

Titiro whakamuri kōkiri whakamua

Looking back to move forward

A Review of Past Reviews of Retirement Income Policies in New Zealand

Prepared for the Commission for Financial Capability

Malcolm Menzies

November 2019

Preface

The 2019 triennial Review of Retirement Income Policies is the sixth to be carried out under the terms of the Superannuation and Retirement Income Act 2001. There were also two significant Reviews in the 1990s (The Task Force on Private Provision for Retirement - which came to be known as the Todd Task Force - in 1991-2; and the Periodic Review Group Report in 1997). The Super 2000 Task Force, set up in 1999, was disbanded before it could complete its work.

Much of the physical record and memories of past Reviews have become dispersed, and the Commission for Financial Capability has decided that it is timely to bring these together before they are entirely lost. Participants in the 2019 Review could also benefit from knowing more about how various issues have arisen in the past, and lessons learned.

This report therefore seeks to inform participants in the 2019 Review of Retirement Income Policies about the broad history of retirement income policies in New Zealand, with an emphasis on Reviews undertaken since 2003 and their outcomes.

Ideally, this “Review of Reviews” will help build on past experience and contribute towards continuous improvement of retirement income policies in New Zealand.

The language used in this report

The English title of this report was selected at an early drafting stage, without realising (or perhaps not remembering) that it almost exactly matched the title of a Symposium on Retirement Income Policies held in 2008 – three years before I became professionally involved in the field. This piece of unintentional plagiarism notwithstanding, the title has been retained, if only to demonstrate the cyclic nature of debates about retirement income policies.

The report also borrows unashamedly from the work of previous writers, particularly David Preston’s (2008) history of retirement income in New Zealand. Due recognition has been given.

However, the Executive Summary also contains my own observations, conclusions and recommendations and I take full responsibility for them.

What follows the Executive Summary (page 15 onwards) is largely extracted from reports prepared for, or produced by, previous Reviews of Retirement Income Policies. Where verbatim quotations are used, this has been made obvious by use of indented, lower-case text. Any additions to the latter are via footnotes.

Other text from previous reports has been merged, adapted and abridged for the purposes of this Review of Reviews. While in these cases direct attribution has not been made, the origins of the core text are still traceable to the relevant source Review report.

Some content is now out of date (e.g. the names of some ministries) but has been left as it was at the time the original document was produced. In a similar vein, Reviews’ conclusions and recommendations are presented as they originally were in the reports, even when contentious then or now, without judgement. The aim has been to retain the “voice” of the original Review.

A draft of this current report was circulated to three peer reviewers who have deep knowledge and experience of retirement income policies, and of the New Zealand system in particular. I am very grateful to these reviewers as they have corrected or clarified many historical points and their other comments have been incorporated in places. Nevertheless, the definitive record of some key events has proven to be elusive and I fully expect later readers to also find gaps in what is written here. Their assistance in authentication or closing those gaps will be most appreciated.

Every attempt has been made to ensure accuracy. However, any errors are mine alone, as are additional views expressed. They do not necessarily reflect the views of the Interim Retirement Commissioner nor the Commission for Financial Capability.

Malcolm Menzies

November 2019

Table of Contents

Preface	1
The language used in this report	1
Executive Summary.....	5
What are Retirement Income Policies?	5
The approach taken in this Review of Reviews	6
Table one: Reviews covered	6
Consistent themes in Review Reports	6
Key findings and conclusions from Review Reports	9
Process	10
High level impacts	12
Specific impacts.....	13
Recommendations from this report	14
The New Zealand Framework	15
The picture in 2003 still rings true	15
What public provision provides	15
What private provision provides.....	15
Early history	17
Review One: The Todd Task Force, 1991-92.....	20
Terms of Reference.....	20
Strategy	21
Process	21
The preferred option:	24
Legacy.....	25
Review Two: The 1997 Periodic Report Group	27
Context.....	27
Following the referendum	29
Review Three: 2003 Periodic Report Group	31
Findings	33
Structure of the Review	35
Implementing PRG2003’s recommendations and proposed work programme.....	36
Table two: 2003 Recommendations and progress by 2007	37
Review Four: 2007	41
A new era	41
Terms of Reference.....	41
Process	42

Merits of NZS	42
Multiple agencies involved:	44
Recommendations	45
Table three: Recommendations and progress by 2010	46
Review Five: 2010	51
Context.....	51
Other topics covered outside the formal terms of reference	52
Process	52
Discussion.....	53
A comprehensive framework.....	54
Figure one: Policy Objectives of KiwiSaver and NZS	55
Recommendations	55
Review Six: 2013	58
Process	58
Current retirement income policies and programmes	58
Table four: Recommendations plus Government Response	60
Review Seven: 2016	63
Terms of Reference and process.....	63
Outputs	65
Recommendations	65
Table five: Recommendations plus Government Response	66
References	69
Appendix One: The Origins of New Zealand’s Pension System	71
Bismarck was first	71
New Zealand’s experience in the 19 th Century.....	71
1898-1990	72
Appendix Two: A Chronology of Reviews and Associated Developments	78
Appendix Three: Full Terms of Reference for Reviews 2007-2019.....	83
2007	83
2010	84
2013	85
2016	86
2019	87

*Whoever wishes to foresee the future must consult the past;
for human events ever resemble those of preceding times.*

Niccolò Machiavelli

Executive Summary

What are Retirement Income Policies?

A common approach to describing and assessing retirement income policy is to apply the World Bank's concept of "three pillars" (Harris, 2012)¹

1. state pensions (funded out of social security or general revenue), not linked to individual contributions, typically with an anti-poverty objective and (therefore) often means tested;
2. compulsory, individual savings (usually employment related) mandated by the state and invariably subsidised by it; and
3. voluntary individual savings, using a variety of investment vehicles.

This classification is by no means universally accepted. Others (Holzman and Hinz for example – also from the World Bank) split the first pillar into a minimum support base and some partial earnings-related top-up, and then add another pillar built around informal intrafamily and intergenerational supports (Holzman & Hinz, 2005). The risk of making any framework more and more complicated is that "big pictures" become obscured by fussy detail.

Sometimes the term "tiers" is used instead of "pillars". The 2003 Periodic Review Group (PRG) report described New Zealand as having a two-tier system of retirement income provision. The first tier was New Zealand Superannuation (NZS) a universal public pension funded from general taxation. The second tier consisted of voluntary private provision by individuals to enhance their standard of living in retirement².

Supporting all tiers (or even forming an additional tier) are the families and communities who support and assist their older members, the earnings of New Zealanders who choose to work past 65, and other government services available to older New Zealanders, whether retired or not (e.g. the SuperGold Card). Other initiatives are not targeted specifically at older people but respond to need at any age (e.g. the Accommodation Supplement)³.

Given the fundamentally voluntary nature of tier two/tier three provision in New Zealand, financial education is important at all ages. Retirement income policy is not just for older people, and in addition to its responsibilities for Policy Reviews, the Office of the Retirement Commissioner (operating as the Commission for Financial Capability) has major responsibility for the promotion of financial education.

¹ Citing Hawke (2005b: p 27).

² The advent of KiwiSaver introduced a "tier 2.5" as it was "mandated by the state" and attracted relatively small amounts of subsidy (e.g. Members' Tax Credits) but the compulsion to join was "soft" in that members could opt out.

³ For a full and up-to-date picture of these other initiatives, see a report prepared by MSD for the 2019 Review at <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/2019-RRIP/Research-docs/MSD-Report-on-NZ-Retirement-Policies.pdf>.

A critical question about any public pension is: “how is it to be paid for”? There are two broad approaches: Save As You Go (SAYGO) in which money is put aside today to pay out in the future; and Pay As You Go (PAYGO) where pensions are paid for out of today’s taxes. NZS is based on PAYGO, although the New Zealand Superannuation Fund adds an element of SAYGO to the New Zealand system. Just as the balance between public and private provision is an important part of the retirement income policy debate, so is the “correct” balance between SAYGO and PAYGO funding.

The approach taken in this Review of Reviews

While the brief was to focus on Reviews carried out under terms of the Superannuation and Retirement Income Act of 2001, it clearly would have been a mistake to overlook the foundational influence of the Task Force on Private Provision for Retirement (the Todd Task Force) in 1991-92. That Task Force engaged in a huge process of consultation and research, and its findings about the basic shape of our retirement framework have not been overturned in any Review since.

Table one: Reviews covered

	Review	Year(s)	Agency
1	Private Provision for Retirement	1991-2	The Todd Task Force
2	Periodic Report	1997	Periodic Report Group (PRG)
	Super 2000 Task Force	1999	Task Force (disbanded)
3	Periodic Report	2003	Periodic Report Group (PRG)
4	Review of Retirement Income Policies	2007	Retirement Commissioner
5	Review of Retirement Income Policies	2010	Retirement Commissioner
6	Review of Retirement Income Policies	2013 ⁴	Retirement Commissioner (branded Commission for Financial Literacy and Retirement Income; CFLRI)
7	Review of Retirement Income Policies	2016	Retirement Commissioner (branded Commission for Financial Capability; CFFC)

Given the foundational role of the Todd Task Force, the approach taken has been to tabulate the themes contained in the report of that Task Force, and to track the course of those themes through subsequent reports. New themes have been added in as they have arisen. A spreadsheet containing these themes created a “technical document” which has been distilled into a list of consistently recurring themes as follows.

Consistent themes in Review Reports

1. The retirement income system depends on there being real economic growth. Economic conditions change regularly, and virtually each Review reports different circumstances;
2. The importance of international comparisons;
3. There is need for better data, monitoring and research of all aspects of income, saving, savings, expenditure, home ownership, long-term care and living standards;

⁴ The current author managed the 2013 process.

4. Demographic change, particularly the ageing population due to increased longevity (and lower birth rate);
5. Increasing costs of health and other care need particular attention (the need for this has been stated more consistently in the last four Reviews);
6. Fiscal impacts of (4) and (5);
7. A focus on National Saving and Savings⁵ and their implications for the economy (what these implications are, is far from settled);
8. The impact of the cost of NZS on public debt;
9. There is need for a regular process of evidence-led Review of Retirement Income Policies. Whether that should be continuous, or periodically every three or six years, is a topic for discussion;
10. Provision of retirement income is based on a public/private partnership. Much of the debate is about what the mix should be;
11. Retirement income policy has multiple objectives (participation, preventing hardship, continuation/maintenance of economic status (“consumption smoothing) affordability, redistribution etc and as in the 2010 Review report which outlines 8 “models” or objectives (see Figure one on page 55);
12. NZS is a simple public pension, particularly when compared with other countries’; but
13. The broader Retirement Income “system” is complex and needs to be considered holistically. Interventions need to be integrated rather than piecemeal or carried out in isolation;
14. Technical aspects of NZS (eligibility criteria, different rates, treatment of international pensions etc) are constantly under review;
15. Merits and demerits of targeting/supplementary benefits as elements of public provision;
16. The “affordability”⁶ of NZS and the case for raising age of eligibility, changing indexation, residency criteria, means testing etc;
17. People have different life courses and very diverse, individual needs;
18. Private provision brings advantages of flexibility and “tailoring” to meet individual needs and circumstances;
19. Housing costs are of critical importance in considerations of retirement income;
20. The financial markets need to work well to deliver optimal outcomes for savers and investors;

⁵ Saving being a process, and Savings an outcome.

⁶ Affordability is a matter of judgement and qualitatively different from fiscal impacts (theme 6) which can be measured in retrospect or projected in advance. Within limits, something is “affordable” if it is regarded as a high enough priority. Rather than affordability, percentage of GDP is internationally used for comparison between both countries and time periods.

21. Markets have changed, become more complex and more competitive, and offered more options to New Zealanders. But they need judicious regulation, transparency and comparability of products;
22. It's essential to have policy consensus, stability, long periods of notice of any changes in the retirement income framework and careful implementation of any transitions;
23. The system must be fair;
24. Many Women, Maori, Pasifika, low income groups and the "Old old" have different characteristics, needs and vulnerabilities when it comes to retirement planning and retirement income;
25. The labour market and patterns of workforce participation are changing for all groups and are a key factor in considerations of retirement income policies;
26. There is a need to upskill workers and address ageism in the workforce;
27. Decisions about whether to focus on individuals or couples/households can affect the adequacy of retirement income;
28. Issues around annuities and reverse mortgages;
29. The law on division of matrimonial property after divorce needs careful attention. Not so much of an issue with the Property (Relationships) Act but things keep changing and in 2019 the law is again under review;
30. Workplace schemes fell away in 1990s, replaced by KiwiSaver in the 2000s and 2010s;
31. Recognition of the role of communities and families in supporting/caring for retirees;
32. The impact of the Global Financial Crisis on financial markets and retirement income provision;
33. The impact of high inflation (only when it was occurring – low inflation hasn't figured as so much of a problem, though this may change);
34. Taxation issues, especially tax neutrality. Discussion of these has diminished since the Todd Task Force – there has been a gradual move to more tax neutrality, but this quest is never ending and indeed, has come into question again recently⁷;
35. Younger people face different challenges – intergenerational issues (including the "sandwich generation" of those caring for children and parents, and who would have to pay twice if we switched from a PAYGO to a SAYGO system);
36. The role of the New Zealand Superannuation Fund;
37. Case for and against Voluntary private provision;
38. Case for and against Compulsory private provision;
39. Case for and against Tax Incentives for private provision;

⁷ For example, see the report of Capital Markets 2029, "an industry-led group, sponsored by NZX and the FMA, formed to identify ideas to improve and grow New Zealand's capital markets, taking a 10-year view" (EY Ltd., 2019).

40. Importance of transparent international agreements on pensions;
41. The importance of financial education/literacy/capability and a well-informed populace;
42. The importance of competent, well-regulated financial advice;
43. The 1993 Accord worked well (until it didn't); and
44. NZS works well – simple, relatively inexpensive (also meets criteria of adequacy, efficiency, certainty, stability, affordability, sustainability, flexibility, equitability and fairness).

Although there are more than forty themes listed here, it must be remembered that they have arisen over a quarter of a century, from seven major Reviews. There is a remarkable level of repetition and consistency in the language – certainly more consistency than divergence. Some themes have faded as they have been overtaken by events – for example technical questions related to workplace savings schemes fell away after the tax reforms of the late 1980s as the numbers of such schemes declined precipitously (Financial Services Council, 2019: p. 6).

The 1993 Accord was of central importance in the 1990s and much lamented in its passing, but not specifically referred to after 2003. However, the ideal of consensus on retirement income policies has not gone away.

Some issues have waxed and waned and remain unresolved. The relationship of retirement income policies to national savings, and the role of the latter in promoting economic growth, is one such case that demands renewed attention.

But most of the forty themes are ongoing and need to be continually revisited and checked against agreed parameters, purpose and priorities. This is what the Reviews have done.

Key findings and conclusions from Review Reports

There is a consistent narrative throughout all the Reviews that retirement income is best delivered by a mix of public and private sources, with voluntary, private savings and investments providing the degree of flexibility required to address diverse individual needs. Much of the policy debate is centred on what the appropriate public/private mix should be. The Reviews of the 1990s reflected a widespread (though not universal) assumption that private provision should ultimately replace that from the public purse. This view has gradually become less prominent, possibly as a consequence of being dismissed by serial Reviews⁸, although it has not disappeared altogether. The first two reports were also preoccupied with the tax treatment of private retirement savings and technical matters to do with workplace superannuation schemes, but these concerns have faded with the advent of more tax neutrality between different savings and investment options, and latterly the introduction of KiwiSaver.

Both public and private provision depend on a healthy, growing economy and private provision also depends on well-functioning financial markets and financially capable consumers. However, most consumers never be as well informed about financial products as are those working in the industry and they will need transparency and tailored, affordable advice delivered in well-regulated forms.

⁸ Also in keeping with international trends: “The OECD encourages countries to diversify the sources of retirement income and to strengthen the degree of funding in the overall pension mix through a combination of PAYG (sic) and funded, public and private provision. PAYG public and funded private pensions can be complementary. They offer different solutions for meeting the competing objectives of pension systems and have different capacities to cover the various types of risks that people face throughout their lives, both before and after retirement” (OECD, 2016, 2018).

KiwiSaver is a useful addition that will help many to maintain their standard of living in retirement, but housing, health, business ownership, taxation and labour market trends also impact significantly on retirement income and wellbeing in older age. These multiple elements underline the need for Reviews to adopt a holistic perspective on retirement income policy. Without Reviews, there would be no single lens through which to view the overall picture of current and future financial wellbeing.

