZ Super while there is time for people to adapt is the right thing to do." The Government acknowledged there may be a need for provision for temporary support for people unable to continue working beyond the age of 65.

The second proposed change is doubling the NZS residency requirements for new immigrants to 20 years. The legislation for this is due to be introduced in 2018. Current citizens or residents will remain eligible under the existing rules.

Announcing the proposed legislation in advance has given all political parties the opportunity to discuss their position with the public before it comes before Parliament. A Factsheet on the *beehive website* explains the proposed changes to NZS. Once the proposed change to the age of eligibility is fully in place in 2041, the estimated Government savings are 0.6% of GDP or $4 billion annually net of increased benefit costs for those unable to work until 67.

The Retirement Commissioner used the 2016 review of retirement income policies to focus political and public attention on the realities of the ageing population. It is disappointing that her recommendations were not debated more widely. Legislating a policy change that will not occur for 20 years is largely a smoke and mirrors exercise. Doubling the qualifying age to 20 years, while an improvement, does not adequately diminish the fiscal risk nor does it solve the unjust and inequitable aspects of the Direct Deduction Policy (DDP) that affects many retirees with overseas pensions. Many overseas pensions, accumulated through employer and employee contributions without any government contributions are subjected to the DDP and offset against NZS. This is equivalent to deducting KiwiSaver accumulations. Most egregious is the spousal provision that allows a deduction to be applied to the spouse's NZS entitlement when the overseas pension is greater than NZS. The RPRC says at very least this iniquitous policy must be fixed. It would not cost more than around $2million and is able to be actioned immediately given the political will.

The RPRC's 2016 report on Overseas Pensions is available on the Commission for Financial Capability website here.

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

by M.Claire Dale, Research Fellow RPRC, **Revised March 2017**

This Working Paper was revised in March 2017 primarily to correct the under-estimation of future costs of the ageing population. The combined 65+ costs for health, residential and in-home care, other services and support ($6,343 billion) and New Zealand Superannuation (NZS) ($12,912 billion), in 2017 will exceed $19 billion, and by 2020 will approach $22 billion (NZS $14,916 billion + Health $6,719 billion)

The ageing of the population has particular economic and social implications for the New Zealand care industry and for careworkers. Population ageing is driven by the baby-boomer bulge, by markedly reduced fertility, and increased longevity, especially at older ages. Importantly, the end of the baby-boomer bulge does not mean a return to the current population mix.

A dramatic increase in the need for formal and informal care services is one outcome of this demographic change. 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.

In 2015/6, older people comprised 15% of the population and used 42% of health services. Ministry of Health data indicate that per capita health expenditure starts to increase exponentially around the age of 50, so that it is nearly twice the all-age average in the 65 to 69 age group and nearly eight times the all-age average in the 85 and over age group. The incidence of dementia is of particular concern given increases in longevity: incidence doubles with every 6.3 year increase in age, from 3.9 per 1000 person-years at age 60-64 to 104.8 per 1000 person years at age 90+. This paper explores the economic and social implications of the ageing of the population for the New Zealand care industry and for careworkers.

The Working Paper, revised March 2017, is available here.

Note: the Government's $2 billion pay equity settlement for care and support workers (over 5 years) has unexplored impacts for future costs of care. See here.

PensionCommentary 2017-1, Responsible investment: the new standard in KiwiSaver?

by M.Claire Dale, Research Fellow, RPRC.

In 2015, RPRC Associate Dr Matheson Russell wrote in *PensionCommentary 2015-3*: "The 'default' investment options offered by KiwiSaver schemes do not include 'socially responsible investments'." This *Pension Commentary* revisits Russell's arguments for socially responsible options, and reports on the remarkable transformation of KiwiSaver schemes since then.

The New Zealand Superannuation Fund (NZSF), a global leader in responsible investment among sovereign wealth funds, is a founding signatory to the Principles for Responsible Investment (PRI) initiative, launched in 2006 and supported by the United Nations. By 2015, signatories to the PRI had combined assets of more than US $45 trillion under management.

NZSF Chief Investment Officer states: *We believe that environmental, social and governance (ESG) factors are material to long term returns. … ESG considerations are therefore integrated into all aspects of the Fund's investment activities, from investment selection and due diligence to ownership activities such as monitoring our external investment managers, exercising our voting rights and engaging with companies to improve their ESG policies and practices.*

In late 2014, the media began investigating NZSF and KiwiSaver funds' investment in 'socially irresponsible lending', and found chemical weapons. Further investigation over the next two years found cluster bombs, mines, nukes and tobacco. The good news was published in September 2016, when Westpac, ANZ and ASB announced their exit from weapons investments.

The 2016 Responsible Investment Association Australasia *Benchmark Report for New Zealand* found that as at 31 December 2015, responsible investment constituted $78.7 billion in assets under management in New Zealand, having grown by 28% year on year.

