December 2018 | Volume 11, Issue 4 of the quarterly RPRC Update.

Tax Working Group: A wasted opportunity for change?

Susan St John and **Michael Littlewood** made Submissions in response to the Tax Working Group (TWG) Interim Report. Summaries of those Submissions are below. The full submission from St John is here, and the submission from Littlewood is here.

The TWG's Interim Report is available here. The Foreword to that report begins:

> *Taxation is a matter which can arouse strong passions, deep disagreements, and much confusion. That is, in part, due to two things. The first is that while many people do not like paying tax, few want to do away with the services tax pays for: supporting the retired, health, education, infrastructure (including public transport), the protection of the environment, public order and much more. The second, which helps explain the breadth and complexity of this interim report, is that arguably no forms of tax are all bad, neither are they all good. Taxes live in the world of greys, not that of black and white ….*

The TWG's Interim Report made three recommendations on the tax treatment of retirement savings:

- *Remove 'employer superannuation contribution tax' on the 3% mandatory contributions by employers to KiwiSaver for employees' earning up to $48,000 a year.*
- *A five-percentage point reduction for each of the lower PIE tax rates but only for savings in KiwiSaver.*
- *Simplify the way PIE rates are applied for KiwiSaver members.*

In her submission, St John wrote, in summary:

> *The overall objective of retirement income policy is to minimise economic insecurity in old age. The achievement of less inequality in retirement outcomes should be paramount. If everyone has the ESCT on the first $48,000 removed it is very expensive without helping those on low incomes much. How will this work for people with two or more employers? How will the self-employed be treated? Will the new PIE rates apply only to KiwiSaver? Other ways to make policy more progressive and to actually deliver more to low income include the reinstatement of the $1000 kick start for new KiwiSaver members over 18. Retirement policy issues are far broader than just tax. The RPRC would to see any recommendations on tax as part of the Retirement Commissioner's three year retirement incomes review in 2019.*

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Littlewood, in his submission, offered a personal view and in summary, wrote:

> *I strongly believe that governments should confine their public policy initiatives to areas that only governments have a unique capacity to influence – persuading or forcing citizens to save more than citizens want to save isn't one of those areas…. 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.*

St John also spoke at public symposia, held at University of Auckland on 27 November and Victoria University of Wellington on 28 November. At ***The Future of Tax in New Zealand***, invited speakers and the audience debated the Options for Tax Reform contained in the Tax Working Group's Interim Report, September 2018. Topics included Capital gains tax; Tax and inequality; Business tax and productivity; Environmental and behavioural taxes; and Tax and the New Zealand economy. Speakers included Sir Michael Cullen, Bill Rosenberg, Oscar Parkyn, Susan St John, Craig Elliffe, Brendan Brown, Joanne Hodge, Paul Dunne, Robin Oliver, John Payne, Diane Maxwell, Geof Nightingale, Marjan van den Belt, Michelle Reddington, Kirk Hope, Michael Barnett, and John Shewan.

The Financial Services Council and Workplace Savings NZ national conference, 6-7 September, Auckland, *Shaping Futures*.

Susan St John spoke on a panel on Decumulation: Are catalysts required?

Susan St John's beginning premise is that a serious hole in our otherwise very good retirement income policies is the lack of a simple secure income insurance for middle income New Zealanders over and above the base annuity of New Zealand Superannuation (NZS).

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….
Seeing a serious market failure in the voluntary annuities space most pension experts and economists would argue for state intervention. State provision of longevity bonds to allow providers to take on the risk of increasing longevity, and long-dated indexed government bonds to protect against inflation are the stock in trade recommendations for correcting market failure. Typically too, the discussion stops at this point. I think the New Zealand experience shows that the state needs to grasp a much bigger vision for there to be meaningful annuity options.
KiwiSpend could have the following characteristics: The same annuity for the same lump-sum for men and women (Gender neutrality), low cost administration, and protection from inflation. The annuity could be linked to average wages/ investment returns and have an add-on insurance for long-term care. … To conclude: nothing will happen until the social and personal value of annuities to middle income people is more widely appreciated. There is much work to do.

The full paper is available here.

RPRC Submission, October 2018

ELECTRICITY PRICE REVIEW

RPRC's Electricity Price Review submission by Dr M.Claire Dale focussed primarily on Part 3: Consumers and prices, and on issues relevant to older citizens.

