

To the Retirement Commissioner
review@cffc.org.nz

Submission on New Zealand Superannuation and associated retirement issues
John Trezise, 26 April 2016

SUMMARY OF ARGUMENTS

1. To fund NZ Superannuation, the tax base must encompass taxes on wealth and on land.
2. The present indexation to the average wage must not be weakened.
3. The age of entitlement must not be raised.
4. A more compassionate approach is needed for an interim benefit below the age of entitlement.
5. Lawful permanent residency and age 65 should be the only requirements for eligibility.
6. The portability allowed to Pacific Islands residents should be extended to all countries.
7. Superannuitants overseas for longer than six months should receive the Pacific Islands rate.
8. KiwiSaver must not become compulsory; the \$20-for-\$20-a-week subsidy should be restored.
9. All medical care should be free, and available, obviating any need for private medical insurance.
10. Aged-care homes should be properly funded by the state, and banned from charging fees.
11. Revive social housing; enforce private-rental WOFs and tenure security; build enough homes.

The Retirement Commissioner's 2013 report *Focusing on the Future* concerns itself with the growing cost of providing NZ Superannuation to an increasingly aged population. Its assumption is that as the elderly proportion of the population increases and becomes longer-lived, ways must be found of trimming the cost of NZ Superannuation. The main suggestions seem to be (1) ratcheting up the age of entitlement from 65 to 66, 67, 68 and beyond, and (2) changing the indexation from the existing absolute link with the average wage to a combination of average wage and consumer price index, with the intention of reducing the value of NZ Super compared to average incomes in society, and perhaps augmenting it here and there with means-tested top-ups.

The direction of the proposals reflects the intensification over the past eight years of the intermittent 30-years-long neoliberal attack on New Zealand's commitment to striving for social equity and caring for the poorer members of society. Perhaps this is inevitable, as

the process of revising NZ Superannuation has been captured by retirement commissioners and members of parliament who generally can be identified with the wealthy, high-income section of society, with little need of NZ Superannuation themselves.

Indexation. NZ Superannuation is a social contract to provide a universally accessible age-related income that provides for a dignified existence in old age without recourse to the humiliation of means-testing. Those in retirement now who rely entirely on NZ Superannuation for subsistence will attest that it already provides for only a meagre existence. They will also attest that hefty rises in rents, rates, power and phone bills, and medical expenses render absurd any claim that the consumer price index reflects the cost of living. To reduce the indexation of NZ Super from its present link to wages would be unconscionable; it would intentionally exclude superannuitants from sharing in society's hoped-for growing wealth. There are echoes in the present conversation of Ruth Richardson's attempts with her "Mother of all Budgets" in 1991 to turn NZ Super back into a Victorian welfare benefit for the poor.

The function of a universal benefit is to transfer money efficiently from haves to have-nots without judgement or assessment. Its universality bypasses the bureaucracy and indignity of means-testing by giving more or less the same benefit to everyone, with few distinguishing categories (married, single, living alone, etc).

The tax base. The way to ensure the benefit goes to those who need it is through taxation: disburse the benefit to all, but tax the rich so that their disbursement is returned to the pot. Despite its torrent of words, the 2013 report Focusing on the Future fails to discuss taxation.

Inequitable taxation is the elephant in the room that everyone tries to pretend is not there. In New Zealand, earned income from labour is taxed, but to a large extent income derived from property and wealth is not. Untaxed wealth is increasing the gulf between rich and poor, from year to year, from generation to generation, from region to region. New Zealand Superannuation cannot be reviewed rationally apart from New Zealand taxation. In *The Big Kahuna*, Gareth Morgan and Susan Guthrie demonstrate the feasibility of broadening the tax base to enable a universal income to be paid to all citizens from the age of 18 or 20. It is far easier to modify the tax base to sustain the existing NZ Superannuation as the retired proportion of the population grows. New Zealand must tax all wealth, but especially land, on its deemed or imputed return. It must reintroduce tax on gifts and inheritances, to inhibit the intergenerational transfer of unearned wealth. It must bust open the family trusts and closely held companies designed to facilitate the transfer of wealth within families. And it must abolish the exemption from tax of purported charities and donations to them. All these measures would broaden the tax base, and thereby reduce the burden of labour-earned income tax, yet increase revenue and provide for NZ Superannuation. But to do all this would pit

the haves against the have-nots. And it is the haves who sit on parliamentary committees.

Taxing land, as recommended by the 2010 Tax Working Group, besides providing revenue to pay for superannuation, would encourage investment to move from housing to areas of productivity; to shift the emphasis away from property to investment in the sharemarket. This would be good for New Zealand's economic growth, and it would help to make homes more affordable (though relaxation of zoning and getting on with building are at least equally important).

Age of entitlement and early-retirement benefit. There is no justification for raising the age of entitlement, provided society has the will to broaden the tax base to pay for NZ Superannuation. In 2013 and 2014 the MP Peter Dunne wasted much parliamentary time advocating a flexible entry age for NZ Super. Those who wanted to begin drawing their pension younger than 65 would be able to do so, but would be condemned to a lower rate of pension for the rest of their lives. Those who delayed beginning their pension till later in life would enjoy a higher rate. Plainly, those who would retire early for a small pension might already be unwell and on a low wage, and the Dunne plan would entice them to continue in poverty till their death. Conversely, those with private means, or in easy, well-paying jobs or with spouses in well-paying jobs, would naturally defer beginning their pension as long as possible for the greatest benefit. Parliament, in an attack of good sense, buried this outrage and agreed that there should be but one age of entitlement. However, many people, particularly in jobs involving physical labour, are not well enough to continue working till 65. The Retirement Commissioner needs to impress on the government the need to be more compassionate and liberal with a means-tested interim benefit to help such people till they reach the qualifying age for the universal NZ Superannuation.