PensionCommentary 2017-1 is available here.

NZSUPERFUND
Te Kaitiaki Tahua Penihana Kaumātua o Aotearoa

Media Fact Sheet: New Zealand Superannuation Fund March 2017

"There is extensive public discussion on the purpose and performance of the NZSF. Some of the discussion includes factual errors. This document, intended as a reference sheet to inform discussion, *is* available here.

- *Under current commitments, the Treasury model shows the Fund is expected to peak as a share of GDP in the 2070s, even though it starts making payments to the Government from the early- to mid-2030s. Substantial draw-downs do not begin until the 2050s.*
- *On current Treasury projections, capital withdrawals from the Fund will be meeting 10% of the net cost of Super by 2068, peaking at 12.5% in 2078, and averaging 11% for 50 years 2060-2110.*
- *The Fund will pay tax to the Government in addition to the capital withdrawals. At the Fund's peak in the 2070s, combined capital withdrawals and tax payments total more than 20% of the total net cost of pensions, and more than 40% of the incremental cost increase due to the rising proportion of retirees in the population.*

NZSF *investment beliefs* are based on the endowments outlined in the Fact Sheet, and are available here.

The Guardians believe that environmental, social and governance (ESG) factors are material to long term returns. ESG considerations are therefore integrated into all aspects of the Fund's investment activities, from investment selection and due diligence to ownership activities such as monitoring external investment managers, exercising voting rights and engaging with companies to improve their ESG policies and practices. More information is available here.

Experiences of financial advice at retirement

Financial Markets Authority survey, April 2017

The Financial Markets Authority gathered information for this report from 10 authorised financial advisers and 104 people currently receiving advice from financial advisers. They wanted to find out if financial advice helps New Zealanders manage their retirement savings. This follows up the joint 'over 50s' research with the Commission for Financial Capability that found a low common standard of financial and investment decision-making quality among older New Zealanders.

The 2017 client survey found most had at least $100,000 saved for retirement, and 87% were confident they were financially prepared for their retirement. The five common reasons people choose to speak to an adviser were:

- Seeking better returns or investment options;
- Need expert help due to their own lack of knowledge;
- Have received an inheritance/lump sum;
- Approaching retirement and want to be financially comfortable;
- A change in circumstances.

Also, when getting advice, people value trust, and clear guidance and communication. That advice builds confidence and helps with decision-making. The advice received from authorised financial advisers was seen as good value for money.

The full report is available here.

The research was designed to complement additional research commissioned from Colmar Brunton among people nearing retirement age, or recently retired. The Colmar Brunton survey is available here.

RPRC meet with Australian Productivity Commission 21 February 2017

The Australian Productivity Commission is a microeconomic advisory body to the Australian Government. The Commission is undertaking a study to develop criteria to assess the efficiency and competitiveness of the Australian superannuation system; and an inquiry to develop alternative models for a formal competitive process for allocating default fund members to products (see more details of the report, *Superannuation: Alternative Default Models* here).

Given the relevance of the tender process in New Zealand for allocating KiwiSaver default status, and recognition of the significant financial advantage to the winners, in February 2017 the Commission's Superannuation Team visited interested organisations in Wellington, including the Treasury, and Auckland, including the Retirement policy and Research Centre.

The advantage of this meeting for the Commission Team and the RPRC was the opportunity to discuss the similarities, differences, strengths and weaknesses of the retirement saving schemes of Australia and New Zealand. The differences extend far beyond the obvious: the former Superannuation Guarantee, introduced in 1992, is mandatory, and the latter, KiwiSaver, introduced in 2007, is optional.

More generally, as their 2017 *Overview* report states, "*Survey evidence suggests about two thirds of superannuation fund members stick with their default fund (and fewer than 5% of members switch once they are in a fund). Opening up access to these members and their contributions is a lucrative proposition for new entrants and a competitive threat for incumbents (especially the relative poor performers).*"

The Australian Government's Productivity Commission's March 2017draft report, *Superannuation: Alternative Default Models: Overview,* is available here.

Government's 'trickle down' response to Retirement Commissioner's review

The Retirement Commissioner's review of retirement incomes has an outcome for KiwiSavers:

On 8 December 2016, Commerce and Consumer Affairs Minister Paul Goldsmith welcomed the KiwiSaver findings of the Retirement Commissioner's three-yearly review of retirement income policies in a media release. "*I have received the KiwiSaver recommendations made by the Commissioner and will give them considerable thought. … Work is already underway to implement the recommendation requiring KiwiSaver providers to disclose the total dollar cost of all fees on annual statements. Other recommendations, such as increasing the range of employee KiwiSaver contribution rates from the three currently available, and allowing those above the age of 65 years to join, will be looked at closely and considered.*"

In a further media release on 13 December 2016, Minister Goldsmith announced all KiwiSaver annual statements will have to disclose total fees paid in dollar terms from 2018. "Fund fees can have a considerable impact on an investor's total retirement savings. Kiwis should have easy access to an accurate statement of the fees they are paying." The regulations will include a one-year transitional option for providers needing to make IT system or other changes in order to comply.

