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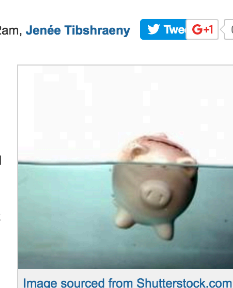
A global perspective on how far off crisis point New Zealand is when it comes to making superannuation sustainable

Posted in Personal Finance October 14, 2016 - 05:02am, Jenée Tibshraeny

Joe Public appears to be what's stopping the Government from taking bolder measures to ensure there's still money in the kitty for millennials to receive superannuation when they retire.

A number of countries in the OECD have implemented reforms to ensure the sustainability of their retirement savings schemes, in the face of ageing populations, high unemployment, low wage growth and low interest rates.



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While New Zealand's demography and state of economic affairs aren't as dire as other parts of the developed world, questions are still being raised over whether New Zealand Super and KiwiSaver are sustainable in their current forms.

The Minister of Commerce and Consumer Affairs Paul Goldsmith believes they are; the Retirement Commissioner Diane Maxwell disagrees.

Speaking at the NZ-OECD Global Symposium on Financial Education in Auckland this week, Goldsmith notes Super is currently set at 66% of the net average wage for a married couple from the age of 65.

"In contrast to the situation in many developed countries, it is affordable," he says.

"Currently we spend 5% of GDP on it.

"Treasury predictions are that the cost will rise to 7% of GDP in 2045. We will be able to manage so long as we continue to keep control of other government spending."

The average amount governments in the OECD spend on pensions as a portion of GDP is 7% according to 2013 OECD data.

Factoring in different ways in which taxpayers support the elderly, the New Zealand Government's expenditure on health is equivalent to around 8% of GDP, compared to the OECD average of 6%.

Maxwell: 'We've got time, but not all the time in the world'

Recognising the shape of our economy, Maxwell admits: "We've got some really good tailwinds.

"We've got time, but not all the time in the world. We do need to act, we do need to signal that changes are ahead. The problem is that when you do that, people get worried and think you mean tomorrow…

"I would like to see a little more action than we're seeing now, but do I understand it's a vote loser.

"How do governments change the system without losing the support of their voter base?"

As described in this interest.co.nz interview, Maxwell says the most obvious change that needs to happen is extending the minimum period of time you need to have lived in New Zealand to qualify for Super, from 10 years.

"All the other countries I'm engaging with are generally sitting at around 25 years, so we are the outlier," she says.

Furthermore, she says 18 OECD countries have raised the age of eligibility for their government super schemes.

She agrees the Government can take comfort in the fact Super is only equivalent to 5% of GDP, but when it gets to 7%, the cost will be in line with that of a number of European countries, which have been forced to ram through major reforms.

"So I understand, in a pragmatic sense, why no one's in a rush to deal with it," Maxwell says.

"However, I do need both sides of the House to have a good, candid, robust, public conversation about this."

Goldsmith: Improving financial capability the focus

Goldsmith isn't showing signs of tweaking New Zealand Super and Prime Minister John Key has vowed he would resign before increasing the age of entitlement for Super.

Rather, Goldsmith says the sustainability of our system lies in making sure we are financially capable.

"It [NZ Super] is a system that fundamentally works. New Zealand has very low levels of poverty amongst its older citizens.

"Not surprisingly, that system has had an impact on our savings culture. With such a secure, universal system in place, individually we have been more modest in our retirement savings.

"Many people have looked to own a home mortgage free by retirement, aiming to live off their Government superannuation.

"With a slow trend over many decades of falling home ownership, the challenge is to remind people that even with universal superannuation there is every reason for people to save, in order to have more choices in retirement.

"And that is why, as with many of the nations represented here today, the New Zealand government has recognised the significance of improving levels of financial capability and we have invested considerable resources to achieve it."