Eligibility. The qualifications to be eligible for NZ Superannuation are (1) to be a New Zealand citizen or permanent resident (2) to be aged 65 or over, and (3) to have been permanently resident and present in New Zealand for 10 years, five of them over the age of 50. There have been suggestions in the past year that harsher residential conditions should be imposed on immigrants from some countries for them to qualify for NZ Super. It is important to emphasise that NZ Superannuation is not a prize for having worked in New Zealand (New Zealanders who have never worked still qualify for the pension at 65), but a commitment by society to ensure that all people over 65 lawfully resident in New Zealand have means of subsistence. To emphasise this moral point, the requirement to have been present in New Zealand for 10 years should be abolished. The sole conditions for eligibility to be enrolled in NZ Superannuation should be (1) to be a New Zealand citizen or lawful permanent resident (2) aged 65 or over.

Portability. There are two sets of rules for receiving NZ Super and living overseas other than in a country New Zealand has a social security agreement with. Generally, a

person who has lived in New Zealand for fewer than 45 years between the ages of 20 and 65 will receive one-45th of the basic pension for each of those years lived in New Zealand. But people who wish to retire to one of 22 Pacific Island countries enjoy a more liberal regime: they can receive half the basic rate if they have lived 10 years in New Zealand after the age of 20, and an extra 5 per cent for each year thereafter, qualifying for the full basic rate after 20 years residence in New Zealand. Times have changed, and many of New Zealand's workers now come from South Asia and East Asia, especially the Philippines. In old age some may wish to return to their country of origin. Fairness demands that the liberal portability applying to the 22 Pacific Island countries be applied to all countries except those (Australia, UK, etc) covered by specific social security agreements. Allowing people to receive NZ Superannuation thus anywhere in the world might collaterally relieve pressure on New Zealand's health system and aged-care facilities.

Overseas travel. Superannuitants who travel overseas for longer than six months should not forfeit NZ Super, which is draconian, but should simply drop to the Pacific Islands portability rate backdated to the day they left New Zealand, and have the overpaid amount deducted from future payments.

KiwiSaver. Two points need to be made about KiwiSaver. (1) There are those who would have KiwiSaver contributions become compulsory. This would harm people on low incomes who cannot afford even the smallest part of their wage to be captured by a savings scheme and have no choice but to put their retirement hope in NZ Superannuation. It would also inhibit people who are investing their capital in a business that might be their retirement plan. Above all, a compulsory KiwiSaver could be disastrous for NZ Superannuation because it would encourage politicians in future reviews to undermine NZ Super's status as a universal livelihood and reduce it to a means-tested benefit as it is in Australia. (2) The present government reduced the top income tax rate from 39 per cent to 33 per cent, and the top tax rate on KiwiSaver and other PIE funds' income to 28 per cent. (There is no justification for a special low tax rate on PIE funds: they should be taxed like any other income. The 28 per cent tax rate rewards the rich simply for being rich.) Subsequently, the government, pleading lack of revenue, reduced the \$20-for-\$20 maximum weekly KiwiSaver contribution subsidy to a maximum \$10-for-\$20. This, of course, harms the poor. In fairness, the \$20-for-\$20 subsidy must be restored, and paid for by lifting the indulgent 28 per cent top PIE tax rate to match the general top income tax rate.

Medical care. Broadening the tax base will provide revenue to remedy other damage caused by the neoliberal stampede. Hospital care is deteriorating and waiting lists growing longer. The growth of private medical insurance in the past 30 years is nothing

to be proud of: it marks the disintegration of a public health system that half a century ago was so effective there was no need for private hospitals or private medical insurance.

The retirement review cannot ignore the deficiency in medical care. New Zealand must foster the health of its citizens by introducing free doctors' visits for all, irrespective of age, and restoring funding to public hospitals to eliminate waiting lists so that medical insurance will be reduced to providing the nice-to-haves and the fanciful: cosmetic surgery, private rooms, gourmet meals, non-evidence-based therapies, pet insurance.

Aged care. The retirement review must demand that the government restore free, humane, and dignified end-of-life care and prohibit rest homes from superimposing fees. In theory rest home care is free to the aged. But rather than fund it effectively, a couple of years ago the government changed the regulations to allow rest homes to charge for "extras". Now it is reported that Ryman Healthcare has determined that a room with a window and an ensuite toilet is an "extra" for which it charges \$350 a week; these are residents whose NZ Super has already been reduced to \$40 a week in exchange for the "free" bed in the rest home. And Ryman is reportedly charging \$15 a pop for assistance with showering, changing a dressing, even bedmaking.

Housing. The disintegration of state housing and local body council housing is another sustained political attack on those members of society who have limited means, including those on social welfare benefits and recipients of NZ Super. Recommendations by the Retirement Commissioner in a review of NZ Superannuation must look for the revival of affordable housing throughout the country, for all ages. This requires the whole-hearted renaissance of state housing and council housing. It also requires revision of the laws on private rental housing, assuring security of tenure and rigidly enforced warrants of fitness. Corporations might be encouraged to invest in terrace housing and apartment blocks, not for sale into home-ownership but for secure long-term tenancy as an alternative way of life. Zoning rules in cities with escalating property prices must be overturned to allow unlimited growth both upwards and outwards. Punitive taxes should be imposed on land held captive for speculation. Councils that fail to co-operate must be dissolved and replaced by state-appointed commissioners. A combination of freeing up land and large-scale building both private and public could do much to suppress the cost of both home ownership and of renting.