More information about the changes to KiwiSaver annual statement requirements can be found here.

THE PRESS Christchurch, 7 March, Op Ed by Susan St John:

New Zealanders deserve a better response to superannuation problems

PM Bill English announces changes to NZS 6 March 2017: *The age for state superannuation will rise to 67 in gradual steps starting from July 2037. No one born before June 1972 is affected. The age would be 67 in 2040.*
Residency for immigrants will rise to 20 years, (5 after the age of 50). To start when legislation is passed in 2018.

"This appears to be National's response to the Retirement Commissioner's 2016 three-yearly retirement policy review. Really? It seems more like a gimmick to get rid of highly inconvenient questions about retirement policy.

A policy to raise the age, not starting until twenty years into the future, is a non-policy. National can't bind the future. Who can guess what a gender, distributional or ethnic analysis of this policy might look like in 2037? Government has made it clear however that it doesn't need any of that pointy academic stuff on this or any other issue to do with the ageing of the population.

National probably thinks its response to that pesky 2016 retirement review is done and dusted. Responses to the critical and complex issues of the ageing population have been reduced to sound bites by media. We get one chance, only once every three years, to have an in depth look at these issues as required under the 2001 Superannuation and Retirement Income Act. If National gets elected don't be surprised if they dump the 2019 Retirement review, as hinted at by English who said "a review in 2030 could look at how the policy was tracking."

Can we really accept that we have no problems right now? We pay the full universal amount to all at age 65 no matter how wealthy or if in full time work and don't even have a high enough top tax rate that would claw some or all of it back. Is the Prime Minister pretending that we can have universal provision and a low top tax rate at the same time as there is growing desperation and poverty among young families. The future of the ageing population depends on the investment in the young.

What is really irksome too, is that there is no acknowledgement of the growing hardship among the older group, especially for those who don't own their own homes. NZ Super on its own is not enough to live comfortably for a growing number. Basing policy on increasing average life expectancy means little for the individual whose actual heathy life expectancy is conditioned by his or her life experience."

The full Op Ed is available here.

RPRC in the media and public presentations and contributions

12 December 2016, Daily Blog, Susan St John comments: Shades of I Daniel Blake
14 December 2016, Stuff.co.nz, Rob Stock quotes Michael Littlewood in 'Lift NZ Super age to 67 by 2034, Retirement Commissioner tells politicians'.
18 December 2016, Stuff.co.nz, Rob Stock quotes Susan St John and M.Claire Dale in 'Make immigrants wait longer for NZ Super'.
4 February 2017, Daily Blog, Susan St John says: Visionless and exclusionary. A good future, just for people like Bill
21 February 2017, Daily Blog, Susan St John asks: 'Tax cuts in store but what is Joyce thinking?'
27 February 2017, AGM Auckland, Susan St John delivers keynote address for teachers of economics and accounting.
6 March 2017, RadioNZ Checkpoint, John Campbell interviews Michael Littlewood: 'Labour opposes Govt plan to lift retirement age to 67'.
6 March 2017, Sky 421 video, John Campbell interviews Michael Littlewood: 'Labour opposes Govt plan to lift retirement age to 67'.
6 March 2017, RadioLive, Alison Mau interviews Michael Littlewood: 'Government lifting pension age to 67'.
6 March 2017, Newstalk ZB, political editor Barry Soper speaks to Mike Hosking, quotes Michael Littlewood in 'English turns superannuation into a political football**'.**
7 March 2017, Newstalk ZB, Mike Hosking interviews Michael Littlewood on Government lifting pension age to 67.
7 March 2017, RadioNZ Live Chat, Michael Littlewood answers readers' questions/comments on superannuation.
7 March 2017, The Christchurch Press, Susan St John's OpEd: 'New Zealanders deserve a better response to superannuation problems'.
7 March 2017, RadioNZ Live Chat, Susan St John answers readers' questions/comments on retirement.
8 March 2017, NZ Herald Political Roundup, Bryce Edwards quotes Susan St John and Michael Littlewood in: **'**The case against raising the age of superannuation'.
8 March 2017, NZ Herald, Michael Littlewood article: 'Super change: Smart politics bad strategy'.
8 March 2017, NZ Herald, Tamsyn Parker quotes Susan St John in 'Warning KiwiSaver could be eroded by NZ Super change'.
9 March 2017, Gisborne Herald quotes Susan St John at Super plan threat to KiwiSaver.
15 March 2017, University of Auckland, Auckland Microfinance Initiative 2017 launch keynote by M.Claire Dale.
24 March 2017, Blog, M. (Claire) Dale, 'Wild west in the suburbs'.

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