The core element of New Zealand Superannuation (NZS) is relatively simple and works well, particularly in comparison to other countries' public pensions. Many Review reports have started from this position and extolled the virtues of NZS (see the extract from the 2003 PRG report on pages 15-17). But the overall retirement income system is complex and has multiple objectives and stakeholders. Many women, Maori, Pasifika, low income people and the "Old old" have vulnerabilities that policies need to take into account, in order to ensure equity and fairness. The system's performance needs to be continuously monitored and reviewed, but this requires better data - particularly longitudinal data - and more research than is currently available.

Demographic changes are likely to result in more costs, particularly in health and age care, that have so far not been fully considered within the retirement income framework. When these are added to the increasing costs of NZS itself, it is clear that New Zealand faces some fiscal challenges. The New Zealand Superannuation Fund (NZSF) is designed to help, but only a little⁹. The contribution of the community and voluntary sector, including families, to the welfare of older people is not always taken into account.

The specialist and technical nature of the required data analysis points to the benefits of continuity in Reviews. Regular Reviews prompt the updating of data, to ensure the quality of policy analysis is not compromised. Regularity also ensures that expert knowledge is kept up to date and built upon rather than lost (the wheel doesn't need to be reinvented each time). A "community of practice" means that researchers and analysts develop skills in integrating across the various domains related to retirement income policies. The alternative would be for each department or agency to relearn about retirement income policies, and integrate with others, every time the policies came up for review.

Public confidence and trust in retirement income policies can be maintained through a combination of continuous and periodic Reviews which act as a way of gathering feedback from the public and communicating policy issues such as trade-offs between competing objectives. The Reviews promote informed debate about the issues, help build consensus on overall objectives and understanding of the need for any changes.

Should changes to the retirement income framework be required in future, they need to be carefully thought through, based on consensus, signalled well in advance and carefully implemented.

Process

Just as there have been consistent policy themes, Review processes have had common elements. Generally, there has been oversight by a small Task Force, Review Group or Advisory Body, supported by a secretariat and a body of externally commissioned, independent research and consultation. Oversight of this sort has ensured access to a broad set of expertise and opinion, and

⁹ The NZSF will not reduce the cost of NZS, only the way in which it is funded in future.

the building of a consistent knowledge base¹⁰. The scope of Reviews carried out by the Retirement Commissioner has been somewhat constrained by being funded out of baseline budget, rather than having a ringfenced allocation.

Some background research has revisited issues which change little between Reviews. For example, demographic trends are well known, as is the importance of housing and employment to older people. It might be more efficient to commission fewer reports on the underlying issues, and then identify status “indicators”: e.g. latest longevity figures and population projections as they are produced by Statistics New Zealand; projections of the cost of NZS as they are updated by the Treasury; employment participation rates; housing ownership among older people etc. These could be displayed in a real-time “dashboard” on a website, heightening public awareness, rather than being produced in Review reports every three years. This would leave the Reviews themselves to focus more on engagement and higher-level outcomes.

In 2007, 2010 and 2013 the Retirement Commissioner convened sectoral reference groups representing government departments, Non-governmental Organisations and the Financial Sector. There was significant continuity of the personnel involved in these groups. Similarly, submissions have always been called for and received mainly from a recurring group of agencies with interests in retirement income or the welfare of older people. This overlap and continuity of people and agencies has been a mixed blessing. While on the one hand it has helped ensure stability and predictability (essential elements of retirement income policies) it has also led to charges of “capture” by experts and a degree of ennui among participants (“haven’t we just had a review?”). There remains a question as to whether Reviews should happen at three yearly, six yearly or some other interval, or whether they should be “rolling” or continuous. If they are to remain periodic, the responsible Retirement Commissioner should be allowed to both start and complete each Review, and to avoid Reviews happening in election years.

There has been relatively little input to Reviews from younger people who, to be fair, generally have better things to do than to engage in debates about retirement income policy. Some of these things will involve building their human capital, managing their finances and contributing to the economy that underpins NZS. In an ideal world however, younger generations would be thinking about and preparing for their retirements, even if by default.

Each Review has produced a final report for tabling in Parliament. In 1991-2, 1997 and 2013 one or more interim reports were also issued to provide an opportunity for members of the public to see what was being proposed, and a second chance for submissions. In 2016, the thinking behind the Review process was revealed in real time using a range of digital technologies. Indeed, the 2016 process stood in marked contrast to all those that had gone before, based on a claim that previous Reviews had been exclusive and inaccessible. This 2016 Review set out to engage more widely and certainly achieved greater breadth in terms of numbers of “hits” and other interactions with members of the public. It has however been criticised for lack of “depth”.

Getting the balance right between depth and breadth of Review processes remains a challenge. Possibly the best combined approach is to convene an expert, independent panel which takes

¹⁰ Although most background research has been lost to posterity and there is no longer a single archive, physical or electronic, of all the review reports let alone other documents described in this document. Future processes must give priority to ensuring that relevant documents are fully archived and accessible.

representative advice, involves officials at an early stage, commissions research, consults widely through multiple channels and communicates its findings in accessible forms.

High level impacts

The impacts of the Reviews are difficult to isolate from other contemporaneous events, but history suggests that their most significant achievement has been to “take the heat out” of the debate about retirement income policies, and to establish and maintain a crucial degree of consensus. The list of consistent themes which frame the debate is a testament to this success.

Retirement income policy in New Zealand had a turbulent history from the 1970s until near the end of the 20th century, with many chops and changes in policy (Bolger, 1998; Consultative Committee, 1988; Periodic Report Group, 1997b). Jim Bolger, Prime Minister between 1990 and 1997, wrote in his memoir that:

Superannuation has bedevilled New Zealand politics for the past quarter century (Bolger, 1998).

Starting with the 1991 Task Force on Private Provision, which was set up by Mr Bolger to bring calm at a particularly fractious time, Reviews have gradually built public and political confidence and trust in the Retirement Income Policy Framework. Major choices such as a voluntary approach to private saving have withstood repeated scrutiny and wild “lurches” in policies have stopped happening. Instead of lurches we have seen a more measured, gradualist approach, more akin to “water dripping on stone”. This is appropriate, as retirement income policies should be as stable and predictable as possible, with any changes based on sound evidence and signalled well in advance. As the Retirement Commissioner said in her foreword to the 2007 Review report,

One of my statutory duties is to regularly prepare an independent assessment on....how effective and stable our government’s retirement income policies are. This Review is important as it brings a non-political, fact-based assessment to a long-term issue that can be too easily driven off course by political, emotive or short-term expediencies.

Reviews have also been able to adopt a holistic perspective of the whole retirement income system, rather than the narrower view that would inevitably have applied by, say, a single government department. As befitting their role of periodically “taking the temperature” of the system, Reviews have engaged with members of the public, promoted informed debate and reflected the broad thinking of the time. General acceptance of overall objectives has been strengthened, as has understanding of the need for any changes in policies. In that sense, the *process* of the Reviews has been as important, if not more so, than the actual outputs.

The Reviews have also been a contact point and repository of leading-edge knowledge about and expertise in retirement income policies and mapped out areas where new knowledge and research are required.

Many New Zealanders either never knew or have forgotten the bitterness and anger that pervaded the politics of retirement income policies in the last part of the twentieth century. This is understandable, and it would be easy to take the success of the Review process for granted. A return to ad-hoc measures would risk reopening Pandora’s Box.

Rather than doing that, it would make more sense to continue with the Review model, and even to consider its application to other seemingly intractable areas of public policy.

Specific impacts

There has been a degree of repetitiveness in the Terms of Reference for each Review, particularly since the “hinge” Review of 2003 which was the last to be conducted before a 2005 amendment to the Superannuation and Retirement Income Act gave the responsibility for future Reviews to the Retirement Commissioner. Since this happened, although there has been a degree of negotiation between Retirement Commissioners and the Government about what is included in Terms of Reference, Commissioners have frequently addressed issues not strictly within those Terms. So, while there has been repetition, there have also been a few surprises.

Also repetitive however, have been Governments’ lukewarm responses to specific Review recommendations. Except for those of the seminal Todd Task Force Report and establishment of the Savings Product Working Group following the 2003 Review, relatively few recommendations of any significance have been accepted in their entirety, and several high-profile ones – particularly with respect to raising the age of eligibility for NZS – have been consistently and outrightly rejected. In part, this has to do with related developments already going on elsewhere in government. For example, in 2007, the Government referred many recommendations in relation to older people’s housing, employment, health and assets to a Population Ageing Working Programme (PAWP) which was presumably being designed and implemented by officials¹¹.

This lack of impact of specific Review recommendations does not detract from the overarching impacts identified above. It is also difficult to gauge the level of “comfort” given to Ministers from Reviews that reassured them that policies were in good working order.

But questions remain about the most effective ways to get traction with the Government and departmental work programmes.

In 2007, recommendations contained specific directives to government departments such as the Ministry of Economic Development (MED), Treasury, Ministry of Education, Department of Labour, Ministry of Social Development (MSD) and Inland Revenue. In some cases, these directives came with deadlines attached. In the experience of the author, government departments do not respond well to the directives of independent bodies and will act only on priorities that they have been part of developing, or on instruction from their own Minister(s).

That said, in 2007 officials *were* involved in a Retirement Income Steering Group (RISC) consisting of government agencies with an interest in retirement income policy, established to coordinate inter-agency research related to retirement income, and to report to Ministers annually on the retirement income work programme. The RISC model appears to have petered out after 2007 and should be reinstated, with a membership of at least Deputy Chief Executives.

To maximise their impact on policies, future Reviews should pay fresh attention to discovering the best processes for influencing government departments to engage with their recommendations.

¹¹ No trace of this working group’s deliberations or actions can be found. One of the advantages of the formal reviews, with reports tabled in Parliament, is that they provide permanent record of thinking about retirement income policies at particular times – even if these records do themselves become scattered.

Recommendations from this report

Future Reviews of Retirement Income Policy should:

1. Seek assistance from an expert, independent advisory panel and take representative advice, involve senior government officials at an early stage, commission research, consult widely through multiple channels and communicate findings in accessible forms;
2. Communicate clearly the features, benefits and weaknesses of NZS and the current New Zealand Retirement Income Framework before asking people if they want it to change;
3. Reinstigate the process of issuing an interim report containing a comprehensive outline of current issues and proposals for any changes to Retirement Income Policies, along with a rationale for those changes and allowance for public feedback to be incorporated in the final report;
4. Commission fewer reports on repeating and underlying issues such as the employment of older people, housing ownership, longevity and the projected cost of NZS, and instead identify status “indicators” and display these in a real-time “dashboard” on a website so that Reviews focus more on engagement and higher-level outcomes; and
5. Give priority to ensuring that relevant Review documents are fully archived and accessible.

The Commission for Financial Capability should:

6. Consult with government departments to determine the best processes for maximising the influence of Review recommendations on departmental policies and programmes. As part of this consultation, consideration should be given to re-establishing a Retirement Income Steering Group (RISC) with a membership of at least Deputy Chief Executives; and
7. Establish a forward programme of research and build New Zealand’s community of expertise in Retirement Income Policies.

The Government of the day should:

8. Confirm a standard set of Terms of Reference to guide all future Reviews, with provision for adding new terms, and without limiting the prerogative of the Retirement Commissioner to add Terms of Reference of their own;
9. Establish an officials’ working group to review the data requirements for future Reviews, and to implement measures to ensure that the required data is collected and made available;
10. Determine whether future Reviews are to be continuous or periodic, and if the latter, whether at three-year or six-yearly intervals;
11. Ensure that future Retirement Commissioners are appointed so that they can both start and complete each Review, and that Reviews avoid election years; and
12. Allocate a specific, ring-fenced budget for Review processes, including research.

The New Zealand Framework

The picture in 2003 still rings true

The 2003 Review of Retirement Income Policies was the first to be carried out after the passage of the Superannuation and Retirement Income Act (2001) but its terms of reference were still based on provisions of the previous Retirement Income Act (2003)¹². It was also the last to be overseen by a Periodic Report Group, before the Retirement Commissioner assumed responsibility through a 2005 amendment to the 2001 Act. The 2003 PRG Report therefore represents a “hinge” between two sets of Reviews. It is interesting to note that its outline of the New Zealand system of retirement income policy still rings true in 2019, thereby demonstrating the core stability and continuity of the overall framework. The indented text in this section is extracted verbatim from the 2003 report.

What public provision provides

NZS is not intended to be a complete form of retirement income provision. Along with its associated social welfare supplementary assistance, it provides:

- an adequate replacement income in retirement for low-income earners;
- an independent source of income in retirement for non-earners; and
- a base income for all retirees, to which they can add their own self-provision.

What private provision provides

While public provision does some things well, for most of the population, it leaves gaps that need to be filled by private provision. In the context of this report, we define private provision broadly to include private savings, assets such as the family home and businesses, income from work in retirement, and the support provided by family and the community.

Private provision is needed to provide:

- higher levels of income replacement in retirement for middle and upper-income earners; and
- a buffer to deal with large cash outlay needs such as those involved in replacing motor vehicles or paying for large unexpected medical costs.

The 2003 Terms of Reference required assessment and identification of areas of risk and unsatisfactory performance in relation to the private provision of retirement income. The PRG responded as follows (once again, all these points ring true in 2019):

Any assessment of risk and opportunity in relation to private provision needs to assess the issues related to today’s working age population. The relative strength of the factors that will determine the living standards in retirement of those yet to retire will be different than those for the already retired. Also, between working age cohorts, there are likely to be very significant differences. The lifetime experience of today’s 55 to 65-year-olds and the impact it had on their ability to make private provision for retirement will be very different to that of current 25 to 35-year-olds.

We take an approach that recognises that living standards in retirement reflect not only asset accumulation and public provision, but also the fact that asset accumulation will vary over a lifetime and reflect factors such as family commitments, access to paid employment and health. All of these factors impact on the ability to make private provision for retirement.

The 2001 Living Standards Survey shows that most older New Zealanders were doing quite well and had relatively few material restrictions and difficulties in terms of basic needs. The private provision older New Zealanders have made, combined with NZS, is sufficient to enable most older people to avoid hardship.

¹² See Appendix Two for a chronology of Reviews and associated developments.

The outlook for subsequent cohorts is more complex and dynamic.

New Zealanders save in many ways. Their main asset is their home, accounting for 36 percent of total asset value recorded in the 2001 Household Savings Survey. Financial assets, including bank deposits and superannuation, account for 16 percent of total asset value. The remainder is made up of businesses, trusts, farms and property.

However, the distribution of assets and income is uneven. The 30 to 40 percent of New Zealanders with low incomes are unlikely to have sufficient disposable incomes over their working life to save much for retirement. They will be largely dependent on NZS in old age. The top 10 to 20 percent of income earners appear to be accumulating adequate savings for retirement.

Consequently, middle-income New Zealanders are our key concern in terms of risks and opportunities in relation to the private provision of retirement income. They have some capacity to make private provision for retirement and, if they do not, many are likely to experience a significant fall in living standards on retirement. NZS will provide them with a basic income, though.

Initial analysis of the 2001 Household Savings Survey suggests that the current 45 to 55 age cohort is not under-saving as a group. For younger cohorts of middle-income New Zealanders, the picture is less clear, because the impact of their savings habits on asset accumulation is not yet observable.

We think there are a number of risks and opportunities that may impact on future cohorts' savings behaviour and these will require close monitoring in the future.

Increasing financial liabilities

There has been a rapid increase in household liabilities. While overall net worth of households has increased in recent years on the back of increasing house prices, household financial liabilities have increased from 74 percent of disposable income in 1992 to 130 percent in 2002. This largely reflects the impact of financial liberalisation increasing access to credit and it is not clear yet how it will impact on private provision.

Increasing financial liabilities are not a problem if households can service them. However, it raises concerns that access to credit may translate into future cohorts of middle-income New Zealanders not making adequate provision for retirement because easy access to credit may reinforce a tendency to consume today rather than save. For example, people may reach retirement with significant debt that will impact on their living standards.

Student loans

Student loans are now the most common form of debt for young New Zealanders. Initial evidence suggests student loan debt has modest effects on net worth¹³. However, the student loan scheme is still relatively new and most of those with student loan debt are under 35 years of age. How the existence of student loans impacts on the ability to save for retirement is not yet understood.

Home ownership

The risks and opportunities also relate to wider changes in the economic and social environment. A key emerging risk is the decline in home ownership. High levels of mortgage free home ownership on retiring, something that may not be the case in the future, contributes to the adequate living standards of those

currently retired. The interaction of home ownership and financial provision for retirement will need to be closely monitored and researched.

¹³ It should be noted that while a student loan creates a liability, it ideally also creates assets in the form of human capital and future income.

Changes in family structure

The trend for later childbearing combined with the increased longevity of older people may result in increasing numbers of people who have both dependent elderly parents and children to care for at the same time.

