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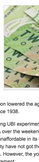
Gareth Morgan offers a way to afford NZ Super, a benefit that the Retirement Commissioner says won't be affordable in its current form in the future

Posted in Opinion · August 06, 2016 - 09:24am, Gareth Morgan



By Gareth Morgan*

Many countries around the world are looking at pilloting an Unconditional Basic Income (UBI), and some are suggesting that New Zealand should follow suit.

Actually we have been running a UBI pilot for many decades. It isn't quite unconditional – you have to be over 65 to get it.

That's right, I'm talking about New Zealand Super.

It has existed in its current form since 1977 when Muldoon lowered the age and made it more generous, but we've actually had a universal pension in some form or other since 1938.

What can we learn from one of the world's longest running UBI experiments? The results are startling: on many measures it has been incredibly successful. Yet on Q&A over the weekend the **Retirement Commissioner referred** that with the ageing population New Zealand Super is unaffordable in its current form. Retirement Commissioner the ageing members of society have not got their heads around this, with a survey showing they feel they are poorer than they actually are. However, the younger generation sees the writing on the wall, realising they will have to pay for their own retirement.

The question is how do we keep the good aspects of our existing Unconditional Basic Income while ensuring it is still affordable with an ageing population? Let's start by looking at the results of our own UBI experiment.

Stigma

Generally NZ Super recipients escape the stigma associated with being a beneficiary. This is surprising given that NZ Super is the largest cost in the welfare bill (at around 47% of the total), and is set to keep receiving the biggest cash hose for the foreseeable future. A **Community Law Canterbury report on beneficiary stigma** found:

The term "beneficiary" is sometimes used in a belittling way, reflecting the stigma those on benefits can face (and as one participant said, it is generally not used to describe superannuitants)

It is most likely that this lack of stigma is due to the universal status of the benefit – everyone over 65 receives the same amount. How curious is that? A benefit received by all over the age of entitlement is not regarded as a benefit at all, but rather an "entitlement". It will be interesting to see whether the current and future taxpayers funding National Superannuation feel that way.

Poverty

We have one of **the lowest rates of elder poverty** in the developed world. Could this be because of the generous Unconditional Basic Income they receive? It helps that New Zealand Superannuation payable to a married couple must be at least 66% of the average wage. Of course not everyone in need does that well out of our tax and welfare system; we have one of the highest rates of child poverty in the developed world.

Therein lies the tradeoff of such a high rate of New Zealand Superannuation. By funding a universal benefit at such a high rate we are using precious taxpayer funds that could be used to alleviate serious poverty amongst our younger citizens. Why don't we? Probably because the elderly have the highest turnout on polling day, while children don't get any vote at all.

Impact on work

If you give everyone an Unconditional Basic Income, won't people stop working? Well, no. Despite their age and the obscenely generous nature of NZ Super, many pensioners keep working. In fact **one in five** pensioners work, and for those under 70 it is closer to **two in three; one of the highest rates of any country in the OECD**. That is a long way from an employment apocalypse.

Yet some reckon that a UBI of much less magnitude than the New Zealand Superannuation would **discourage younger people** from paid work in droves. They have no evidence of course – it's sheer prejudice. The fact is that people have many reasons to pursue work and success – in a recent survey of pensioners the most popular reason for working was that they "liked being busy".

Money may not always be the top motivation for work, but it helps that pensioners don't lose their Super if they keep working. That is the essence of an Unconditional Basic Income.

Volunteering and Unpaid Work

We get a pretty good return on investment from this Unconditional Basic Income. Despite their age and the fact they are not getting paid, our superannuitants seem to keep themselves busy for the benefit of the country. The **age group most likely to volunteer** in any given 4 week period are those aged 65-74, at almost 40%. This drops off a little at older ages, for obvious reasons.

Pensioners also spend **more time** doing unpaid work than any other group – 4 hours and 31 minutes every day. Clearly their UBI has no effect on their work ethic.

Remember the enormous value is generated by unpaid work. Roughly half of all work done in our economy is unpaid, an Unconditional Basic Income would honour that contribution.

How do we keep it affordable?