"Affordability and reliable supply are critically important to these residential consumers…. As the population ages, and home ownership decreases, more people will fall into the category of 'energy hardship…. Cold, damp housing is particularly harmful to children and older people. Respiratory problems and other health problems in older people caused by cold, damp homes are likely to require hospital care, imposing an avoidable cost on the individual and the wider community…. For the elderly also, fear of disconnection creates an additional burden…. Residential consumers have been grossly abused by the electricity sector –

because the sector is providing a utility, a service people cannot manage without…. For people on a low and fixed income, like NZ Super, every power bill is a crisis. Late payment can mean not only loss of the prompt payment discount, but also disconnection of the electricity supply. Reconnection is expensive. Depression can set in. Diminished mental and physical health can be a consequence of energy poverty.

The full submission is available here.

Rialtas na hÉireann
Government of Ireland

Feedback on the 'strawman' proposal for Irish pension reform from New Zealand experience

Prepared for Insurance Ireland and TOR Financial Consulting for Consultations by the Department of Finance and Department of Employment Affairs and Social Protection, Ireland, by Susan St John.

This report provides specific feedback from the New Zealand experience and perspective on the proposed Auto-Enrolment (AE) scheme for Ireland. It discussed and drew lessons from New Zealand's experience of: • the default provider regime; • tax incentives for retirement saving on tier 2 pension coverage; • TTE and the alternatives; • Gender and other issues.

Ireland has a tradition of using the contributory principle for the Tier1, Irish state pension. Many women face complex and confusing rules, with only a minority of women qualifying for a full contributory state pension. There is an urgent need for simplification of Tier 1 and a need for the basic state pension to be adequate for all. While reforms of the state pension to adequacy and indexation are proposed in the 'Roadmap for pensions reform' (see Government of Ireland, 2018b), the contributory basis remains so that a full 40 years of social insurance contributions are required for a full pension. While 20 years of time out of the workforce for care-giving may be credited, there will be many women who will be disproportionately represented in the group who still need top-ups from the means-tested supplementary pension or must rely on their partner. The proposed reforms may improve outcomes for some, but do not constitute a fundamental rethink. There is a need to question the case for maintaining such a complex system that has such clear inequities for women.

A simple comprehensive residency-based, universal state pension could facilitate the roll out of the Tier 2 contributory Auto Enrolment scheme. Unfortunately a plethora of not-fit-for-purpose but highly subsidised employer-based schemes will make the roll out less straightforward than was the case in New Zealand with KiwiSaver. Other problems are the high level of income required before an employee is automatically enrolled and the exclusion of those under 23 and over 60. The New Zealand experience shows the regime including the operation of default providers needs to be constantly reviewed. Big players such as banks may be less receptive to monitoring, there can be inertia around default members, and economies of scale and lower fess may be a chimera. Are tax incentives in the AE strawman scheme adequately leveraged to ensure sensible decumulation? They are not in New Zealand's KiwiSaver and that is a lost opportunity. There is time to design a default decumulation option in Ireland that is attractive and that may be a better focus for subsidies. Finally, it has been important for branding and acceptance to have a catchy name. KiwiSaver sits alongside KiwiBank, KiwiRail and now KiwiBuild. The Government of Ireland might give some thought to a name that will fire the imagination.

The full report is available here.

In NewsRoom, 22 November, *Some myths about NZ Super*

Susan St John, Retirement Policy and Research Centre Director, argues: *Let's not mindlessly raise the age, but try to solve actual problems ordinary people face.*

The Labour-led Government has given no indication that it is considering raising the qualifying age for New Zealand Superannuation (NZ Super).

"In fact," St John writes, *"it has locked itself into promises not to raise the age. Other commentators have joined in arguing that increased longevity makes raising the age inevitable. The concerns are usually expressed around the growing fiscal cost of New Zealand Super as society undergoes profound demographic change.*

There is a lot of misleading information in the public commentary. It is easy to misinterpret OECD statistics as was done recently. The New Zealand basic super for a single person at 43% of the average wage was compared with the Netherlands pension at 100%, leading to claims that we have one of the most ungenerous pensions in the OECD. However, that happy outcome in the Netherlands is for a person who has not only fulfilled the 50 years of residency for a full basic pension, but has made contributions to an occupational scheme for a full-time, 40-year career at the average wage.