Longer working lives

The most notable emerging opportunity is the increasing participation of older New Zealanders in the labour force. This will contribute to improved living standards for those entering retirement. Understanding the extent of, and factors that lead to, increased labour market participation in older age requires further monitoring and analysis.

Attitudes

Another important opportunity is the changing attitude to old age. There is an increased blurring of life-stage and lifestyle, and baby boomers show every intention of ageing disgracefully. An active older population will contribute positively to living standards in the future and this should be facilitated and encouraged.

Early history

Although the current report is focused on the history of Reviews of Retirement Income Policies and not the policies themselves, it is useful to sketch out the evolution of the overall framework and to build understanding of how today's policies have come about. History also helps explain why Reviews were established and took the paths they did.

To get a sense of the deep historical roots of New Zealand's retirement income policies, keen readers are referred to the extract from David Preston's (2008) paper¹⁴, attached as Appendix One.

In short however, the history might be said to have begun in 1898 with the passing into law of *An Act to Provide for Old-Age Pensions*¹⁵. Fast-forwarding forty years, the Social Security Act 1938 installed a two-tier public pension system that was also to last for nearly four decades. The main feature of the 1938 scheme for pensioners was an enhanced, non-taxed but means-tested pension called the Age Benefit.

Preston (2008) describes what happened afterwards:

In the 1970s, three major changes took place:

- In 1972 the Royal Commission on Social Security recommended higher real pension levels, with parallel proposals for increased rates for other benefits. Pensioners received a boost in the real rates of Age Benefit and Universal Superannuation¹⁶;

¹⁴ <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/Background-papers/History-and-trends/27b4c9b6d8/RI-Review-BP-Retirement-Income-History-2008.pdf>.

¹⁵ A copy of the Act can be found at <http://nzetc.victoria.ac.nz/tm/scholarly/tei-GovActs-t1-g1-t4-g1-g3-t1.html>.

¹⁶ The Royal Commission also defined the responsibility of the state as ensuring 'that everyone is able to enjoy a standard of living much like that of the rest of the community and thus is able to feel a sense of *participation and belonging* to the community (Belgrave, 2012; emphasis added). Thus, in relation to pensions policy, it could be argued there was a progression from poverty alleviation in 1898 to wellbeing to participation and belonging, although all these factors are interrelated, and the later ones subsume, not replace, the earlier.

- In 1975 the third Labour Government set up a compulsory contributory superannuation scheme. Combined contribution rates for employees and employers were to be phased up to 8 per cent of earnings, funding individual contributions-related pensions at retirement¹⁷. The contributory scheme was short-lived and repealed by the newly elected National Government in 1976; so that
- In place of the contributory pension, the new Government announced a revised National Superannuation scheme for a taxable universal pension at age 60, effective from 1977. The new scheme meant the pension for a couple was to be set at 80 per cent of the average wage by 1978, and for a single person at 60 per cent of the married pension. There were no income or asset tests, and there was no requirement to be retired to claim the pension.

The new National Superannuation scheme involved a massive rise in costs, the result of higher pension levels, the abolition of the income test previously applied to the Age Benefit, and the increased numbers who qualified.

In 1985 the Government introduced a taxation surcharge on the other income of National Superannuitants. In the first year of the surcharge about 10 per cent of superannuitants paid the equivalent of their full superannuation back in surcharge payments, and about 13 per cent repaid a partial amount. The surcharge was highly unpopular with superannuitants. Over the period 1987 to 1990 tax concessions on contributions to private and occupational pension or superannuation schemes were abolished, as were tax concessions to the superannuation funds themselves.

In 1989 the Government announced it was suspending the then-80 per cent link of superannuation to wages. The renamed “Guaranteed Retirement Income” was to be adjusted by the lower of price and wage movement and intended to move in a band of between 65 and 72.5 per cent of net wages. The Government also signalled a future increase in the age of eligibility, although this was not to start until early in the 21st century¹⁸.

In 1990 and 1991 the new Government introduced three main sets of measures to further trim the cost of the pension:

1. Pension adjustments for 1991 and 1992 were cancelled, and from 1993 onwards rates were to be adjusted by prices alone. By this period wages were rising faster than prices, so the measure implied a downward trend in the pension-wage ratio.
2. The age of entitlement was lifted from 60 to 61 effective from 1992, with a further phased increase up to 65 programmed for the period 1993 to 2001.
3. The taxation surcharge rate was increased from 20 to 25 per cent and the income exemption lowered so that more superannuitants were affected by the surcharge. The tighter surcharge replaced an initial proposal for an income test on superannuation.

As a result of the changes affecting public pensions under their several successive names, the share of public pensions in GDP reduced from nearly 8 per cent in the early 1980s to just over 5 per cent by the

¹⁷ Progressively trading off against, and eventually replacing, public provision (Hanson, 1980 p 144); see also https://www.maxim.org.nz/looking_back_to_look_forward_how_welfare_in_new_zealand_has/

A major consideration of the Labour Government scheme, played down at the time, was the savings and investment potential of the superannuation fund (Hanson, 1980). As is often the case in retirement income policies, there were mixed motivations and objectives.

¹⁸As readers will notice, the name of the universal pension changed over the years: Old Age Pension, Age Benefit, Universal Superannuation, National Superannuation, Guaranteed Retirement Income, and finally New Zealand Superannuation. From here on - and following the lead of Harris (2012) - while not strictly accurate historically, this report uses New Zealand Superannuation (NZS) as referring generically to the universal, non-contributory, pension.

late 1990s, with major savings achieved. However, the speed and nature of the changes also produced considerable public concern over pension issues, a period of intense review of policy alternatives, and a search for political consensus on a more stable longer-term pension policy.

The first budget of the National Government elected in 1990 was dubbed the "Mother of All Budgets" which among other drastic cuts in public spending, particularly in health and welfare, reversed National's election promise to remove the tax surcharge on superannuation. Superannuation would also have been converted back into a welfare benefit (Todd, 2008). After a time of intense lobbying, the changes were overturned the following year (St John 1991). In his later memoir, the Prime Minister of the time wrote:

The superannuation issue would haunt me like no other throughout the time I was Prime Minister (Bolger, 1998).

Some, but not all, of the policy changes were reversed, and in an attempt to find consensus on retirement income policies, a Prime Minister's Working Group on Superannuation (aka a "summit"¹⁹) was convened at Parliament. This was the context for ushering in the series of Reviews discussed in the rest of the current report.

Harris (2012) sums up two features from the foregoing history that are distinctly (and at times uniquely) New Zealand:

- a. compulsory savings have never been favoured²⁰, and the brief experiment with it lasted about one year²¹ of our 114-year retirement income history; and
- b. at no stage have governments sought to replicate in retirement the incomes individuals earned during their working lives²² (this being seen as an essentially personal responsibility, albeit assisted at times with capped tax advantages and subsidies).

In 1991, the Task Force on Private Provision for Retirement was established, in part to look at the way these two features should interact in future. As its name implies, the focus of the Task Force (which became known as "The Todd Task Force" after its chair, Jeff Todd) was initially on private provision for retirement income, but it soon realised that this was inextricably tied up with public provision and had its terms of reference expanded to encompass both.

For the sake of readability, the discussion of each of the seven Reviews that follows is not formulaic and repetition has been avoided where possible, even where it exists in the Review reports. However, taken as a whole, the discussion aims to include a comprehensive treatment of key issues and themes across a quarter of a century of Reviews of Retirement Income Policies.

¹⁹ An event that has vanished from the written record.

²⁰ Never been favoured by policy. Compulsion has had its supporters, and still does.

²¹ It was actually nine months.

²² i.e. by topping up the basic income provided by NZS.

Review One: The Todd Task Force, 1991-92.

Terms of Reference

The Task Force on Private Provision for Retirement was appointed by the Government in October 1991, chaired by Mr Jeff Todd (hence known as the Todd Task Force) “to report on policy options to encourage greater self-reliance of retired people”. What follows is the present author’s digest of five reports from the Task Force (including two summaries). Direct quotes from the Task Force are indented:

The Government identified the following broad principles to be used in considering policies which could be implemented in the area of private provision for retirement:

- encouragement of greater financial self-reliance of retired people;
- promotion of inter-generational equity;
- promotion of economic efficiency in resource allocation; and
- promotion of fiscal sustainability.

The Task Force was commissioned to report on the following specific measures:

- tax treatment of private savings for superannuation and of superannuation schemes and other forms of long-term investments and schemes;
- compulsory contributions to private superannuation schemes;
- regulations for private superannuation covering vesting, portability, preservation and form of benefit;
- interface between private retirement income and state-funded retirement income;
- savings through home ownership and investment in business; and
- policies/regulations which impede savings

The Task Force was also asked to review other regulations such as restrictions on working age which impeded greater financial self-reliance of elderly people through employment, and to consider any benefits from harmonisation of retirement income regimes in Australia and New Zealand.

The initial terms of reference excluded a detailed examination of, and recommendations related to, public provision but the Task Force came to recognise there must be a close relationship between the two sources of retirement income. Indeed, in the final analysis they agreed that that integration in these policy areas was as important – both then and for the future – as the selection of the preferred option for private provision.

Accordingly, the Government agreed that the Task Force should report on the wider issues relating to the right mix of public and private provision, as well as on specific issues at the boundary between

the two²³. The Task Force ultimately saw its role as finding the best mix, and consultations with all groups revealed overwhelming support for this approach.

Strategy

The Task Force adopted a three-phased approach to its task. The first phase was completed with the publication of an interim report (Task Force on Private Provision for Retirement, 1991) outlining “*The Issues*” and designed as a framework for discussion.

The second phase involved seeking and considering further submissions and continuing consultations on *Options* and recommendations (Task Force on Private Provision for Retirement, 1992a). There were three versions of the “Options” report, including an outline of 8 pages. The other two versions were 129 pages and a huge 379 pages in length.

Given the three main strands of the treatment of private provision (compulsory, tax-favoured and voluntary) the Options reports were designed to give the public an idea of what each of the ‘ideal’ versions of the options would look like, and to provide concrete examples to discuss.

The third phase was the preparation of a final report to the Government on *The Way Forward* (Task Force on Private Provision for Retirement, 1992b). The objective of this phase was to put forward recommendations that the Task Force thought would be acceptable by New Zealanders as fair and sustainable, both economically and politically, over the long term.

Process

The Process used by the Task Force was exhaustive. A seminar programme based on “the issues” was held in 12 centres, attended by around 500 people, including leaders of groups representing unions, business associations including Chambers of Commerce, various ethnic groups, employers’ and manufacturers’ associations, the farming community, women’s support groups, national superannuitants and people with disabilities. This was in the context of anger generated by the “Mother of all Budgets” and subsequent policy reversal over restructuring of the public pension and aimed to ensure that the right issues had been chosen²⁴.

Despite the Task Force’s best efforts, younger people were not well represented, possibly because of the timing of seminars during the day. However, the Task Force planned a series of youth forums to follow publication of the interim report. The Task Force reported that it believed the seminar series:

Provided people with a sense of confidence that the Task Force process was thorough, and it was being conducted with a high degree of political independence.

The Task Force met with local press, radio and TV in each locality. Their presentations and the discussions which followed were primarily aimed at those not currently in retirement – the objective

²³ As publicly reported. However, the Task Force, having noted that the Joint Cabinet/Caucus Committee with responsibility for the review of public provision had done nothing while the Task Force had deliberated on private provision, suggested the Task Force’s brief be widened – a suggestion enthusiastically embraced by the Committee (Todd, 2008). This is perhaps an example of how retirement income policy is “too difficult” to be left to politicians alone.

²⁴ “The initial hostile reaction we received from many who attended these seminars disappeared when we explained what we were trying to do - explain the issues not discuss the problems of the past (mainly with politicians) or the solutions for the future” (Todd, 2008). It seems that as well as “taking the temperature”, the Task Force took the temperature down.

was to hear the views of a wide range of people and create an environment which stimulated open discussion on the issues involved. The Task Force noted that:

The seminar programme highlighted a general lack of understanding of many of the practical issues involved in private provision, and we have concluded that this lack of understanding has arisen largely through successive governments having indicated that the state would accept responsibility for providing income to all New Zealanders throughout retirement.

The Task force compiled an extensive mailing list and published newsletters to keep people abreast of developments, and carried out a survey of attitudes to retirement; accessed findings of a Department of Social Welfare (DSW) survey on retirement provision; interviewed 20 providers of retirement savings products, sent a questionnaire to 12 other countries and got nine responses and met with ASFONZ (Association of Superannuation Funds of New Zealand) in Christchurch, Wellington and Auckland.

There followed a second, more extensive round of public discussions on the options. The Task Force conducted:

- a series of seminars for community leaders in 14 centres around New Zealand;
- three youth forums;
- two seminars for financial services providers;
- a hui with Maori leaders;
- a seminar for the National Council of Women;
- a Pacific Island forum; and
- numerous presentations for industry and community groups.

We received numerous letters and submissions. While we did not formally ask for submissions, we encouraged people and groups to write to us if they wished to comment on our work. The submissions we received were generally well researched and we responded to most of them (Todd, 2008).

The New Zealand Institute of Economic Research (NZIER) was commissioned to review the validity of two models of National Superannuation costs: a DSW model and the Task Force's own model. It was found that the Task Force model was better for examining the long-term affordability of National Super, and so the options paper used this approach to model the current regime with one exception: it assumed a floor of 65% of Average Weekly Earnings for the couple rate of National (sic) Superannuation.

The conclusions drawn by the Task Force from the results presented by the NZIER and from their work on the model were as follows:

- the recent changes to National Superannuation²⁵ had significantly improved its fiscal affordability;

²⁵ There had been changes in indexation and the surcharge, and introduction of a phased increase in the age of eligibility.

- the modified superannuation system introduced from 1 April 1992 was broadly sustainable, but subject to significant risks. “We believe a prudent government would identify and analyse these risks in order to reduce and manage them”;
- fiscal risk should be further reduced by ensuring that private provision increased;
- economic growth was a very important factor in the model, but very difficult to control;
- policy options for increasing private provision for retirement should be carefully assessed for their indirect effects on growth;
- people should be educated now about the need for private provision; and
- New Zealanders had time to control for the impact of demographic changes over the next 20-60 years.

These conclusions were fundamental, in that they underpinned the design of all three of the Task Forces’ options and ultimately helped to guide the choice made between them.

In common with almost every Review since, the Task Force also called for better data:

- to determine the scope to increase private provision for retirement;
- To identify characteristics of target groups which would help with policy design for the options;
- to assess what impact other policies had on private provision for retirement; and
- to assess the effects of their options on equity and economic efficiency.

The common feature of all these questions is that they require information on how people’s economic circumstances vary over their lifetimes, in particular their income, expenditure, savings, wealth and paid employment. Neither the basic statistics nor the analysis into typical life cycles for various groups in society exist at present.

...better statistics and research will help resolve some difficult areas of debate about individual affordability and related policy issues. Currently, these debates lack a clear factual base. However, we realise that some subjective judgements will always be involved. For example, data on typical patterns and levels of expenditure before and after retirement can show what people spend, but not what they need, i.e. it can illuminate, but not resolve, the issue of *adequacy* of retirement income.

A second area of subjective judgement is whether the government *should* persuade or compel people to spend less, earlier in their working lives, on things like raising families and acquiring their own home, so these people can have more to spend in retirement.

Reducing disagreements over facts should help to develop and maintain consensus about retirement policies.

The focus of the Task Force’s second report (on options) was on explaining technical aspects, arguments for and against three options and implications of each for private provision. The three options were:

- Voluntary private provision;
- Compulsory private provision; and

- Tax incentives for private provision.

The preferred option:

Having considered the options available, and having listened to a diverse range of comment and criticism of their “model” options, the Task Force came to a unanimous conclusion to recommend:

- Improved voluntary private provision; *and*
- Its integration with continuing public provision paid on an income-tested basis; *plus*
- Agreed rules for reviewing the preferred regime every six years; *reinforced by*
- Public and political consensus and a much-improved public understanding of retirement provision issues.

The Task Force recognised the risk that the improved voluntary option may not achieve the required changes in people’s savings behaviour, so thought that if, at the time of the first Review in 1997, there had been insufficient improvement in long-term savings indicators, it would be inevitable that the Review team would need to give serious consideration to a compulsory savings regime.

In evaluating the three options, the Task Force returned to key criteria in the original Issues Report as the hallmarks of a good retirement provision system:

- a good return on savings;
- financial security;
- fairness;
- flexibility; and
- and affordability.