To conclude, New Zealand has already been experimenting with a UBI for the past forty years, and it has been a raging success in terms of not dentring the prosperity to work – either voluntary or paid. The problem is that because of its generous level it is expensive and diverts money from truly needy citizens. For this reason there is a growing realization that people can't expect to rely on NZ Super continuing in its current form. A survey by the Retirement Commissioner indicated that 83% of people feel that people should contribute to their own retirement, while 75% felt the government should also contribute (people had two votes).

There are many people over 65 receiving additional income well above the level of NZ Super – either from working or investment income. As the saying goes, it doesn't pollute us, we may have better ways to spend taxpayer funds than giving **New Zealand Superannuation to people that don't need it**. Yet there are clearly also benefits from a universal system.

The Retirement Commissioner has suggested increasing the retirement age to 67, but there are some people that cannot keep working past 65. One middle ground could be to keep a universal portion of the pension (at around half the current rate) but have a means-tested top up for those that don't have other forms of income. That way New Zealand Superannuation could continue to be equally successful at half the amount paid.

Gareth Morgan is a New Zealand economist and commentator on public policy who in previous lives has been in business as an economic consultant, funds manager, and professional company director. This content was first published here and is used with permission.

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14 Comments

by Eco Bird | Sat, 06/08/2016 - 10:04 — 3

My Goodness !! Thanks God that we don't have lunatics and twisted people at the helm of this country's laws ... Some of the kind who are in desperate need of serious help to get over their chronic communism ideology and obsessed extreme left socialism ... Even when they had lots of money to splash around, they still have some mysterious hate and envy towards people who work hard and do well for themselves.
NO one has the right to decide what is ENOUGH or not for any individual to live on ... No one needs twisted social engineering to set his or her retirement plans either... !!

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by Zachary Smith | Sat, 06/08/2016 - 10:15 — 5

The writer of this article is very rich. He wants to tax me to death with weird property taxes and now he wants to take away a lot of my superannuation. He then wants to give this money to people, many of whom will likely waste it on bad living choices. There is also that thing about pet cats...

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by SmeKay | Sat, 06/08/2016 - 11:09 — 4

GM is another over rated economist. His wealth gets him some audience, for sure. But really not sure whether they understand and like what he says periodically. He is like a shock jock of the print media. Good for some laughs, but not to be taken seriously.

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by billsay | Sat, 06/08/2016 - 11:11 — 3

I totally disagree that the "obscenely generous nature of NZ Super" cannot be sustained - it can be for at least for the next 30 years or so. And it is not obscenely generous - try living on the Super for those who have to.

But one thing which could and should be addressed stems from the figures that Gareth gives for those continuing to work - up to 40% of those between 65 and 70.

A simple one line change in the tax returns each year could get some of the Super subject to reduction on those with (say) $50,000 or more in earned income. The IRD has this information and reports already for an individual's 'statement of income'. No need for convoluted and avoidable asset testing. And no need for a billion dollar new IRD computer system.

And it would take is a predictable decision to do this sort of modification.

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by Eudaemonic | Sat, 06/08/2016 - 12:51 — 3

For those who have been living on welfare or benefit payments their entire lives, retiring is like hitting the jackpot. My father who has long struggled with being an immigrant and has had serious health issues in recent years, will probably get almost double what he does now. If living on the Super is hard, living on any kind of actual 'benefit' must be preposterous.

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by Patricia | Sat, 06/08/2016 - 11:25 — 6

The way everybody talks you would think 1971 never happened. That was when the US$, the worlds reserve currency, went off the gold standard and then everybody had a fiat currency. Our floating currency is tied to nothing. Of course we can have superannuation forever and we could even have a UBI. It is how it is applied that needs to be discussed. The Reserve Bank credits the Govt books with the money and the Government spends it. You can just give it to the people but because that might cause inflation it would have to be carefully monitored. But isn't that what the Reserve Bank is trying to do with lowering the OCR every few minutes - such a crude method. A better way would be for Government to start creating more and better infrastructure - but not just more and more roads. With only New Zealand from being used.
A UBI for ALL has to happen because wages are low, there are zero hour contract jobs - the precarial have a miserable life. Isn't a government supposed to look after its people? And if they make bad choices does that matter? everybody makes bad choices sometime in their life. Super has been a raging success for the elderly and a UBI would be the same.