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Trust central to reform in the Netherlands

Also speaking at the OECD event, hosted by the Commission for Financial Capability, a representative from the Netherlands' Ministry of Finance, Olaf Simonse, says education isn't a silver bullet.

He says the age of eligibility for government super in the Netherlands has been raised to 67 and will continue to be hiked as life expectancy increases.

Simonse says rebuilding trust in the pension system, off the back of the Global Financial Crisis, is key.

Crisis spurs bold reform in Italy

Italy's former Labour Minister Elsa Fornero has a similar view, saying transparency and financial literacy are vital to building trust in the system.

Fornero pushed through a major pension reform programme in 2011, which was central to Italy's efforts to convince investors of its creditworthiness.

Even though it helped the country avoid financial collapse, Fornero's name will be associated by the next few generations of Italians with one of the most unpopular political reforms in Italian history.

Also speaking at the OECD event, Fornero admits her biggest failure is not being able to convince the younger generation that her austerity reforms were done for them.

Fornero recognises the demographic and economic outlook in New Zealand is very different to that of Italy.

Yet she doesn't take Goldsmith's word that NZ Super is sustainable in its current form, without seeing more evidence of how we will continue to fund the scheme in the long-run.

She concludes: "We as politicians all know what to do, but we don't know how to get re-elected once we have done it."

We welcome your help to improve our coverage of this issue. Any examples or experiences to relate? Any links to other news, data or research to shed more light on this? Any insight or views on what might happen next or what should happen next? Any errors to correct?

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30 Comments

by Joe Public | Fri, 14/10/2016 - 07:52 — 12

Cheers for the mention ;)

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by jfree | Fri, 14/10/2016 - 08:28 — 6

You're clearly a very powerful man...

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by ham n eggs | Fri, 14/10/2016 - 08:38 — 1

"Prime Minister John Key has vowed he would resign before increasing the age of entitlement for Super."

[Personal insult removed. Stick to debating issues, not smearing others personally who just have different ideas from you. Ed]

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by iconoclast | Fri, 14/10/2016 - 09:03 — 0

I don't believe Australia spends more on the Old Age Pension than New Zealand

The Australian Old Age Pension is means tested, plus, the compulsory Superannuation has now been going over 20 years, the results of which would take a lot of people out of the Centrelink Welfare system. The balance held in the Compulsory Super scheme is taken into account for means testing

Either that, or Australia has a far greater number of over 65's than NZ (as a percentage of the population)

AU has a higher GDP than NZ
AU has a higher GDP per capita than NZ
It's impossible

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by Ms de Meanour | Fri, 14/10/2016 - 09:55 — 3

I do not know the exact figures either, but there are various ways in which these aspects of the Australian system may not be that effective in reducing the overall cost.

First, any means test encourages avoidance, and there is anecdotal evidence that a lot of that goes on. For example: Towards retirement age, you borrow up large to buy a new house, then when you get access to your Super savings, use those to pay off the borrowing. Now you have little money in the bank, so not much to means test against, and a large amount of wealth tied up in your primary residence, which is exempt from the means test.

Second, the tax incentives to encourage saving costs a lot of money, most of which (as with any tax based incentive) goes to high-earners.

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by JB | Fri, 14/10/2016 - 13:53 — 0

A very good point MdeM as always.

If you graph Australian household debt with Super savings you will see that their net super is much reduced - it's all gone into property financed primarily by the banks.

They also have numerous self managed super funds very much focused on property.

Australia runs large current account deficits as do we - so by definition a shortfall of national savings.

Their outcomes do raise questions on the merits of compulsory super and the constraints or lack thereof around the various schemes.

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by Chris-M | Fri, 14/10/2016 - 10:44 — 7

There seems to be a disconnect between this thinking and the likelihood that automation will displace a lot of employment. How are we going to cope with this.
A. - Have high unemployment but work till we are 67
B. - Work less hours per week but work till we are 65 - 67
C. - Devote more time to education and work till we are 65 - 67
D. - Retire younger.
E. - Work till we are 67 making a whole lot more stuff than we really need; consuming more resources and producing more pollution than we need to.