These criteria all related to a retirement provision system as viewed from a personal perspective – that is the viewpoint of individuals, families and communities – and the Task Force accordingly measured each option against these criteria. They also evaluated each option from the perspective of employers, the savings industry and the Government.

Arguments in favour of relying solely on voluntary private provision (the option finally recommended) have echoes in the design of KiwiSaver more than ten years later (see page 43):

- It gives people flexibility to ensure that how they save for their retirement reflects their own circumstances;
- It allows individuals to save what is affordable for them;
- It promotes more competitive financial markets, which will provide retirement savings products more effectively tailored to individuals’ savings needs;
- It may lead to higher rates of economic growth because financial markets could be more competitive, savings could be invested more efficiently, and the labour market could become more efficient and productive;

- It allows change to occur gradually and so does not impose adjustment costs on the economy in the short term; and
- If it leads to higher rates of economic growth, it is likely to lead to faster tax revenue growth and ultimately make New Zealand Superannuation more affordable.

The National Government and both the Labour and Alliance Opposition parties participated in the Task Force consultative process. In response to the Task Force's wishes (and reflecting what people had told them during the consultation process) all parties expressed a willingness to explore further a basis for consensus that would eliminate the risk of political influences destabilising the proposed integrated policies.

The Task Force also recommended the appointment of a Savings Ombudsman and made proposals about the availability of inflation-indexed bonds, taxation matters, financial education and advice, the appointment of a Retirement Commissioner and issues around matrimonial separation.

They thought a six-yearly Review of Retirement Income Policies should be held in the middle of an election cycle, with the first of these to follow the 1996 census, thereby allowing enough time for the new voluntary regime to be assessed and to draw on a prescribed "work programme", including research and analysis.

Legacy

In a 2008 presentation on the Task Force's achievements, Jeff Todd reflected that:

Many labelled the Task Force's main recommendation as the "do nothing" option. The Task Force on the other hand was at pains to explain that this was probably the most difficult of the three to maintain – hence the recommendation that the Retirement Commission be given the recommended roles and that the process be reviewed every six years (Todd, 2008).

In spite of criticism, the Task Force managed to calm the debate and achieve a degree of acceptance among political parties and other stakeholders with divergent policies and interests. The Prime Minister wrote a letter of appreciation to the Task Force in which he observed:

Although it is too early to say with any certainty what the final result will be, you and your Task Force have certainly exceeded the expectations of many of those who have wrestled with these issues in the past. To have secured a solid endorsement from the industry and the political parties for your improved voluntary regime is in itself a major achievement. I know you are confident that, with appropriate education and information, widespread public support will follow (As reported by Todd, 2008).

Through 1993, an Implementation Group brought the Task Force recommendations into practical effect. The most significant piece of work was the development of the Retirement Income Act 1993 which came into force on 1 April 1994, and which gave legislative form to most of the Task Force recommendations. Specifically, the Act created the role of the Retirement Commissioner and established the programme and arrangements for the preparation of "Periodic Reports" on Retirement Income Policies, the first of which was required to be prepared by 31 December 1997 and then at 6-yearly intervals thereafter. Other work was done on investor information and this was incorporated into the Financial Reporting Act 1993.

The second stream of work began in late February 1993 with a meeting called by the Prime Minister and attended by Mr Bolger, Labour leader Mike Moore and Alliance leader, Jim Anderton. The objective was a National-Labour-Alliance consensus on superannuation, and a cross-party Accord was eventually reached (and attached as a Schedule to the 1993 Act).

Jeff Todd (2008) reported that the headline on the front page of the New Zealand Herald on 26 August 1993 proclaimed that the “Accord ends decades of super upheavals”.

The Todd Task Force’s extensive process of consultation and research established a model for others to follow. Indeed, it might be argued that the Todd process could be applied to other controversial and seemingly intractable areas of public policy. In some senses, the *process* itself was an *outcome* in that it raised awareness of retirement income policies in a structured yet consensual way.

The Task Force’s findings laid the Foundation of a Retirement Income Framework that has stood the test of time. Although the political Accord did not last, and there were later additions made to the framework, the basic principles of a voluntary system of private provision, integrated with public provision, have been reaffirmed by subsequent Reviews. Perhaps most importantly, after the upheavals of the previous fifteen years, the Task Force initiated a period of nearly thirty years of relatively predictable, if not stable retirement income policy.

Review Two: The 1997 Periodic Report Group

Context

The years between the Todd Task Force and the 1997 Periodic Reporting Group (PRG) Review were momentous ones for the retirement income framework. Firstly, the age of eligibility for publicly funded superannuation had begun to be raised from 60 to 65, in increments every year from 1992 to 2001²⁶. A Transitional Retirement Benefit was provided for the age cohort most affected by the increased age of eligibility²⁷.

As outlined in the previous section, in keeping with the wish for consensus expressed by the Todd Task Force, in 1993 an Accord was signed between the major parliamentary parties and appended to the new 1993 Retirement Income Act. The United Party also signed the Accord in 1995.

As recommended by the Todd Task Force, the Accord contained two statements of principle regarding the way NZS rates should be adjusted:

- The purchasing power of NZS should be maintained; and
- Incomes of those who receive NZS should maintain a fair relationship with the income of those in the paid workforce.

It was negotiated in the Accord that the after-tax weekly rate of New Zealand Superannuation for a couple should not be less than 65%, nor more than 72.5%, of the average after-tax ordinary time weekly wage. This wage band test “was not based on a firm empirical foundation” (Periodic Report Group, 1997b).

Also endorsed was the principle that the amount provided from public funds should reduce as the person’s total income increased (the “surcharge” remained).

Following the signing of the Accord, there were a few years of stability in retirement income policies. But by 1996 differences emerged among the political parties about the best direction of longer-term policy, including the future of the surcharge (Preston, 2008).

In 1997 the PRG evaluated the Accord and found that it had achieved some notable successes. Notwithstanding this,

The Accord Parties have found it difficult to maintain consensus. Success was undermined by a lack of broad public understanding and support for the Accord. In the 1996 election, alternative regimes were offered without arousing public concern about their impact on the Accord. The PRG recommends that the role of the Retirement Commissioner be widened to include offering an independent public voice on retirement income policies.

The PRG found that the Accord allowed for some policy differences, but in the event gave parties insufficient flexibility. The group thought tensions between government and non-government parties in a multi-party agreement would never be fully resolved but allowing for some policy differentiation would help. The acid test of an agreement would how it managed change from one set of policies to another.

²⁶ The Government made this decision before the Todd Task Force which saw no need for it to be changed. The raising of the age was a reset to the age of eligibility that was in place up until 1977.

²⁷ At the time, there was also a 55+ Benefit which was essentially the Unemployment Benefit for people aged 55 and older, but it allowed people to allow for a more relaxed work test after a period of time.

The 1996 General Election - the first to be held under MMP - resulted in a coalition between the National and New Zealand First parties. New Zealand First had not signed the Accord, was committed to abolishing the surcharge which was still in place and favoured a compulsory superannuation savings scheme. The Coalition Agreement provided for a referendum on such a scheme, to be held in 1997.

It was at this point that the Periodic Report Group was asked to bring forward an interim report on its 1997 Review, in part to help inform voters in the referendum about key issues. The interim report, issued in July, had some rather terse things to say about this:

The compulsory Retirement Savings Scheme to be tested by referendum in September has been designed by a separate team, working to entirely different terms of reference.

When the PRG's terms of reference were set, a referendum was not envisaged as part of the process for development and management of retirement income policies, and in that sense it is not related to our work. However, throughout the early part of 1997 a working relationship was maintained between the PRG and the Retirement Savings Scheme design team. Resources were pooled to develop models with a common statistical base (Periodic Report Group, 1997a).

The 1997 process seems to have been mainly a desk exercise and consultation was limited – possibly because of the requirement to issue the interim report. This interim report was in two parts: the first took stock of the current retirement income policy regime; the second was intended to be more useful for people looking for information when considering how to vote in the referendum.

In addition, Terms of Reference for the Review were specified in the Retirement Income Act 1993, and required the Periodic Reference Group to include in its report:

- a description of the trends and likely future developments that will affect, or will be likely to affect, retirement income policies;
- comment on whether the emerging trends of public and private provision of retirement income are adequate, efficient, equitable and sustainable;
- identification of areas of risk or unsatisfactory performance in relation to the provision of retirement income; and
- suggestions for adjusting any of the retirement income policies (where, in the opinion of those preparing the periodic report, such adjustment is desirable).

The PRG (which was also chaired by Jeff Todd) commented on developments since the 1992 Task Force:

In the course of our work we have noted a high level of success in the implementation of many of the recommendations of the Task Force. In some areas however, including the collection of more and better statistics, progress towards full implementation has been disappointing. In addition, some political developments, and in particular the inability of the political parties to maintain a consensus on the NZS surcharge, have been unhelpful.

On the other hand, the Accord's key principles, of maintaining purchasing power and a fair relationship of retirement income with that of those in the paid workforce, had been put into effect through the annual adjustment process set out in legislation. The PRG noted that the Consumers Price Index (CPI) had limitations for this purpose and that since the Accord was signed, Statistics New Zealand had started to publish a more relevant Superannuation Price Index (SPI). However:

We think there is broad merit in retaining the CPI for adjusting NZS, because it is a broad based, well known and accepted index. The problem of different price movements affecting different households cannot be addressed by introducing a range of price indexes, unless the Government also introduces separate payment rates for each type of household. We suggest that a better approach to the protection of purchasing power is to have a standard rate of NZS, indexed by the CPI, with a targeted supplement for those experiencing higher than average basis living costs, and/or a living alone allowance.

Following the referendum

The proposed Compulsory Retirement Savings Scheme (CRSS) that was put to the voters in September 1997 involved contribution rates rising from 3 to 8 per cent of income between 1997-98 and 2002-03, matched by an “equitable programme of tax cuts”. It provided for compulsory retirement annuities to be paid at age 65, purchased from individual contribution accounts with the Government providing capital “top ups” for those who had been unable to reach the required CRSS savings target. Over time the build-up of CRSS annuities was to be matched with a phase down in New Zealand Superannuation.

80.3% of the population voted in the referendum, and 91.8% of those voted against the CRSS.

The PRG then issued its final report in December 1997 (Periodic Report Group, 1997b).

Taking the two reports together, the PRG concluded that tax-funded provision of retirement income had served New Zealand well over many years and was flexible enough to continue to do so into the future. The interim report was notable for the attention it paid to the prevailing economic environment and changing patterns of labour force participation, income and savings. Economic conditions were looking more positive in 1997 than they did in 1992 and provided a stronger base for retirement income. However, the PRG warned that variations must be expected over time.

The PRG did not have the capacity to consider everything it wanted to and anticipated the Savings Working Group, although this was not to be set up for another 13 years. The perennial plea for better data was also made:

Saving is a complex subject and requires careful consideration by experts. We recommend that an expert group should be established, possibly under the auspices of the Government Statistician, with the participation of the Retirement Commissioner. This Group should consider, among other things, the specific data requirements, the design and coverage of surveys and the frequency of collection.

In response to this recommendation, a working group was established to assess what needed to be done to meet the statistical requirements for future periodic Reviews.

The PRG found there had been little research into the living standards of retired people, and the frequency and causes of hardship. There was a need for better information about variations in those living standards. The group thought that it was not possible to measure the optimal level of private saving, although indications were that levels were too low.

Looking forward, the Government had announced its intention to abolish the surcharge from 1 April 1998. The PRG regretted this, as it believed the link between public and private provision would be lost, and there would no longer a means of reducing NZS as a person’s other income increased (it seemed to be assumed that this had to happen, one way or another). For this reason, the PRG devoted attention to the ways in which private and public provision could be integrated again but noted that the surcharge had been a matter of controversy since its announcement in 1984.

We support targeting. But recent history shows it is important to build public consensus, before introducing targeting mechanisms. We regret the abolition of the surcharge, but it does provide time to better inform and educate people about the need for policy integration using a fairer mechanism than the surcharge.

Frequent changes in the surcharge mechanism had also made it difficult for people to plan, though considerable scope existed for people to arrange their financial affairs to reduce their surcharge liability. Since 1992, there had been an increase in the value of investments marketed as “surcharge effective”. The PRG recommended that the next Review reconsider the surcharge (it didn’t) and outlined a process by which it might be possible to develop consensus over time.

More generally, public provision had changed its character several times over the past 25 years, making it difficult and frustrating for people to plan:

We cannot remove all certainty, but large frequent swings in policy should be avoided, and those dependent on NZS should have their absolute living standards protected

The last word on 1997 goes to Jim Bolger, who wrote in his memoir that when he looked back over that remarkable year, and all the controversies it contained, he believed that it was

...the ‘super’ referendum that destabilised the government most because Ministers were speaking out strongly on both sides of the issue and the essential single-mind focus was lost (Bolger, 1998)

It’s interesting to note that it wasn’t a single issue that he picked out, such as the surcharge or age of eligibility (so-called “third rail” issues)²⁸ but the lack of agreement on retirement income policies as a whole. It has taken the Review process to correct this problem through holistic oversight.

²⁸ A much-used cliché which doesn’t necessarily resonate with many New Zealanders not used to mass transit. Electric trains run on two rails with a third rail that delivers electric power. If you touch that one, you die.

Review Three: 2003 Periodic Report Group

The 2003 Review by a newly constituted Periodic Report Group (PRG) was a case of “steady as she goes”, although there had been some significant changes in the environment since 1997 and there were clouds on the horizon. The foreword of the final report (2003) had this to say:

Those who may have expected the 2003 Periodic Report Group to promote major changes of direction will be disappointed²⁹. Preparing for old age is a long-term project. Changes will be necessary but these must be signalled and implemented well in advance and the position of those in retirement and close to retirement must be protected. Sudden changes of direction are not helpful.

New Zealand is fortunate in that it has a window of opportunity before the population begins to age rapidly, but that window is closing and we must use the available time wisely. Our report is presented with this in mind.

The PRG noted that the period since the 1997 periodic report had been one of significant change in the funding of public provision, but little change in private provision and related policies. The Accord on Retirement Income Policies, while still existing, had fallen into disuse since 1998.

The most significant change in public provision was through the introduction of the New Zealand Superannuation Act 2001, which provided for the unchanged entitlements to NZS and created the New Zealand Superannuation Fund.

In the context of private provision, the most significant policy development since the last PRG report had been the increase in the top marginal tax rate. In 2000, the top marginal tax rate was increased from 33 to 39 percent, resulting in a tax benefit for high-income earners who invested in registered superannuation schemes because the schemes were taxed at 33 percent, in contrast to their marginal tax rate of 39 percent. Also, employer contributions to schemes were taxed at 33 percent rather than at the top marginal rate (still an over-taxation for those on marginal rates of less than 33 percent).

The wider economic environment for the private provision of retirement income had been in flux.

After recovering from the Asia crisis in 1998, the New Zealand economy had experienced a period of good growth. In the previous four years, GDP had increased, on average, around 3.5 percent a year.

At the same time, the global equity markets moved from a strong ‘bull’ market before 2000 to a strong ‘bear’ market, resulting in negative returns to most equity investment schemes. As a result, there had been a decline in the absolute level of household financial savings. However, it appeared this trend may have been coming to an end, with recent data showing a significant and positive turnaround in equity prices.

Household financial liabilities had risen steadily over the previous six years, from 106 percent of disposable income in 1997 to 130 percent in 2002. However, on the asset side of the household balance sheet, the value of houses had risen to more than outweigh increasing debt levels and declines in the value of financial savings. Consequently, household net worth had risen.

It was noted that student loans were now the most common form of debt for young New Zealanders. Initial evidence suggested modest effects on net worth. However, the student loan scheme was still relatively new and most of those with student loan debt were under 35 years of

²⁹ A rather cryptic comment. At this distance, and without further research, it is intriguing to speculate on who might have been “those who will be disappointed”.

age. How the existence of student loans impacted on the ability to save for retirement was not yet understood.

The PRG noted that it was widely believed that people typically did not save adequately for retirement. However, there was no unique measure of adequacy, and even if there were evidence people were making inadequate savings, it might simply be that these individuals had *decided* not to save 'adequately' (italics added). Nevertheless, the Group commissioned work based on data from the 2001 Household Savings Survey to address the question *are retirement savings adequate?*

After allowing for the income from NZS, the researchers estimated what stock of wealth at retirement would be needed to maintain post-retirement consumption at pre-retirement levels (consumption smoothing) and then they estimated the saving rate needed until retirement to achieve that goal. They found a wide variability in this prescribed saving rate across both income and wealth levels. However, some initial evidence suggested the prescribed saving rates were consistent with the actual pattern of saving observed among households aged 45 to 55.