New Zealand actually has one of the highest basic pensions, as shown in the OECD statistics at 43% of the average wage for a single living alone recipient. So contrary to inaccurate claims, and because of low residency requirements and its universal character, NZ Super is one of the most generous basic pensions in the OECD……

New Zealand's farsighted approach allows many of those over 65 to contribute to the critical voluntary unpaid activities such as caregiving, mentoring, and support of NGOs without which society would not function. There is nothing intrinsically better about paid work and many people find a freedom and satisfaction in doing the work they love without having to worry about being paid. Let's hope the promised retirement incomes review in 2019 does justice to examining all the options for sustainability, fairness and affordability without just relying on the chimera of raising the age of entitlement."

See the full article here.

Grey Power's petition against Spousal Provision

The Tauranga Grey Power Association have submitted a petition on behalf of the Grey Power Federation, demanding to repeal or abolish the Spousal Provision part of (the former) Section 70 of the Social Security Act.

Under the Spousal Provision individuals, mostly Kiwis who might have spent their whole lives in New Zealand, suffer deductions without even receiving an overseas pension. RPRC has lobbied long and hard for many years to have this change adopted – see here and here, for example.

RPRC supports this petition.

You can sign the petition online on the Parliamentary petition website until 19 January 2019, here:

KiwiSaver financial hardship withdrawals jump 60% in 2 years

12 November, 2018, as Tamsyn Parker reported in the NZHerald: it is not easy to take money out of KiwiSaver for hardship reasons. Canstar New Zealand, which carries out research on KiwiSaver providers, said that to qualify, KiwiSaver members must clearly show they have been unable to meet daily living expenses such as mortgage repayments or urgent medical expenses for a dependent family member.

Canstar says "Rising housing costs may be to blame for the 60% increase in the number of people taking money out of KiwiSaver for financial hardship reasons. Statistics NZ information shows that in the last ten years weekly housing costs have increased 53% yet wage increases are at 44%."

Figures show the number of hard-up people who took money out of their retirement savings have risen from 10,666 in the year to June 30 2016 to 17,092 in the year to June 30 this year. And the average amount people take out is also on the rise, from around $5,565 in the 2016 June year to an average of $6,114 in 2018. The total amount taken out has increased 76% from $59.4 million to $104.5m over the last two years.

See the full article here.

PensionReforms aims to stimulate high quality, international debate on retirement and pension issues - both public and private – by sharing others' work. The international Editorial Board guides PensionReforms as both an information broker and as a place where readers can find insightful critiques on major issues and reviews of influential papers.

We have so far built a searchable library of 766 mostly academic reports from 268 institutions and are adding more. They presently cover five international country-groupings and 66 separate countries. We tag them by topic (174 different topics in all), author/s (998 of those to date), institution, and year of publication. Readers can easily sort all PensionReforms' abstracts by any of these tags, or by more than one. For example, there are 56 reports directly involving New Zealand; also 43 from around the world covering issues associated with 'behavioural economics' (that informed KiwiSaver's design).

Since PensionReforms was re-launched in October 2018, 35 new abstracts have been loaded. They cover reports from the US (six), Australia (five), New Zealand and the UK (four each), and also reports from Kyrgyzstan, Latvia, Ireland, Vietnam, Bangladesh, Switzerland, Ghana and Tanzania. Two recently loaded reports from the US 'caught our eye' and have direct, present relevance to New Zealand (the link is to the PensionReforms' abstract):

> *A 2013 meta-analysis of 168 reports demonstrate virtually no correlation between financial education and financial behaviour in the US. In other words, traditional education programmes don't seem to work. Time to re-think things.* Here

> *Evidence from the US (in 2014) suggests that the cost of financial education courses, this time in high schools, is wasted. Better to focus on mathematical education, following which pupils seem to do better in their future financial lives.* Here

Another report, this time from the UK, is also directly relevant:

> *A 2018 report from a UK longitudinal study shows that retirement financial wealth seems to 'survive' retirement. Most passes to the next generation. Things may change in the future. The UK's 'pension freedoms' may change that but may not.* Here

It would be nice if we in New Zealand knew whether that happened here as well.

PensionReforms aims to challenge readers. In every country, the issues associated with saving, pensions and retirement are different as to detail but similar in principle. There are lessons to be learned from understanding how different countries have responded to the challenges involved.

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BUSINESS SCHOOL

Retirement Policy and Research Centre

Policy Discussion Paper 2018-1 Improving the affordability of New Zealand Superannuation: NZS as a Universal Basic income, by Susan St John

Under existing policy settings, costs of retirement income, health, and welfare for the rapidly growing older population lift markedly over the next decades both in absolute terms and relative to other state spending. There is much debate about 'affordability' of New Zealand Super in the longer term. 'Affordability' is a loaded term. While there may be debates about whether the increasing costs are manageable, spending on New Zealand Super may incur the opportunity cost of other more desirable spending, at least at the margin. If there is a reluctance to tax or borrow for the growing cost, then the 'affordability' of New Zealand Superannuation (NZS) may be improved by tweaking one or more of three main levers: the qualifying age, the level of the payment, and the degree of targeting.