At some stage we are going to have to think about restructuring how we think about work, how we sustain and reward people, our values and how we meaningfully spend our time.

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by mentorman | Fri, 14/10/2016 - 11:19 — 2

Well thought out Chris-M.
These are deep philosophical questions that were pondered 20 years ago and no one really cared because it wasn't that conceivable and not in our lifetime.Fast forward to 2016 the technology has arrived! They should create a Ministry for the Future so that the brightest and most talented and practical of our nation discusses this big issue and start to come up with some real tangible solutions.

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by dictator | Fri, 14/10/2016 - 12:33 — 1

Wait until you see what changes over the next 20 years. It's going to be really interesting.

I don't see that any Ministry would be able to provide the insight required. All government departments and ministries do is cover their ass, try to retain their budget and not rock the boat. The sort of thinking involved would violate the Government's don't rock the boat policy of no surprises. They can barely cope with Treasury's criticism without melting down.

I recommend taking the Chinese approach of not relying on the Government at all and saving 50-80% of your income. Assuming you'll have a job in the future. For me all automation means is that I'll end up doing more work and I'm going to keep pushing up my charge out rate.

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by ham n eggs | Fri, 14/10/2016 - 13:21 — 1

Chris - we wont have to worry about any such "luxury" issues as those listed - They all reflect a society wealthy in energy surplus. The paradigm is about to rapidly change. The problems coming very soon are survival, food and water, because cheap accessible energy has gone. Without access to energy, all else is irrelevant.

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by JB | Fri, 14/10/2016 - 13:52 — 1

The UK has sufficient spent Uranium to provide all their energy needs for tens of thousands of years using current breeder technology.

Oil is at record lows.

There is no conceivable scenario of a world " running out " of energy.

Prices may rise - technologies mature - but we are good into the future.

Then there is Thorium which India is working on now.

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by ham n eggs | Fri, 14/10/2016 - 15:45 — 0

If only that were the case. The world is not going to "run out" of energy - its going to run out of affordable energy. Prices cant rise because we can no longer collectively afford more debt (which is what can drive price up). Because why is west coast coal mines shutting down? They havent run out .... answer; the system cant afford the price they need to be viable. And nuclear cant be a basis for whole supply chains ... It is Oil or nothing
See
https://ourfiniteworld.com/2016/10/11/why-energy-prices-are-ultimately-h...
www.artberman.com/oil-prices-lower-forever-hard-times-in-a-failing-globa...

And this is the joke that is Telsa batteries
http://www.breitbart.com/california/2016/09/19/tesla-wins-100m-award-80m...

"100 millions usd for 80MWh? You can get 80MWh from one train car of coal which costs 3000 usd."

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by profile | Fri, 14/10/2016 - 17:04 — 2

"coal... the system can't afford the price they need to be viable." Hardly. Coal has been decimated by cheap plentiful natural gas and EPA regulation to stop "carbon".

With the US President saying things like "So if somebody wants to build a coal power plant, they can. It's just that it will bankrupt them because they are going to be charged a huge sum for all that greenhouse gas that's being emitted." Ironic given US CO2 emissions have been dropping for decades. With chicken littles in the Whitehouse would you expect people in the US to be investing coal fired power plants right now? Better to let India and China profit off the cheap coal - just like we banned sustainable heli logging of West Coast Rimu and replaced it with clear felled tropical kwila.

Good to see you reading Breibart.

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by linklater01 | Fri, 14/10/2016 - 16:23 — 0

One day you will be right and cheap energy-from oil-will have gone,but just not yet. I have a book "The End of Oil" by Paul Roberts written in 2004 and very persuasive it is,but we are not there yet. Now I am no energy expert and I would certainly no discount there being a considerable dislocation as and when oil supplies really do begin to run out and the widespread use of alternative forms of energy,but I think you are much too pessimistic. Climate change/water issues worry me a great deal more.