Based on their definition of adequacy, the researchers found no significant evidence of gross under-saving for retirement by New Zealand households in this age cohort. This, of course, did not mean some individuals might have been saving at a rate that they may later come to view as too low. There was undoubtedly a distribution of individuals at every wealth level with some saving below the prescribed level and others above the level. But for the cohort as a whole, the evidence did not appear to support a claim that New Zealanders aged 45 to 55, as a group, were under-saving.

The analysis also illustrated the importance of NZS when any decisions are made about the adequacy of retirement savings: for the lowest 40 percent of the income distribution in the 45 to 55 cohort, 90 percent of their total wealth in retirement would come from NZS. The researchers concluded that, among the lowest 40 percent of the income distribution, lifetime welfare would be reduced if these groups were to increase their current savings and reduce their pre-retirement consumption. Those in the top deciles appeared to be making adequate provision for their retirement.

Consequently, it was middle-income New Zealanders who were the PRG's key concern in relation to the private provision of retirement income. They had some capacity to make private provision for retirement and, if they didn't, many were likely to experience a significant fall in living standards on retirement.

The PRG repeated a call for ongoing data and research to give estimates of net worth at different points in time. The 2001 Household Savings Survey had been an important step forward³⁰, but only a first step, and should be repeated over time. This would enable:

- cohort effects to be monitored, such as the impact of household debt;
- estimates to be made of household savings rates; and
- policy changes on savings behaviour to be tested.

In this context, the PRG's focus was on assessing the impact and role of private provision on retirement income, rather than attempting to re-examine all retirement income policies. The Terms

³⁰ But was never repeated. Its place was taken by, among other things, the Survey of Family Income and Employment (SoFIE) also now discontinued, and a module of the Household Economic Survey: (see http://archive.stats.govt.nz/browse_for_stats/people_and_communities/Households/HouseholdNetWorthStatistics_HOTP_YeJun15.aspx).

of Reference for the 2003 Review had a familiar look about them (they were still largely drawn from the 1993 Retirement Income Act). The PRG was required to include:

- In relation to the Government's retirement income policies, an update of the trends, and the likely future developments, since the production of the 1997 periodic report that will affect, or will be likely to affect, private provision of retirement income;
- A commentary on any changes to the Government's retirement income policies since the 1997 periodic report and their effect on the private provision of retirement income;
- An identification of areas of risk or unsatisfactory performance in relation to the private provision of retirement income;
- A commentary on the interface between private savings for retirement and other savings undertaken during the life cycle for pre-retirement purposes;
- A commentary on the ability of specific population groups, including women, Māori and Pacific peoples, to make private provision for retirement income; and
- Suggestions for the adjustment of any of the Government's retirement income and savings policies in order to enhance the provision of private retirement income, including those relating to: - mechanisms for Government, employers and the savings industry to work collaboratively together to promote employer-based superannuation, and - the impact of the tax system on the private provision of retirement income.

To ensure there was opportunity for interested parties to have an input into their deliberations, the PRG undertook a consultation process that was wider than that carried out in 1997, but nowhere near the Todd Task Force's extensive exercise in 1991-92.

The 2003 PRG wrote directly to key individuals and organisations to give them the opportunity to share their views. At the same time, they placed notices in the major newspapers seeking submissions from the public. 52 written submissions were received, and meetings were held with some of the submitters and others, including the Minister of Social Development and Employment and Minister of Finance, and representatives of four other political parties.

Background papers were also prepared to aid the group's understanding and analysis of retirement income issues. It was made clear that the views expressed in the background papers were those of the author(s) and did not necessarily reflect the views of PRG 2003. This caveat has remained throughout subsequent Reviews.

Findings

The PRG Report's Executive Summary provides an excellent overview of where things stood in 2003, and highlighted the continuity of views on a core question, dating back to the Todd Task Force:

The issue of whether a voluntary approach to private provision in combination with New Zealand Superannuation (NZS) is the best means of ensuring adequate income and living standards for retired New Zealanders, while at the same time facilitating economic growth, was extensively analysed by both the 1992 Task Force on Private Provision for Retirement and the 1997 Periodic Report Group. We also propose no change from the current voluntary approach to private provision, nor have submissions reflected a strong interest in departing from the current voluntary model.

The PRG did however identify several refinements to the current policy approach that aim to bolster private provision. Their focus was on middle-income earners and recognised that NZS was not

designed to provide complete income replacement for this group. Many could save more³¹ and if they did, their private savings would contribute to the maintenance of living standards in retirement.

The Terms of Reference included considerations of mechanisms to promote Work-based savings, and the PRG called for establishment of a work-based savings group to report by end of 2004. In the event, such a group was set up and its recommendations led to the introduction of KiwiSaver in 2007. Although the extent to which this new development was inevitable is difficult to gauge, it remains as probably the most significant since the Todd Task Force that can be traced directly to a formal, structured Review of Retirement Income Policies.

The PRG also noted that New Zealand's move from a regulated to a deregulated financial market over the previous 20 years had resulted in a rapid increase in the number and complexity of financial products and services. This in turn had increased New Zealanders' need for clear and impartial education and information.

The Group continued to favour a broadly neutral tax system, with disparities and resulting distortions removed as far as possible. Distortions that still needed to be addressed included those related to savings via the capital/revenue boundary, inconsistent treatment of domestic and foreign investments, and the over-taxation of low to middle-income earners in some retirement savings vehicles. The PRG recommended that the Government should give priority to addressing these distortions in its tax work programme.

No strong case was found for using tax incentives to increase private provision. However, the PRG believed that if Governments were to choose to introduce some form of tax incentives for savings, the design of such incentives should focus on the needs of low and middle-income earners.

The key compliance cost identified was the requirement that employer superannuation schemes maintain a prospectus, and the group supported proposals before Parliament to remove this requirement.

Finally, the PRG suggested there was merit in considering a self-regulatory regime for financial advisers and recommended that the finance sector present Government with an agreed approach by the end of 2004.

With respect to addressing the projected medium-term fiscal pressures of NZS, the PRG mirrored the 1997 report with its three main options, although none of these was specifically recommended:

- Altering the age of entitlement to NZS, by either increasing the age or possibly making the age of full entitlement to NZS more flexible. We recognise that working after the age of 65 is easier for people in non-manual work and in good health. If future Governments change the age of entitlement, they will need to make provision for low-skilled and manual workers who are unable to continue work and have no other income;
- Altering the way NZS rates are set. Options that could be considered include the link to wages and the pension to wage ratio; and/or
- Targeting NZS entitlements against other income or assets. This has equity arguments in its favour, but this approach has proved extremely unpopular in New Zealand.

³¹ Recalling the 1997 PRG's group of "those who can but don't".

In the body of the report was an interesting finding about public confidence in retirement income policies. While most New Zealanders remained sceptical about the stability of retirement income policy, they were less so than they were four years previously:

A recent Retirement Commission survey found that New Zealanders were now more inclined to agree with the statement: “there is now a stable political environment in which to plan for retirement”. In 2003, 35 percent agreed with this statement, compared to 19 percent in 1999. Disagreement decreased from 63 percent to 41 percent.

There was also increasing agreement with the statement: “there will always be Government help for people who can’t or don’t manage to make provision”. Levels of agreement increased from 27 percent in 1995 to 47 percent in 2003. Perceptions of the Government’s ability to afford to maintain NZS at current levels were also increasing, although disagreement still outweighed agreement (45 percent disagreement versus 33 percent agreement).

Structure of the Review

To get an idea of how the PRG organised the 2003 Review and what underpinned its recommendations, it is instructive to look at the structure of the final report:

- *Chapter One, ‘Context’*, established the wider context for analysing private provision, focusing on the changing demographics, the importance of economic growth and the impact of recent policy changes on private provision;
- *Chapter Two, ‘Private provision: the risks and opportunities’*, reviewed the risks and opportunities related to private provision for retirement income, focusing on savings and the living standard of New Zealanders;
- *Chapter Three, ‘An ageing population: the fiscal pressures’*, addressed the fiscal risks related to an ageing population and the need to discuss these issues;
- *Chapter Four, ‘Work-based savings’*, reviewed the current role of work-based savings and how that role could be developed in the future;
- *Chapter Five, ‘Personal financial education and information’*, reviewed the education and information on private provision for retirement income provided to New Zealanders and how it could be developed in the future;
- *Chapter Six, ‘Issues for women, Māori and Pacific peoples’*, considered the issues from the perspectives of women, Māori and Pacific peoples;
- *Chapter Seven, ‘Taxation of savings’*, reviewed the taxation of savings and how the tax regime might best ensure the consistent treatment of savings;
- *Chapter Eight, ‘Financial services market and regulation’*, addressed the regulation of the financial services sector and the means to minimise the related costs; and
- *Chapter Nine, ‘Implementing PRG 2003’s proposed work programme’*, focused on the post-PRG process and the implementation of a work programme to address the risks and opportunities related to private provision.

Not specifically mentioned in this outline is the direct deduction policy for overseas pensions, which was addressed in the report, and has encompassed a long-running, seemingly intractable set of issues.

Implementing PRG2003's recommendations and proposed work programme

The recommendations of the Periodic Report Group 2003 are shown in Table two.

PRG2003 was chaired by the Chief Executive of the Investment Savings and Insurance Association of New Zealand and included the Retirement Commissioner as one of three other members. It was serviced by a secretariat and received assistance from officials from the Retirement Commission (the office set up to support the Commissioner) Treasury, Ministry of Social Development and the Inland Revenue Department. The PRG was not satisfied with merely making recommendations and developed a work programme and research agenda for the Retirement Commissioner to implement in the lead up to the next Review of Retirement Income Policies.

However, the group also thought that policy Reviews occurring only once every six years were too far apart to adequately inform retirement income policy. They pointed out that by the time of the next scheduled Review in the year 2009, the advance guard of baby boomers would be entering their 65th year. Thereafter, the growth in the numbers of those aged 65 plus would be rapid and put increasing pressure on the government budget, particularly for NZS and health costs.

A six-year gap was also considered too long to review trends in private saving. A lot could change for future cohorts, such as declining home ownership, and increasing household debt. Trends in public provision, too, needed to be kept under more regular review.

The PRG understood that the Government intended to transfer the responsibility for preparing periodic reports to the Retirement Commissioner (this did indeed happen with a 2005 amendment to the New Zealand Superannuation and Retirement Income Act 2001). This proposed change was seen as providing an opportunity to restructure the policy review process and better define the Retirement Commission's role in the process. In addition to the recommendations listed above, the PRG recommended the establishment of an ongoing work programme to replace the six-yearly Reviews, based on the Government's response to PRG2003's policy proposals.

The role of the Retirement Commission would be to monitor the progress of the work programme. In the context of this monitoring role the PRG recommended that the Retirement Commission establish an advisory group to create a mechanism for stakeholders to provide comment and input into the work programme. The advisory group should include academic experts, representatives from employers, unions, finance industry, and officials. In addition, the group recommended that by the end of 2007 the Retirement Commission, in consultation with its advisory group, review retirement income policy (effectively shortening the Review period by two years but following the 2006 census and general election). The Review should:

- report on progress and change in retirement income policy;
- report on the risks and opportunities identified in the PRG2003 report;
- highlight the issues needing policy attention; and
- assess the proposed work programme approach and whether it should be continued.

In addition to establishing a Work-based Savings Group (eventually named the Savings Product Working Group), the work programme was to include an enhanced role for the Retirement Commission in ensuring that people had the required information on both public and private provision to help them make sound decisions about financial planning and management throughout

their lives. As indicated by the recommendations, women, Māori and Pacific peoples were to be particular target groups.

The Retirement Commission was also to be charged with responsibility for co-ordinating the ongoing monitoring of risks and opportunities to private provision. The initial focus was to be on the impact on private provision for retirement of variables such as financial liabilities, student loans and home ownership.

A research fund, managed by the Retirement Commission with guidance from an independent panel of experts appointed by the Retirement Commissioner, was to be established to extend and develop research on household saving behaviour.

In the view of the PRG, further work could also be carried out to improve the regulatory environment.

Firstly, the Ministry of Economic Development and the Government Actuary could review how much 'leakage' was taking place from employer superannuation schemes because of the written consent requirement for member transfers and assess whether it was practical to better facilitate transfer in cases where transfer provided equivalent benefits. Second, the financial services sector needed to agree on an approach to self-regulation of financial advisers. Finally, the existing tax barriers to the development of annuities, in particular home equity reverse annuity mortgages, should be examined by Inland Revenue and Treasury.

The tone of these recommendations, some of which were directed at specific government departments, was different from that adopted by previous Reviews. It is worth reflecting on how effective this approach was in "getting things done".

The 2007 Review described what happened as a result of the 2003 recommendations over the ensuing four years, thus illustrating the overlapping nature of the Reviews³². There had been progress on some recommendations, while others had been overtaken by events such as the implementation of KiwiSaver and other legislative changes.

The following table provides an abridged selection, showing where significant change happened (NB: changes were not necessarily all due to the related PRG2003 recommendation)

Table two: 2003 Recommendations and progress by 2007

2003 PRG Recommendation	Position in 2007
The Retirement Commission take responsibility for co-ordinating monitoring of risks and opportunities to private provision	A Retirement Income Steering Group (RISC) consisting of government agencies with an interest in retirement income policy, was established to coordinate inter-agency research related to retirement income and to report to Ministers annually on the retirement income work programme.
Need for ongoing data and research	The Survey of Family Income and Employment (SoFIE), a longitudinal household survey, is being undertaken and reflects this recommendation

³² It was also a characteristic of the then-Retirement Commissioner's management style, to establish milestones and to monitor and tabulate progress.

Establishment of a fund for research on savings behaviour	Government agreed in principle, but superseded by research on and evaluation of KiwiSaver
Establish a Work-based Savings Group (WSG)	This was established (as the Savings Product Working Group) and addressed much of the work programme recommended by the PRG. Followed by establishment of an implementation group, and KiwiSaver was the result
Recommendations on personal financial education and information, including for women, Maori and Pacific Peoples	These were actioned with positive results, although a pilot programme in New Plymouth indicated a lack of demand for a telephone service
Establish a methodology to make fees for savings products more transparent.	Attempts to make fees transparent are being made with the KiwiSaver product offerings.
Develop criteria for assessing the appropriateness of savings products and advice for retirement saving.	sorted.org.nz includes information about types of savings products and an 'advice checklist'.
The Retirement Commission develop criteria for a 'best-practice' vehicle for retirement savings that accommodates the needs of those people with periods of broken employment or reduced earnings during their working life.	Recommendation overtaken by the development of KiwiSaver
Efforts continue to be made to close the gender pay gap in the state sector and recommend these efforts extend across the labour market.	The Department of Labour set up a unit to work on the gender pay gap.
Retirement Commission and Te Puni Kōkiri work with interested Māori organisations to assess the feasibility of those organisations taking an active role in the provision of savings and insurance services for the organisations' beneficiaries.	Ngāi Tahu has established their Whai Rawa Savings Scheme.
The Retirement Commission, in consultation with the Ministry of Pacific Island Affairs, facilitate research to see whether the current arrangements in which extended family groups establish trusts for various events, such as weddings and funerals, could be involved in superannuation funds and insurance schemes.	Further work in this area has still to be actioned
Make it a priority to resolve the tax non-neutralities arising from the indistinct capital/revenue boundary, and disparities in the treatment of international investments	The new Portfolio Investment Entity (PIE) rules which came into force on 1 October 2007, along with Fair Dividend Return (FDR) rule for all non-Australian portfolio share investment ³³
Revisit options, such as those developed by the Working Party on Taxation and Life Insurance and Superannuation Fund Savings (TOLIS), to address inequities in the taxation of	The PIE rules allow investors in PIE to be taxed at their marginal tax rate, capped at 33% (30% from 1 April 2008).