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by brickartist1 | Mon, 08/08/2016 - 16:27 — 0

Patricia,

What exactly is the relevance of the US coming off the gold standard? Are you saying that as a fiat currency,the RB can simply print whatever money is deemed necessary? Of course we can have Superannuation forever and we could even have a UBI!. Have you coded this? I very much doubt it. The global economy is awash in debt and while I disagree with the National government on many things, they should be given credit for bringing our debt level down. Given our level of private debt, it is essential for our future borrowing needs that government debt be kept low.

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by Patricia | Thu, 11/08/2016 - 17:22 — 1

Linklater01 I have no idea and read a lot about the political Economy and their different ideologies. From this I understand 1971 was the critical happening in our current economic system. From that date all world currencies are now fiat currencies. They are tied to nothing. Prior to 1944 basically the whole world was on the gold standard. After that the world currencies were tied to the US$ which was tied to the gold standard of the day. Then in 1971 the US abolished that tie. The waters were muddled when the Petro dollar was created in around 1973 but effectively from that date fiat currencies were the rage although the US$ was still the reserve currency. Now, money is created by a printing bank notes and by book entry. The Banks do that when they lend money. They are NOT intermediaries between saver and lender. Now 'costing' universal superannuation and a UBI has nothing to do with it. Managing it is a better word. Yes money can be created and the purpose of that creation is what is managed. NZ had a very very low debt level by world standards but it suited the Governments of the day to say we had a terrible one. We did not. Our private debt is bad but that is because the Governments of the day let the Banks lend willy nilly. It is an ideology that says the Free market must rule and that must be by globalisation. The result of that economic theory is Brexit, Donald Trump etc etc because the people of those countries have seen their standard of living go lower and lower. Now that trend very much doubt it. Has been done before - in the 1930s up to and around 1970 when the effect of the Chicago School of Economics free market ideology started to have effect. Eg the advisers to Reagan. Thatcher and our very own Hogemonics. When we had a population of around 2 million we built state housing, hydro dams railways, we had a shipping line, insurance companies etc etc. It certainly did not come from taxation or borrowing overseas funds. It was book entry. To understand it I look it as if there are two currencies in a country one which we use internally and another which is used externally. The internal one is the one that matters for the people.

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by PocketAces | Thu, 11/08/2016 - 17:42 — 1

The only thing required for a UBI is the will to do it. Being universal it will not come with a stigma attached as does current welfare and people will be encouraged to venture out into jobs and enterprises they may not otherwise be able to. It will actually require a complete reversal of the way we look at and do things now, and in fact we will become less acquisitive, not better by pressure to amass as much to ourselves in a way of future protection. Done right, it would actually free us all from more than just the financial restraints of the, pretty much, jobless future.

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by mum1jaxi | Sat, 06/08/2016 - 13:36 — 2

There is nothing more libertarian than the Universal Basic Income or negative tax as it was called by some economists.

I am absolutely in favor of removing welfare (except healthcare because getting sick does not depend on one's will) and replacing it with a universal basic unconditional income. And let everyone decide how to manage their resources, and if they cannot make it till the end of the month they will have to rely on charity (and maybe take some lessons on how to manage properly), not on welfare.

What's wrong with that idea? Why not NZ superannuation for everybody above 18 years old?

It's a matter of seeing how to get the funds to do so, but if I am not mistaken Gareth Morgan already suggested some ways and calculated the savings when getting rid of complex taxation systems.

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by Uninterested | Sat, 06/08/2016 - 17:37 — 0

If everyone got paid a universal income, house prices would go up!

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by Zachary Smith | Sun, 07/08/2016 - 08:24 — 0

Mums and Dads could start charging board again too.

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by Zachary Smith | Sun, 07/08/2016 - 09:38 — 0

Terrorists collect welfare money too:

Terrorists behind Paris & Brussels attacks got over €50K in welfare - report

Imagine a UBI plus violent extremism - a problem we don't generally have with superannuants.

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by dejanmk | Mon, 29/08/2016 - 16:58 — 0

Govt super is a long running pyramid scheme (a.k.a. ponzi). It relies on the number of people paying into it scheme for outnumbering the number of people drawing on it. This has been going on close to a 100 years, but with the population aging around the globe this may be coming to an end as the the number of new people buying into the scheme drys up. In the future it may be remembered as a short lived incident. UBI cannot work for the same reason, you cannot have a ponzi scheme with more people drawing on it, than the suckers paying into it.

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