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by ham n eggs | Fri, 14/10/2016 - 16:40 — 0

possibly so ... the irony is that to keep Oil cos (and some sort of financial and supply chain system) going we need to burn more Oil to grow energy use ... without increasing energy use the financial system starts to wobble ... but this is the last thing climate change needs. Its a total predicament.

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by profile | Fri, 14/10/2016 - 17:13 — 0

To get out of your predicament use cheap plentiful natural gas to run ships and trucks. Less CO2, if that's what turns your dial, and a fraction of the emissions. Slightly better idea than trying to change the weather in a 100 years by building windmills.

http://www.macktrucks.com/powertrain-and-suspensions/engines/natural-gas/

http://www.bloomberg.com/news/articles/2015-09-23/lng-powered-ships-gain...

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by Rob | Fri, 14/10/2016 - 13:19 — 0

Just going from the title of this article. There has never been anything the kity to pay for retired people. It is paid for out of taxes collected over the year. There is a retirement fund, although deposits to it were stopped when national came in. But is that being used? I wonder how much it would be worth today, if they had kept it up. I suspect it would now be huge considering shares have performed really well.

A country doing well financially should be able to afford to pay a universal pension.

National say the current super is sustainable, so don't you trust this is correct. Although they do also say there isn't a housing crisis...

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by Penguin | Fri, 14/10/2016 - 14:13 — 1

KiwiSaver needs to be upped.Not good for some but it's the only way to get some people to save.

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by kiwimm | Fri, 14/10/2016 - 14:15 — 1

If you save 50% of your income then you can retire (on the same amount a you live on before retirement) after 16.6 years. At 80%, retirement arrives in 5.6 years.

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by Su30 | Fri, 14/10/2016 - 16:38 — 0

kiwimm, that calculation assumes a 4% rate of return?

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by moa man | Fri, 14/10/2016 - 14:26 — 3

'millennials'? They couldn't get off their backside if it was on fire.

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by Guido | Fri, 14/10/2016 - 20:10 — 2

Is that how you justify ripping them off?
Rubbish... they will work just as hard and get less for it.

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by moa man | Fri, 14/10/2016 - 22:18 — 0

Forrest Gump material

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by Guido | Fri, 14/10/2016 - 23:43 — 1

I think I would have a better chance of getting the Moa to change it's tune.

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by KH | Fri, 14/10/2016 - 14:39 — 0

I told the financial advisor the standard of expenditure I needed as a young person and we considered the standard of living I would like at retirement. It seemed difficult to work out, but he had the strong advice. "It's simple - just die at age 60"
Phaff about all we like with schemes but the point remains, trying to have your cake and eat it too don't work. You will only get out what you put in.

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by KH | Fri, 14/10/2016 - 14:42 — 4

Superannuation cost going from 5% GDP now to 7% GDP in 2045. I can't see the problem. It's a small change over a long time. Surely we can adapt just a little in all that time.

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by JT | Fri, 14/10/2016 - 14:44 — 0

Those who won't receive a pension should be paying a lower tax than those who will. Your thoughts?

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by Ms de Meanour | Fri, 14/10/2016 - 16:25 — 1

That is precisely how KiwiSaver, and indeed all forms of savings, and indeed markets in general, already work. Those who don't pay much in, won't get much out.

Why would the Government need to replicate that? The whole point of having a Government is to do what the market *doesn't*.

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by JT | Fri, 14/10/2016 - 19:18 — 1

Presumably a portion of tax paid by generation X, Y and Z is going to superannuation for which they will receive no benefit.

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by ian64 | Fri, 14/10/2016 - 23:38 — 1

LOL i have an hereditary health problem and I will never get to retirement age. Problem solved. Hopefully my son didn't get it and he will be able to enjoy what I will leave behind

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