³³ It is arguable the extent to which tax neutrality has been achieved (e.g. see <https://alt-review.com/section-17>). The key points here are that the principle of neutrality has continued to be emphasised, policy changes have tried to move in this direction, and it's very difficult to find perfect solutions.

superannuation funds and life insurance companies.	
For equity reasons, either remove the tax advantage for employees earning over \$60,000 on employer contributions to superannuation funds or make it available to all taxpayers irrespective of their marginal tax rate.	The SSCWT rules were amended from 1 April 2007 to deal with excessive salary sacrifice arrangements by including the amount of the employer contribution in the income that is used to determine the applicable SSCWT rate. As part of the policy development the issue of increasing the top SSCWT rate to 39% was considered. The Government decided that the top SSCWT rate would remain at 33%.
Review the fund withdrawal tax and remove it if there is no compelling evidence it is successfully acting as an anti-avoidance mechanism.	Officials recommended to Ministers that fund withdrawal rules not be reviewed, as officials were monitoring the impact of salary sacrifice arrangements on the then recently enacted SSCWT rules to determine where there is any significant risk of tax avoidance. As a result of that monitoring, the SSCWT rules were modified.
The Government remove the prospectus requirement from employer superannuation schemes, as proposed in the Business Law Reform Bill currently before Parliament.	The prospectus requirement was removed.
The Ministry of Economic Development and the Government Actuary review how much leakage is taking place from employer superannuation schemes because of written consent requirements for member transfers and assess whether it is practical to better facilitate transfers in cases where transfer provides equivalent benefits.	A new mechanism was introduced for all superannuation schemes to facilitate transfers without member consent, where the transfer provides equivalent benefits.
The Retirement Commission promote best practice guidelines for dispute resolution for group and employer superannuation scheme members.	The guidelines were completed and have been circulated.
The financial services sector develops an agreed approach to self-regulation of financial advisers and report to Government with a comprehensive proposal by the end of 2004.	The Ministry of Economic Development is establishing regulations around Adviser membership of Approved Professional Bodies, with legislation being prepared.
The Government's proposed review of the tax rules applying to life insurance consider the tax barriers to the development of annuities; in particular, home equity reverse annuity mortgages.	The Government has announced that it is reviewing the tax rules for life insurance. That review is expected to cover annuity related issues.
An ongoing work programme, based on the Government's response to PRG2003's recommendations, is established to replace six yearly reviews. The Retirement Commissioner monitors the progress of the work programme.	The RISC group, referred to above, was established and some funding has been provided to the Retirement Commissioner for her monitoring role.
The Retirement Commission establishes an advisory group to provide a mechanism for	The Retirement Income Interest Group has been established. Membership includes

stakeholders to provide input into the work programme.	representatives from: CTU, Business NZ, ASFONZ, Investment Savings and Insurance Association, Institute of Financial Advisers, NZ Bankers Association.
By the end of 2007 the Retirement Commission, in consultation with the advisory group, review retirement income policy.	New legislation has provided for the Retirement Commission to undertake Reviews of retirement income policy every three years.

The more directive recommendations and monitoring of outcomes apparent in the 2003 and 2007 Reviews represented a change in approach, possibly reflecting the background and experience of those involved. Whether or not that was the case, the 2007 Review was the first to be carried out by the Retirement Commissioner, rather than a Task Force or Periodic Report Group.

Review Four: 2007

A new era

PRG2003 understood “that the Government intends to transfer the responsibility for preparing periodic reports to the Retirement Commissioner”. This happened with a 2005 amendment to the New Zealand Superannuation and Retirement Income Act (2001). Another amendment meant that periodic Reviews were henceforth to be carried out every three years, rather than six (or four in the case of the 2007 Review) as had previously been the case. This Review was carried out almost simultaneously with the introduction of KiwiSaver, a major initiative to encourage the private provision of retirement income to supplement public provision, from 1 July.

Terms of Reference

From 2007 onwards, Terms of Reference became very similar. To improve the readability of the overall report, and to enable subsequent Terms of Reference to be read together, they have been shifted to Appendix Three. However, it’s worth noting that the preamble to the 2007 Terms of Reference boldly stated that:

There is now a broad level of agreement on the parameters for New Zealand Superannuation

The report of the Review also stated that:

Because the Review is responding to these terms of reference, it may appear to give more emphasis to some issues (e.g., annuities, home equity release) than would otherwise have been the case.

In keeping with the Terms of Reference, there was relatively little commentary in the 2007 report on the state of the economy, although in summary, economic activity had been growing since 2003, with spending and employment levels rising. Investment had boomed, and the majority of the population had enjoyed rising consumption standards.

However, at the same time a number of structural weaknesses had developed, notably:

- A very large balance of payments current account deficit;
- A high exchange rate for the New Zealand dollar;
- Poor productivity growth;
- Relatively low average incomes;
- Negative aggregate savings in the household sector; and
- A historically high ratio of house prices to incomes.

At the same time some positive trends had developed in the economy, for example:

- Rising labour force participation by older workers;
- A trend to upskilling of the workforce; and
- Ongoing government fiscal surpluses.

More detailed economic commentary was provided in a background paper.

Process

The 2007 Review introduced a format that was repeated in 2010 and 2013 (all three Reviews initiated by the same Retirement Commissioner). An overarching Advisory Group was supported by separate Reference Groups comprising in this case (1) officials; (2) a Retirement Income Interest Group whose membership comprised the chair of the 2003 PRG and representatives of the financial services sector including the New Zealand Council of Trade Unions; (3) a Non-Governmental Organisation group; and (4) a group to assist with an Independent Review of Financial Education.

The Retirement Commissioner was keen to receive input to the Review. In addition to the establishment of the Reference Groups, interested parties were given the opportunity to make submissions. The Commissioner sought submissions by writing directly to key individuals and organisations, and by placing a public notice in major newspapers seeking public submissions.

In all, 23 submissions were received – mostly from businesses, business groups and NGOs. The deadline set for the receipt of these submissions was prior to the 2007 Budget announcements. Given the significance of the Budget announcements for retirement income provision³⁴, those that initially sent submissions were offered the opportunity to amend their submission, should they wish to do so. Two subsequent submissions were received.

As in previous Reviews, background research was commissioned, and eleven papers were placed on the Retirement Commission's website. The Review was supported by a project manager and other staff based in the Retirement Commission. The product of the Review was a single 95-page report, including appendices.

Merits of NZS

The report opens with the statement that:

New Zealand has had, whether by luck or good management, a straightforward and stable retirement income framework for some time.

It also contains a succinct description of the best features of New Zealand Superannuation (NZS):

NZS has been remarkably successful in providing retirement income adequacy for older New Zealanders at a cost level which is lower than that of the public pension systems of most other developed economies. It scores well on the traditional criteria for assessing retirement income policy in New Zealand: adequacy, simplicity, flexibility, certainty, fiscal affordability, equity and fairness.

The report listed reasons why NZS was much admired:

- It is virtually universal, with over 90% of people aged 65 and over usually resident in New Zealand receiving it;
- The benefit level is above the hardship level and, because it is kept within a band defined by a percentage of the average wage, NZS broadly keeps the basic income of older people rising in line with the incomes of working age people;
- It gives older people a regular basic income regardless of how long they live, so is a protection against longevity risk; This is an important benefit, as longevity is improving, so people are living longer than they may expect to do;

³⁴ e.g. reduction of the Company Tax rate from 33% to 30%. Member contributions to KiwiSaver to be matched by a tax credit, to a maximum of \$20 per week (a total of \$1,040 per year); increases to employers' contributions to employees' KiwiSaver accounts.

- It has a residency criterion for eligibility, not a contributory one; This means that it provides independent retirement incomes regardless of recipients' gender, marital status or income history; This is important to many of those in groups more at risk of low or irregular earnings, including many women, disabled people, Māori and Pacific peoples, and casual workers;
- It does not discourage saving, because it is not means-tested;
- It does not discourage employment at older ages, as it is paid whether the recipient works or not;
- It is simple to explain and run;
- It operates at a low administrative cost; and
- Its long-term sustainability is helped by the NZS Fund; The Fund invests a contribution each year until amounts are withdrawn to help pay the higher cost of NZS caused by population ageing.

Although the terms of reference suggested that as considerable debate had already gone on about KiwiSaver it should not be a focus, a whole chapter is devoted to KiwiSaver. As with NZS, the scheme gets the thumbs up:

To complement the state provision of NZS, KiwiSaver provides a private savings vehicle designed to enable people to build up some financial assets for use primarily in retirement. KiwiSaver should make the biggest difference to young people: the longer people have to save, the more they will be able to accumulate.

The Review noted that the introduction of KiwiSaver into retirement income policy had some key advantages (comparable with the features outlined by the Todd Task Force, see page 24):

- KiwiSaver is simple to join and stay in. Employees are auto enrolled and others can opt in. The KiwiSaver account is portable on changing jobs;
- KiwiSaver saving is made from pay before there is a chance to spend the money, and most is generally locked-in until age 65. It is an easy way to make retirement savings for those that can afford to do so but need some discipline to start and keep saving;
- There are generous incentives for saving in KiwiSaver and for first house purchase. This will help savers to build up financial assets alongside buying a home;
- Because KiwiSaver is voluntary, individuals have to make decisions about their own account. This may help to improve consumers' understanding of saving;
- KiwiSaver, it is hoped, will stimulate New Zealand's capital markets and strengthen the economy; and
- The voluntary rather than compulsory nature of KiwiSaver means that the Government avoids an open-ended guarantee on the value of future retirement benefits.

KiwiSaver is consistent in outline (although not in design detail) with the proposals of the Savings Product Working Group (of which the Retirement Commissioner was a member) set up following the 2003 Periodic Report. The core purpose of KiwiSaver, as set out in the KiwiSaver Act (2006), is:

To encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase

individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits.

This statement targets those for whom NZS will not provide sufficient income in retirement to maintain the levels of consumption they have come to expect, and “who can save but don’t”. In other words, the group identified as a priority in the 1997 and 2003 PRG reports.

Progress on some of the other 2003 recommendations has been outlined in Table two. In addition, since the 2003 Periodic Report, significant legislative changes had been made to the New Zealand tax system as it applied to saving for retirement. These changes – the introduction of Portfolio Investment Entities (PIEs) and Fair Dividend Rate (FDR) method of calculating taxable income from offshore portfolio share investments – had continued the drive towards improving tax neutrality between saving in financial assets through collective investment schemes and saving through direct investment; and to removing biases towards investing in certain countries (see footnote 33, page 38).

Other noteworthy changes had taken place in retirement income policies since the 2003 Periodic Report:

- As part of an agreement between Government coalition partners, the benefit level of NZS for couples was increased to be 66% of national average earnings, up from 65%, as from 1 April 2007³⁵;
- The State Sector Retirement Savings Scheme (SSRSS) was launched on 1 July 2004 for public service employees;
- In May 2007, Treasury announced that it believed a more interventionist policy to encourage private saving for retirement was justified, marking a significant change from its previously long-held view;
- In 2004, the Retirement Commission (with the Ministry of Education and others) set up a project to embed financial education in the school curriculum; and
- The SuperGold Card, a discounts and concessions card issued free to all eligible seniors and veterans, was introduced in August 2007.

Multiple agencies involved:

The 2007 report explicitly acknowledged the many other government departments and agencies have an interest in retirement income policy and view it from different policy perspectives. For example:

- The Ministry of Social Development (MSD) provides social policy advice to the government on issues that affect older people through the Older People’s Policy Unit;
- The Office for Senior Citizens, part of MSD, promotes the rights and interests of older people, and leads, monitors and promotes the New Zealand Positive Ageing Strategy;
- MSD, through Work and Income, administers NZS, Veteran’s and War Pensions, special benefits, and financial means-testing for long-term care subsidies;
- The Ministry of Economic Development (MED) leads the regulation of financial services companies offering retirement savings products and financial advisers;

³⁵ This formula still applies in 2019 and is about to be written into legislation.

- The Ministry of Consumer Affairs, part of MED, covers the consumer protection issues of retirement savings products;
- MED, with the involvement of the Government Actuary, appoints KiwiSaver default providers and maintains a registry of KiwiSaver schemes;
- The Government Actuary, who sits within MED, has further supervisory duties for KiwiSaver and registered superannuation schemes;
- Statistics New Zealand provides demographic projections and other data which are key inputs to retirement income forecasting and policy;
- Treasury is the government’s lead advisor on economic and financial policy. Among its budgeting and planning roles, for example, it prepares long-term forecasts of expenditure on items such as NZS. Short-term forecasts of benefit expenditure, including NZS, are provided to Treasury by MSD;
- Inland Revenue advises government, with the Treasury, on tax policy and certain social policy measures. It also collects tax payments. Inland Revenue plays a strong role in KiwiSaver policy, administration and evaluation;
- Te Puni Kōkiri, the Ministry of Māori Development, is concerned with retirement income policy as it affects Māori;
- The Ministry of Women’s Affairs is concerned with retirement income policy as it affects women;
- The Department of Labour has an interest in older workers, in relation to labour market participation, skill levels and productivity; and
- The Retirement Commission has been working with the Ministry of Education to place financial education into the school curriculum.

Recommendations

It is noticeable that the 2007 recommendations contained specific directives to government departments such as the Ministry of Economic Development (MED), Treasury, Ministry of Education, Department of Labour, Ministry of Social Development (MSD) and Inland Revenue. In some cases, these directives came with deadlines attached. There were also “instructions” given as to what the 2010 Review should address in three years’ time. Some issues not specifically included in the Terms of Reference were also raised in the 2007 report. For example, the costs of health and residential care of an ageing population emerged more strongly as an issue, reinforcing the interconnectedness of many other areas with retirement income policy and perhaps signalling the Retirement Commissioner’s independence and assumption of a broader remit.

To address the concerns and risks in retirement income policy identified in the 2007 Review, the Retirement Commissioner made 27 recommendations. Table three lists these, along with an assessment of progress by 2010, taken from the 2010 Review report – once again illustrating the overlapping nature of the Reviews.

Table three: Recommendations and progress by 2010

2007 Recommendation	Assessment as at December 2010
1. That these independent Reviews of Retirement Income Policy continue on a three-yearly basis, because retirement income policy is complex and involves many agencies	Achieved. The requirement for three-yearly Reviews continues in the legislation.
2. That the Retirement Commissioner, by mid-2009, reports on progress made on the recommendations set out in this Review to the Minister of Social Development and the Minister of Finance.	Achieved.
3. That, in the interests of having a comprehensive fact base for evaluating retirement income policy, special surveys, notably the Living Standards Survey, the Survey of Family Income and Employment (SoFIE), the Household Savings Survey (HSS), and the Financial Knowledge Survey, are continued and enhanced where necessary.	It is important to have excellent surveys and analysis in order to develop and evaluate informed policies. The Review of Economic Statistics by Statistics NZ is assessing direction for the future of these surveys. The Commission will continue to monitor progress. ANZ has committed to continue their sponsorship of the Financial Knowledge Survey in 2012/13.
4. That the Retirement Commission works with Treasury and the Ministries of Social Development and Health to ensure that there is an appropriate research programme in place to assess how the costs of health, residential and in-home care for older people will impact on their personal finances.	Since 2007, the Ministry of Social Development has carried out the following research relating to how the costs of health, residential and in-home care for older people impact on their personal finances: <ul style="list-style-type: none"> • Turning 65 Project. • Ageing in the Community.
5. That the basic structure of NZS be maintained.	Achieved.
6. That political consensus is sought for any future changes to the parameters of NZS, and such changes are made with long lead times in order to allow individuals to adjust their retirement planning.	Although there is no formal political consensus, there have not been any major changes to the parameters of NZS, nor suggested changes by major political parties.
7. That Treasury, by end 2008, reports on the necessity, feasibility and implications of options for the future financing of NZS, because there are likely to be more recipients of NZS in future, with longer life expectancies.	Achieved. Treasury released the Long-Term Fiscal Statement in October 2009 and has continued to develop options for future financing of NZS in 2010. Several new scenarios have been developed for the 2010 Review.
8. That, by mid-2008, the Government completes its review of the 'portability' aspects of NZS for people who migrate to or from New Zealand, and announces its decisions, and that the Ministry of Social Development takes	The review has been completed. Information on MSD's website has been improved although further enhancements are still required.

steps to clarify the decision and appeals process for unusual NZS cases	
9. That the Retirement Commission, in 2008, develops financial education initiatives targeted for those on low incomes, including Māori and Pacific groups.	<p>More Sorted booklets have been produced and made much more accessible and seminars are available for community groups. The Commission:</p> <ul style="list-style-type: none"> • Is working with the Ministry of Pacific Island Affairs and other community groups to target Pacific and other low-income groups. • Is putting together an evaluation for the ANZ/Ngāi Tahu financial education programme • Has developed a five-year Māori financial education strategy that will be implemented from early 2011.
10. That the messages of government and other public bodies on the concern that New Zealanders tend to over-invest in residential property are referenced to multiple housing investment, and that such messages reflect that investing in a mortgage to buy a home to live in is an important part of preparing for a good retirement.	Achieved
11. That Inland Revenue fulfils and expands its plans beyond 2013 to evaluate KiwiSaver on the outcomes from the policy, in particular, whether KiwiSaver has improved retirement wealth overall for households, and what its distributional impact has been. That these outcomes are examined by analysing the spread of take-up and the value of incentives received by different households: by income level, gender, ethnicity, age, whether disabled, and employment status.	<p>The evaluation has been adjusted to take account of the changes in KiwiSaver. There have been some cutbacks in the evaluation owing to fiscal constraints, but the key parts of the evaluation continue, subject to SoFIE data being available.</p> <p>The Retirement Commission will, as far as possible using available data, monitor the impact of KiwiSaver beyond 2013.</p>
12. That Treasury, by mid-2008, publishes the likely future fiscal cost of KiwiSaver on different demographic and economic scenarios, with commentary on its sustainability in its current form over short-, medium- and long-term time periods.	As for recommendation 7.
13. That the Ministry of Economic Development, by mid-2008, reports on whether KiwiSaver default funds should have the same level of fees, on the prescription of asset mix, and on any other changes to default fund	This recommendation was not accepted. The Ministry of Economic Development will review the appropriateness of the default funds as part of their already programmed review of these in 2014.