Lifting the age of eligibility for NZS has been the most discussed lever and is widely seen as necessary for fiscal sustainability. The Retirement Commissioner reinforced this view in the last three 3-yearly reviews of retirement incomes policy. Yet this is not the only policy lever available to improve affordability, nor is it necessarily the most equitable. The third lever implies some kind of means-test, an unspeakable concept in many circles. Yet there are ways of operating a targeted policy that is efficient, effective and sensible. This Policy Discussion Paper examines the way in which the tax system could be used to provide an increased claw-back of some, or all, of the net cost of NZS from high-income recipients without destroying the universal character of the pension or making it unduly complicated. By doing so, the pressure on the working age population can be reduced, and perceptions of intergenerational equity may be enhanced.

A basic income for those over 65 that aligns the single sharing and married rates, with a tax claw-back has the advantage of being capable of delivering meaningful savings immediately to help address the needs of the working age population without increasing poverty rates among the old. It could be a prototype to show how a basic income works with extension to other groups over time.

The full paper is available here.

MINISTRY OF SOCIAL DEVELOPMENT
TE MANATŪ WHAKAHIATO ORA

Official Information Act request 27 July 2018, from Dr M.Claire Dale, RPRC:

A simple request: *"How many people in New Zealand have qualified for New Zealand Superannuation in each of the last 10 years but have not applied for it?"* MSD's response in August was short:

"I am unable to provide you with the total number of people who qualify but have not applied to receive NZS in accordance with section 18(g) of the Official Information Act. The information you have requested is not held by the Ministry and I have no grounds to believe that the information is held by another department of Minister of the Crown or organisation."

I was then referred to the Benefit Fact Sheets and Statistics New Zealand to search for numbers of people in receipt of NZS and estimates of the population by age, respectively.

The question was prompted by the claim by some wealthy people that they do not collect their NZS 'entitlement', and by the occasional proposal that New Zealand should follow Australia and introduce means-testing of the age pension as a way of reducing the future cost of NZS provision.

RPRC media mentions and public presentations:

2 October 2018, Press Release, "Support for bill proposing longer residency to access NZ Superannuation".
15 October 2018, NewsRoom, M.Claire Dale OpEd: Govt should fast-track loan shark clampdown.
25 October 2018, Interest.co.nz**,** Michael Littlewood "Tax Working Group members must ask themselves whether KiwiSaver has lifted NZ's overall savings & if its tax subsidies are worth it**".**
2 November 2018, Daily Blog, Susan St John, "Time for KiwiSaver default providers to smarten up?"
2 November 2018, Scoop, Michael Littlewood, "Tax, investment returns, KiwiSaver and a TWG recommendation."
5 November 2018, NZHerald, Michael Littlewood OpEd "KiwiSaver scheme getting special treatment".
5 November 2018, Listener, Michael Littlewood, "Dollars and sense".
5 November 2018, New Zealand Mortgage Mag, Michael Littlewood "Researchers: Re-think PIE regime".
9 November 2018, Daily Blog, Susan St John, "The Listener is manipulating NZers over retirement".
22 November 2018, NewsRoom, Susan St John exposes some "Myths about NZ Super".
28 November 2018, WhaleOil, Michael Littlewood OpEd, "The TWG's recommendations on retirement saving lack evidence".
28 November 2018, Tax Working Group Symposium, Auckland, Susan St John's presentation "Tax and inequality a commentary".
1 December 2018, NZHerald, Mary Holm in Q&A quotes M.Claire Dale on aged residential care.
4 December 2018, Daily Blog, Susan St John "Will the Tax Working Group actually address housing inequality?"
5 December 2018, NZInitiative publishes "Embracing a Super model: The superannuation sky is not falling", with a Foreword by Michael Littlewood.
14 December 2018, NewsRoom, Susan St John's OpEd: "Tax Working Group unlikely to sort out housing inequality".
16 December 2018, Noted, Michael Littlewood quoted in "Do we need to raise the retirement age to cope with the demographic storm?"
18 December 2018, University of Auckland Alumni and Friends e-newsletter: Susan St John "Will raising the age of NZ Super to 67 be our fiscal savior?"

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