

# In September we ask: Who gets what?

This topic links very closely to the July topic “Who pays for what”. The introductory comments on the website for this month’s topic ‘*Who gets what*’ replicates some comments on the costs of NZ Superannuation which was probably specific to the July issue. Our comprehensive submission re costs of New Zealand *Superannuation* “*Who pays for what*” should be read in conjunction with this submission

## **ELIGIBILITY CRITERIA: NZ SUPERANNUATION**

### **AGE**

65 years is the current age of eligibility and this submission supports the status quo. It provides sound protection for the lower socio economic group, and is of primary benefit to women, not being linked to paid employment. Any suggested change to a later age date would have to overcome a very high threshold bar, as to what impact this would have particularly on low income groups and women.

If any change is proposed significant lead in time prior to implementation must be a primary consideration. We suggest the lead in times for any proposed changes be in the time period of 10-20 years, the transition period being very important, so people can adjust their saving habits and behavior planning requirements accordingly. Consumers are wary of change in this area, and have long memories.

We strongly support the NZ Superannuation model, and note its costs under any scenario, are well below other OECD countries, and alternatives suggested to date have limited appeal. Most changes proposed over the last few years either lack policy substance or by adopting an ad-hoc approach, dilute the quality of their proposal.

### **YEARS OF RESIDENCY REQUIREMENT**

The issue of ten years residency requires review. Historical analysis of why this period was chosen is important, and careful analysis of what the impact would be if changes were made to say periods like 15 years, 20 years, and 25 years modelled and cost implications provided. In 1898 the residency period was 25 years, but by 1937 this was reduced to 10 years, then in 1938 increased to 20 years, until 1977 when the current 10 years residency was put in place. The rationale for these periods is obscure. At this stage we do not have a specific view, but support further analysis of this component, some case study examples would help.

### **RE-ADJUSTING THE FORMULA e.g. INDEXING NZ SUPERANNUATION.**

This issue has contextual ramifications including whether this is a separate issue to the age entitlement, or if implemented would it occur with other changes. Adjusting the formula is principally a cost cutting exercise.

The current link to average wage instead of inflation costs more, but this is balanced by the fact New Zealand Superannuation is taxed at source, and has been one of the reasons poverty levels are low and is advantageous to women. There is an argument that NZ Superannuation as the principal retirement income component, supported by Kiwi Saver, and any further savings individuals can gather over their life time, should be increased and not reduced. It's not generous enough to counteract the reality that most individuals cannot save enough to provide a realistic retirement income. The current index formula supports such a view.

With limited work opportunities for many over 60 years of age, and the unfortunate decline of work place superannuation schemes, a new way of thinking about senior year's retirement income, using NZ Superannuation as the safety platform is required.

## **SOCIAL SECURITY AGREEMENTS AND DOUBLE TAX AGREEMENTS WITH OTHER COUNTRIES**

Social security agreements with other countries, impacts on New Zealand retirement income policy and costs. Public awareness of these agreements is low.

We suggest the Commission website should identify current agreements in place, and key elements relating to retirement income issues, e.g. Social security agreements are in place with Australia, Canada, Denmark, Greece, Ireland, Jersey, United Kingdom, and Malta etc. and free trade agreements or similar with China.

How these agreements impact on NZ Superannuation and associated costs, needs identification. Access to NZ Superannuation within these agreements is often included, and residency rules and options vary. This information should be transparent and accessible and also explainable. A cone of silence and public ignorance on these agreements exists

## **SECTION 70**

This issue has been the subject of attention for a significant period, and requires action. The principle of deduction from an overseas state pension to avoid double dipping is sound, but we support further review and increased transparency of rules and decisions made. We support the principle that occupational overseas pensions accumulated from an individual's own savings and their employee contributions, are the individual entitlement, and should not be part of section 70 attentions. We recommend discontinue the policy of deducting a person's overseas pension from their partners NZ super entitlement.

## **ANNUITIES**

Annuities are likely to become a long term trend in the retirement income sector, despite the current market limitations. This area needs regular attention and support. The suggestion the Government through the insurance principle or similar might have a role in future annuity schemes should be examined. Recent Government financial bodies e.g. Savings Working group, have pointed to taxation issues in the annuities field, still require attention

**RETIREMENT INCOME-ROYAL COMMISSION OR COMMISSION OF ENQUIRY**

We note the terms of reference for a Royal Commission or Commission of Enquiry require significant public interest as criteria for using this mechanism. The use of this instrument for gathering together the many strands of retirement income policy is worthy of consideration.

Alec Waugh

Chairman: Kiwi Saver, Annuities, NZ Superannuation Protection Society Inc.

[www.kaspanz.com](http://www.kaspanz.com)