legislation in order for passive KiwiSaver members to stand a fair chance of even outcomes	
14. That the government instructs the Ministry of Economic Development to fast-track the intended regulation of financial advisers.	Achieved. Financial Advisers Act was passed in 2008. Development of regulation is in progress.
15. That the 2010 Review of Retirement Income Policy considers that progress in implementation of the Ministry of Economic Development's widely supported initiatives to develop high standard consumer protection and market conduct regulation in the financial sector.	Achieved. The 2010 Review of Retirement Income Policy has addressed this.
16. That the Retirement Commission, working with the savings industry, keeps its comparison information on the cost of KiwiSaver products up to date and accessible to the general public.	Achieved.
17. That the Ministry of Economic Development considers, as part of its ongoing review of the financial sector, whether the number of fee types for savings products, including KiwiSaver, should be restricted, and whether disclosure of fees on a 'on figure' comparable basis should be mandatory.	The Commission understands that this work has been subsumed into other workstreams. Consumer information on fees for savings products, including KiwiSaver, is being considered in the Periodic Reporting Regulations for KiwiSaver schemes.
18. That the Ministry of Education, from 1 July 2009, takes responsibility for the schools project currently within the Retirement Commission, to ensure that financial education is embedded in the school curriculum.	Achieved. The Commission will monitor progress in terms of coverage, quality and timeliness but is concerned that the Ministry has insufficient funds to achieve the goal of embedding financial literacy in schools.
19. That the Retirement Commission maintains and enhances its workplace-based information and education programme.	Achieved.
20. That the Retirement Commission reports annually on progress on the National Strategy for Financial Literacy.	Achieved. This is done through the Commission's annual report to Parliament, media releases and financial literacy seminars.
21. That the Department of Labour, by mid-2008, develops a plan outlining how co-ordination could be improved among the agencies involved in initiatives – research, practical support and advice, public information and policy changes – that support older New Zealanders to find and stay in paid work, and the benefits of doing so.	Achieved.

<p>22. That the Ministry of Social Development monitors trends over time in the size and distribution of financial assets held by older people, in order to give some indications of the issues facing older people in managing assets in retirement, including the potential demand for annuity and home equity release products.</p>	<p>The Commission understands that the Review of Economic Statistics will be assessing which data is required to enable the required monitoring.</p>
<p>23. That the Retirement Commission, by end 2008, updates and extends its information about options for managing assets throughout retirement, and provides that information to older people in ways other than the internet, including liaising with other providers of information to older people.</p>	<p>The booklet “Your Money in Retirement” was published and widely distributed. Qualitative research was undertaken to understand how to assist older people make sound financial decisions following which two nationwide communication campaigns were released in 2009 and 2010. There is much ongoing work with older-people interest groups.</p>
<p>24. That the Ministry of Social Development, by end 2008, considers how the issue of financial abuse of the oldest people can be addressed within current social services.</p>	<p>This work is positioned in Family Violence Task force. Age Concern and the Office for Senior Citizens are closely involved. It is part of the General Elder Abuse project. Age Concern produced a useful brochure sponsored by the BNZ on elder abuse.</p>
<p>25. That Inland Revenue, by end 2008, reports on the feasibility and implications of achieving tax neutrality in the treatment of annuity products.</p>	<p>Not achieved. This continues to be an item on the IRD’s work programme.</p>
<p>26. That the Ministry of Economic Development, by end 2008, put the code of practice for home equity release providers, being developed by the Office for Senior Citizens, into legislation.</p>	<p>In September 2008 a voluntary Code of Practice for home equity release providers was agreed on. Some aspects of the Code have been addressed by regulatory reforms. The Office of Senior Citizens continues to keep a watching brief regarding the adequacy of protection to consumers</p>
<p>27. That the Ministries of Economic Development and Social Development and the Inland Revenue Department together, by end 2008, look at all the interfaces of home equity release products with state benefits to confirm a consistent policy that can be communicated to consumers in a straightforward way.</p>	<p>The government has reviewed this and is satisfied that the treatment of home equity release products is consistent.</p>

The report stated that the “Retirement Commissioner expects that all of the above recommendation reports will be made publicly available via departmental websites”.

There was also a lot of attention paid in the report to MED reviews connected with new regulations to cover products used for retirement savings, including KiwiSaver and superannuation schemes. These were therefore considered crucial to the Review, although stretching the Terms of Reference:

- Development of a co-regulatory model for the regulation of financial advisers;
- Registration of all financial services;
- Improved supervision of corporate trustees;
- Improved prudential supervision of registered deposit takers (to be advised on and monitored by a single prudential regulator);
- Providing for a comprehensive approach to consumer dispute resolution and redress;
- Insurer prudential and market conduct regulation;
- Supervision by corporate trustees of collective investment schemes and debt issuers;
- Security offerings disclosure;
- Regulation of mutuals' governance; and
- Platforms and portfolio management services.

Overall, the 2007 Review seems to have been relatively technical and once more represented “business as usual”. The Government’s response was lukewarm, with many recommendations referred to the Population Ageing Working Programme (PAWP) of which no record can be found via a google search or in the National Library. Recommendation 24 was linked to the Family Violence Task Force, which was active from June 2005 to July 2015 and still has a presence on the Ministry of Social Development’s website³⁶. Recommendation 11 resulted in a directive from the Government to IRD, and there are references to related work going on in MED and the Ministry of Education.

The Review was however able to report on some significant developments since 2003 and to “take the temperature” of retirement income policies, which seemed to have settled down after a turbulent few years. Perennial issues remained, but parallel work was proceeding on these within government. No major changes were proposed, and nor did any occur in the next three years.

³⁶ <https://www.msd.govt.nz/about-msd-and-our-work/work-programmes/initiatives/action-family-violence/index.html>.

Review Five: 2010

Context

(abridged from the Review report)

Since the 2007 Review, New Zealand had been through a recession that saw the economy shrink by 2.7%. Growth had resumed, but real GDP, on a per capita basis, was not expected to recover to the 2007 level until sometime in 2012.

The long period of expansion in the early to mid-2000s finally ended with a drought in the summer of 2007/08 that was quickly followed by the impact of a global financial crisis that had started in the US with dramatic increases in loan defaults and the collapse of several of their major financial institutions.

The onset of the inevitable adjustments brought to light how fragile and risky many finance companies' investments were. Since 2006³⁷ more than 50 finance companies had either failed or had to seek a moratorium from their investors. The governance, regulatory and supervision arrangements of finance companies were insufficient for their type of business. Many private investors or their advisers did not adequately assess the risks, partly because these were not adequately disclosed.

The initial direct impacts on New Zealand of the Global Financial Crisis (GFC) and the failure of finance companies were a fall in household net worth estimated at 9%. However, the overall effect was seen as modest in comparison with the harder-hit economies in the northern hemisphere, largely because the New Zealand banking system and corporate balance sheets did not have the same degree of exposure to subprime lending.

Monetary and fiscal policy had absorbed much of the recession's impact on households. The Reserve Bank made a rapid series of reductions in the Official Cash Rate and a series of income tax cuts had been introduced. At the time of the Review, the Government was spending more than its current income and having to borrow the difference. This higher level of public sector debt effectively transferred some of the adjustment burden onto future taxpayers.

In response to these developments, many people were taking a much more cautious approach to borrowing and debt. New Zealand households appeared to be increasing their saving. At the same time, there appeared to have been a decline in general consumer confidence and trust in the financial system.

A number of reforms were being developed or had been implemented. Some sought to improve business practices and the training and monitoring of product issuers and financial advisers. Other reforms were aimed at improving savers' understanding of financial matters and consumers' ability to compare financial products and understand risk.

For a substantial group of savers the loss of savings from the finance company failures, and losses in share market values and in structured credit portfolios, was traumatic. Confidence and trust in the financial sector generally had been damaged. For many older people there was little hope of ever replacing these savings, which had formed an important part of their retirement income planning. These events had influenced the Retirement Commission in its advocacy of better consumer

³⁷ Note that the onset of these failures predated the GFC.

protection and clearer disclosure by issuers of financial products, in order to mitigate the risk of future catastrophic losses.

The advent of the Financial Markets authority was noted as a significant development and could be seen as the culmination of almost 20 years' work on matters relating to the regulation of conduct in financial markets. Official Terms of Reference can be found in Appendix Three, but other topics were also covered.

Other topics covered outside the formal terms of reference

- Discussion of how current policies came to be and how they compare with other countries, particularly Australia, including recent changes made in other countries;
- Discussion of different policy models and objectives for retirement policy;
- Discussion on aspects of NZS related to strengthening the principle of universal individual entitlement, including the two sharing rates of NZS, treatment of non-qualified spouses, residence test and direct deduction policy;
- Initial assessment of KiwiSaver, including key issues and implications for longer-term effectiveness;
- Consideration of compulsory saving; and
- Discussion of the prospective rising cost of paying NZS to a growing number of older people and proposed future adjustments to the system in order to preserve universal entitlement, fairness across generations and overall affordability of the system.

As required, the Review report reported progress on recommendations from the 2007 Review of Retirement Income Policy. Progress seems to have been consistent with the initial Government responses to those 2007 recommendations, contained in Table three.

Process

The structure of the Review team was similar to that set up in 2007 and included a project team with assistance from Retirement Commission staff, an overarching advisory group and three reference groups representing officials, NGOs and the finance sector. Several people had been involved in previous Reviews, including the chair of the 2003 PRG who was an alternate member of the finance sector group. This continuity of personnel was a feature of almost all the Reviews covered in this report. There was no reference group on financial education as there was in 2007, presumably because this requirement was not specifically mentioned in the Terms of Reference

Several research papers were prepared and in conjunction with the Institute of Policy Studies, the Retirement Commission ran a Conference on Retirement Income Policy and Inter-generational Equity and a post-conference workshop to help inform the Review.

In addition, two workshops were held with finance sector organisations (New Zealand Superannuation Fund, ASB, Tower, First NZ Capital, Superlife, Sovereign, BNZ, ANZ, Gareth Morgan Investments, and AXA).

Submissions were called for and 25 received, mainly from familiar sources.

Discussion

Discussion in the report also focused on recurring themes, including:

- The situation of Older New Zealanders;
- Vulnerable groups;
- Strengthening NZS as a universal, individual entitlement;
- Private retirement saving by younger generations;
- Commentary on KiwiSaver, which had now been in place for three years;
- Keeping NZS affordable in the face of fiscal pressures arising from the ageing of the population – with options and a preference expressed in recommendations 6.1 and 6.2;
- Issues surrounding housing, health care and employment for older New Zealanders;
- Comparisons with Australia;
- Data issues affecting the assessment of saving;
- The residence test for New Zealand Superannuation and the direct deduction policy in respect of overseas pensions; and
- The case for and against compulsory saving.

In relation to the last of these topics, the Review once more addressed the question: should New Zealand have compulsory retirement saving? Its conclusions were very clear:

Compulsory saving has been previously considered on a number of occasions in New Zealand – in 1992 by the Task Force on Private Provision for Retirement (and in subsequent public reviews held in 1997, 2000³⁸, 2003 and 2007) and in the late 1990s a referendum was held on the issue. The five official reviews rejected the introduction of compulsory saving and instead have favoured voluntary provision to supplement NZS, accompanied by education initiatives and appropriate financial regulation to support consumers' decision-making.

Similarly, this 2010 Review did not support changes to make KiwiSaver compulsory or to introduce another form of compulsory retirement savings scheme. The reasons have been covered in the preceding discussion, in particular:

- Mixed evidence on the current state of New Zealanders' saving;
- Mixed evidence on whether compulsory schemes are effective in raising saving and ensuring income adequacy in retirement;
- Uncertainty over whether fiscal savings from the removal of incentive payments would in practice be realised;
- The equity issues associated with compulsion; and

³⁸ To have included the 2000 Task Force in this list was slightly misleading, as that Review was disbanded before it could finish its deliberations.

- Concern that compulsion would risk undermining the universality of NZS

In 2010 the Government appointed a Savings Working Group (due to report by January 2011) to examine ways to improve national savings. Included in the Group's terms of reference is a requirement to weigh the case for and against compulsory savings³⁹. The Group's assessment will need to be undertaken within a broader context than retirement income policy, however this Review has considered the issue of compulsory saving in relation to retirement income.

A comprehensive framework

The 2010 Review Report also introduced a framework based on eight models or objectives for retirement income policy. These drew together threads that had emerged historically, and each was explained in some depth in the report⁴⁰:

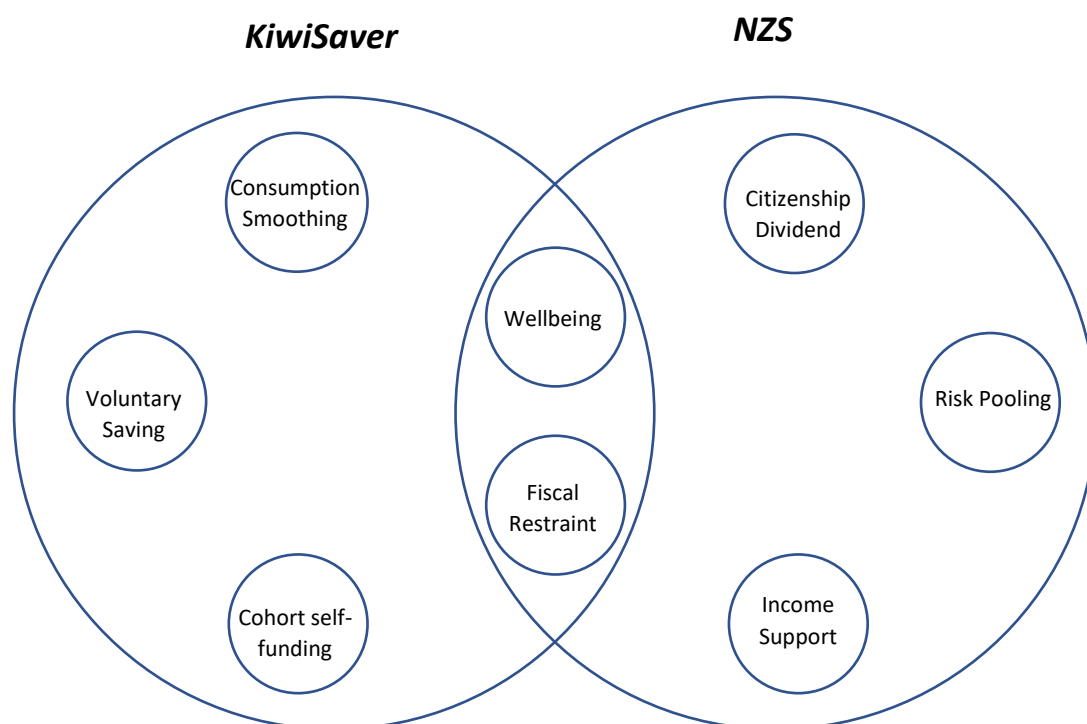
- Alleviation of old age poverty and hardship (income support);
- Personal responsibility, individual choice and control (voluntary saving);
- Social cohesion and national identity (citizenship dividend);
- Positive and active ageing (wellbeing);
- Maintenance of living standards in retirement (lifetime consumption smoothing);
- Each generation paying its own way (cohort self-funding);
- Protection against longevity risk (risk pooling); and
- Economic growth and efficiency (fiscal restraint and investment).

This framework makes clear the tensions and trade-offs that are involved in designing a retirement income system that is fair, sustainable and likely to attract a broad public consensus. Figure One below further shows how the objectives related to the two domains of public and private provision of retirement income.

³⁹ The Savings Working Group's consideration of this question focused on KiwiSaver and the Group concluded that membership of KiwiSaver "should remain voluntary, but there should be some changes with a view to increasing participation" (Savings Working Group, 2011).

⁴⁰ The framework was also used in the 2013 review.

Figure one: Policy Objectives of KiwiSaver and NZS
 (Chart 5.7 from 2010 Review Report)



Recommendations

N.B. numbering matches chapters: hence gaps where chapters contained no recommendations.

The formal Government response to the 2010 Review has not been able to be retrieved for this report, although it is well known that recommendations 6.1 and 6.2 were rejected.

The savings environment

Recommendation 2.1

That the Ministry of Social Development and the Ministry of Economic Development develop quality standards for the provision of budget advice and that government funding to Non-government Organisations for the provision of budget advice (primarily via the Ministry of Social Development) be contingent on these providers meeting established quality standards;

Recommendation 2.2

That, in the development of any regulation of the financial services sector, government agencies establish processes to ensure that the consumer voice is given sufficient weight;

Vulnerable groups

Recommendation 4.1

That the Retirement Commission works with the Ministry of Women's Affairs, Te Puni Kōkiri, the Ministry for Social Development and Statistics New Zealand to develop a clearer picture of factors affecting the wellbeing and living circumstances of non-partnered older New Zealanders, particularly women living alone;

Recommendation 4.2

That the Ministry of Health and Ministry of Social Development develop additional and coordinated information resources on the likely costs of health and residential care to assist those planning for, and in, retirement;

Strengthening NZS as a universal, individual entitlement

Recommendation 4.3

That the non-qualified partner rate of NZS should be removed as an option for new applicants and that existing recipients should be allowed to continue to receive it for a maximum of five years. Beyond that they would be entitled to claim any applicable benefit through the welfare system;

Recommendation 4.4

That the partnership distinction in the NZS rate structure be removed, by gradually merging the individual sharing and individual partnered rates of NZS over time;

Recommendation 4.5

That an individual's overseas state pension entitlements should be directly deducted against their own individual entitlement to NZS and that any excess should not then be offset against the individual NZS entitlement of their partner;

Recommendation 4.6

That the Ministry of Social Development implement programmes to:

- Provide information and advice for recent and prospective migrants and returning New Zealanders on the implications of the direct deduction policy for their future retirement income;
- Improve the public availability of decisions on the classification of overseas pension schemes whose pension payouts are subject to the direct deduction policy;
- Explain the rationale behind each pension scheme classification decision.

KiwiSaver

Recommendation 5.1

That KiwiSaver default funds should continue to be based on products with a conservative risk profile and that KiwiSaver default fund providers be encouraged to provide members with information to help them to make a more active choice of investment, even if this means that they choose to stay where they are;

Recommendation 5.2

That, for the sake of transparency and ease of understanding, and to allow comparisons by consumers, a standardised approach to the calculation of KiwiSaver fees and performance, as well as fees and performance on other investment products, be developed;

Recommendation 5.3

That the evaluation of KiwiSaver continues as planned until 2012/13, when the main findings will be available;

Recommendation 5.4

That the Retirement Commissioner's 2013 Review of Retirement Income Policy should include a thorough assessment of Kiwi Saver, including the emerging pattern of withdrawals and reinvestments by people aged over 65;

Recommendation 5.5

That the recommendations relating to saving and wealth statistics from Statistics New Zealand's review of economic living standards be actioned in a timely way and in conjunction with key data users;

Recommendation 5.6

That Statistics New Zealand include KiwiSaver questions in the most appropriate household surveys of assets and liabilities in order that the impact and effectiveness of KiwiSaver can be assessed and informed decisions made about adjustments to the scheme beyond 2012/13;

Keeping NZS affordable

Recommendation 6.1

That, with effect from 2020, NZS rates should be adjusted each year by the average of the percentage change in consumer prices and earnings, subject to no less than price inflation in any year;

Recommendation 6.2

That a future rise in the age of eligibility for NZS should be announced. The age would be gradually increased from 65 years starting in 2020 and would rise by two months per year until it reached 67 years in 2033;

Recommendation 6.3

That, as the age of eligibility for NZS is increased above 65 years, a transitional, means-tested benefit should be introduced to address the particular situation of people who are aged 65 and are at risk of hardship because of their inability to continue to financially support themselves over an extended period.

Review Six: 2013

Process

The 2013 Review was unusual in that its Terms of Reference were agreed by one Retirement Commissioner in 2012 near the end of her term of office, and the main Review process and reporting were completed by her successor. In addition, while the structure of the Review was the same as that employed in 2007 and 2010 (an overarching advisory group and three reference groups) the process harked back to 1997 with the issuing of an interim discussion document⁴¹.

Terms of reference can be found in Appendix Three.

Since 2010 the Retirement Commission had rebranded itself as the Commission for Financial Literacy and Retirement Income (CFLRI)⁴². Following the 2013 Review, a second rebranding saw the Commission become the Commission for Financial Capability (CFFC).

Over 25 background papers were commissioned for the 2013 Review and these are still on the CFFC website⁴³.

During February 2013, a seminar was held at Victoria University of Wellington to officially launch the Review process. In early April, the Commission and the Institute of Governance and Policy Studies jointly hosted a workshop on retirement income policy. This was attended by 80 stakeholders and 15 speakers, with all participating in break-out groups to identify key priorities for the Review. The workshop also launched a wider consultation and issued an invitation for submissions to be made through April and May. Some submissions were entered through a specially designed, online short response form and 45 of these were completed. Thirty-eight substantial submissions and six short emails were also received. Between March and May, Commission staff attended various forums (convened by the Office of the Children's Commissioner, New Zealand Union of Students' Associations and the Ministry of Youth Development) to discuss retirement income policy issues with young people.

Other processes were happening in parallel and these also informed the Review. In June, the Retirement Policy and Research Centre at the University of Auckland hosted an Overseas Pension Forum. In July, the New Zealand Treasury released its Long-Term Fiscal Statement. A discussion document based on all this input was publicly released on 9 October 2013 and generated wide debate in the news media and among members of the public. Several written responses to the discussion document were received and as a result of this public process, some amendments were made to the interim findings of the Review and included in the final report⁴⁴, tabled in Parliament just prior to Christmas.

Current retirement income policies and programmes

The Review report adopted the eight-objective framework for retirement income policies that had been first put forward in the 2010 Review⁴⁵. The Ministry of Social Development provided a full

⁴¹ The current author and a colleague were responsible for implementing the 2013 process.

⁴² The statutory role of Retirement Commissioner remained as it was, since it was mandated in the Superannuation and Retirement Income Act.

⁴³ <https://www.cffc.org.nz/reviews-and-reports/retirement-income-policy-review/2013-review-background-papers/>.

⁴⁴ A PDF of which can be found at <https://cfc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/e0f70a0bde/RI-Review-Report-to-Govt-Dec-2013.pdf>.

⁴⁵ Expanded on in a series of peer reviewed "position papers" prepared by the current author: <https://www.cffc.org.nz/reviews-and-reports/retirement-income-policy-review/policy-position-papers/>.

description of all policies and programmes supporting older people, along with an assessment of how well those programmes were working – using both income and non-income measures of outcomes.

Future challenges were identified in keeping the system fair, changes in the structure of New Zealand’s population and increasing longevity. There was a return to an idea first put forward by the 1997 PRG, of linking the age of eligibility for NZS to a schedule and review process that took average life expectancy into account. Analysis of projected increases in the cost of NZS were followed with a very familiar set of options for addressing that cost - in addition to them being partly met by the New Zealand Superannuation Fund: changing the age of eligibility (through the schedule and review process); changing the way NZS was indexed⁴⁶; means testing; using income from KiwiSaver to replace NZS; and tightening eligibility criteria. An idea for variable ages of eligibility for NZS, that had been put forward by the leader of a political party, was also canvassed but not favoured.

Discussions of New Zealand’s saving performance and taxation issues were more perfunctory than in earlier Reviews. A new element was a section on levels of income required in retirement for different lifestyles, and the gap between NZS and what would be needed per person for a 25-year retirement. This work was based on an annual series of retirement income expenditure reports published by Massey University’s Financial Education Centre⁴⁷. Issues of equity in retirement income for Women, Māori and Pasifika were followed by a comprehensive assessment of the KiwiSaver scheme, analysis of housing and employment for older people and discussion of the link between financial literacy and advice and retirement income policy. The report concluded that:

New Zealand has an excellent retirement income framework which achieves good outcomes for the majority of people aged 65 and over. Rates of poverty are relatively low for this group, thanks to a combination of New Zealand Superannuation (NZS), high levels of home ownership and a raft of other government policies and programmes. However, there are signs that in the near future outcomes may be more unevenly spread, with some people arriving at retirement in poor financial shape while others continue to do well.

The report also emphasised the need for retirement income policy to be seen as fair, so that the potential for resentment or envy was diminished and the system made more politically stable and sustainable. Fairness was needed not just among retirees, but through different life stages (family formation, raising children, working life and retirement) and across generations of taxpayers and retirees. Notions of what is fair are dynamic rather than fixed, and culturally determined. New Zealanders’ understanding of ‘what is fair’ would ultimately determine the decisions that were made.

In that light, the following table contains the recommendations from the 2013 Review, and the Government’s response, contained in a letter from the Minister of Commerce, received in June 2014. Where known, further outcomes are also noted in brackets.

⁴⁶ A proposal for changing the method of indexation, similar to the one proposed in 2010, was included in the Discussion Document but received much negative feedback and was watered down in the final report. Ultimately, this idea went no further.

⁴⁷ https://www.massey.ac.nz/massey/learning/colleges/college-business/school-of-economics-and-finance/research/fin-ed_centre/fin-ed_centre_home.cfm.

Table four: Recommendations plus Government Response

Recommendation	Government Response
Keeping New Zealand Superannuation fair and affordable	
1. That the proportion of life over the age of 20 in receipt of New Zealand Superannuation be kept at a minimum of 32 per cent ⁴⁸ .	Rejected
2. That the Government establish, by 30 June 2017, a schedule and review process for New Zealand Superannuation, guided by the principles outlined in this document.	Rejected
3. That the Treasury be directed to develop a model by December 2014 that will show the likely impacts on living standards among older New Zealanders of a new method of indexation of NZS, based on the average of percentage change in consumer prices and earnings but no less than price inflation in any year. The model will need to take into account projected growth in KiwiSaver balances and transfer of a proportion of any fiscal savings being applied to measuring and maintaining the real living standards of less-well-off New Zealanders.	Rejected: The Government is committed to New Zealand Superannuation settings as they now stand. This includes a commitment to retaining the age of eligibility of 65, retaining the current indexation method of New Zealand Superannuation and retaining existing individual overseas state pension entitlements.
KiwiSaver	
4. That the age of access to KiwiSaver balances be kept at 65.	Agreed.
5. That as soon as fiscally prudent, an auto-enrolment day be held for employees who are not currently members of KiwiSaver, with retention of the right to opt out.	Agreed (Although the auto-enrolment day didn't happen).
6. That the Government establish a joint working party, chaired by the Retirement Commissioner or her nominee and comprising public and private sector representatives, to identify gaps in the available data on KiwiSaver and ways in which those gaps can be filled, and to report by 1 December 2014.	Qualified agreement. (An informal working party did meet, but with very little effect).
7. That the Government agree to the Retirement Commissioner convening a broadly representative review to determine the viability of different approaches to the voluntary annuitisation of savings, including KiwiSaver balances on retirement.	Agreed. (A review was carried out by Commission staff and recommended a "wait and see" approach).
8. That the Ministry of Business, Innovation and Employment report to the Government by 30 June 2014 on means to	Rejected

⁴⁸ The proportion of adult life spent receiving New Zealand Superannuation for new superannuitants was calculated to be 31.6 per cent for men and 34.1 per cent for women. Note, however, that this recommendation assumed the continuation of equal age of entitlement to New Zealand Superannuation for both women and men.

fairly maintain the employee contributions of KiwiSaver members while they are on parental leave.	KiwiSaver already provides the choice to have employee contributions deducted from their paid parental leave entitlements.
The New Zealand Superannuation Fund	
9. That the Government exempt the New Zealand Superannuation Fund from the requirement to pay tax on the Fund's investment returns.	Rejected
Financial literacy	Financial literacy
10. That the Government provide the Commission for Financial Literacy and Retirement Income with an explicit mandate to lead the provision of financial education and advice for New Zealanders.	Agreed. (A more explicit mandate was added to the New Zealand Superannuation and Retirement Income Act 2001 on 30 May 2017, via the Regulatory Systems (Commercial Matters) Amendment Act 2017).
Taxation	
11. That in line with a recommendation of the Savings Working Group, the Government remove tax on the inflation component of interest on simple savings products, e.g. bank deposits.	Rejected
Age-friendly housing	
12. That the Ministry of Business, Innovation and Employment report by 1 December 2014 on ways to increase the supply of age-friendly housing.	Rejected: related work already going on.
Age-friendly workplaces	
13. That the Ministry of Business, Innovation and Employment work with employers, industry associations and unions to implement ways to encourage the recruitment, retention, retraining and mobility between jobs of older workers, and report back on progress by 1 December 2014.	Rejected
International pensions	
14. That an individual's overseas state pension entitlements should be directly deducted against their own individual entitlement to New Zealand Superannuation and that any excess should not then be offset against the individual entitlement of their partner.	Rejected
15. That the Ministry of Social Development improve information and advice for recent and prospective migrants and returning New Zealanders on the implications of the direct deductions policy for their future retirement income.	Work already under way Commission Staff to meet with MSD officials.
16. That the Ministry of Social Development improve the public availability of decisions on the classification of overseas pension schemes whose pension payouts are subject to the direct deduction policy.	Work already under way Commission Staff to meet with MSD officials.

<p>17. That the Ministry of Social Development explain the rationale behind each international pension scheme classification.</p>	<p>Work already under way</p> <p>Commission Staff to meet with MSD officials.</p> <p>(A meeting did take place, but with little effect – refers also to recommendations 15 & 16).</p>
---	---

The 2013 Review was also somewhat unusual in that it was subject to an independent critique (albeit by someone who had made a submission and been involved in earlier Reviews). This critique concluded that:

When the recommendations are put in one place, the document seems very conservative, which is probably because past reports have been largely ignored by governments. Being published just prior to Christmas 2013, the report received limited media coverage and probably had limited influence within government circles. This lack of coverage and influence should be of grave concern to policy makers who have to consider long-term fiscal impacts from population ageing. Individuals should be concerned, as the lack of detailed policy development gives politicians too many opportunities to alter both NZS and KiwiSaver. The hard decisions are left for other reviews, but the commission has been around long enough to have done the required analysis themselves (Stephens, 2014).

Review Seven: 2016

Terms of Reference and process

Terms of Reference for the 2016 Review had a very familiar look about them (see Appendix Three) but the process followed was radically different from any that had gone before.

In the words of the newly branded Commission for Financial Capability (CFFC) digital technology was used extensively to drive awareness and deliver material that was accessible, interesting and consumable, and to consult with the public. The core target of the work was New Zealanders aged 30-55 who were at a critical life stage in preparing for retirement (whether they knew it or not) given that financial, career, family and home ownership decisions across that period have a big impact on retirement outcomes.

The motivation for the change in approach was clearly laid out in the final report of the Review, tabled in Parliament on 19th December 2016⁴⁹:

How do we inform the public and drive awareness when the discussion is highjacked by circular, jargon-filled rhetoric and remains the preserve of academics and officials? A printed report, no matter how good, will fail to capture the public imagination. It will be another case of content written by “experts” for experts, peer-reviewed by experts to confirm firmly entrenched views that don’t get changed by reports. If the subject of an ageing population and its associated costs remains opaque to the public they will be informed, and misinformed, by soundbites such as “we can afford it” - as the only consumable pieces of information available. Those soundbites need to be replaced by a more substantive, relevant, meaningful public discourse on the subject in plain English. With that in mind, public engagement became a central plank of Review 2016.

In keeping with the Terms of Reference, seven major themes were explored, spread across seven months:

- KiwiSaver;
- Decumulation;
- Ageing workforce,
- Who pays for what;
- Vulnerable groups;
- Who gets what; and
- The international picture.

Each month was represented by a one-minute animated video, still to be found on the CFFC website⁵⁰. Visitors to the site were invited to click on the topics that interested them and to:

dig deeper, unearthing submissions, white papers, research, statistics, interviews, media stories and recommendations – 226 pieces of content in total.

⁴⁹ <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/Policy-Position/e6dac4f49c/2016-Review-of-Retirement-Income-Policies-Tabled-Report-19.12.16.pdf>.

⁵⁰ <https://www.cffc.org.nz/reviews-and-reports/2016-review-of-retirement-income-policies/>.

As described by the CFFC, the approach aimed to drive public engagement, build awareness and break the issues down so that each got an ‘airing’, without being overshadowed by arguments about the age of eligibility for NZS.

The news media engaged with the process and 1,450 stories ran, with a cumulative audience reach of 11.4 million New Zealanders.

A “roaming tent” was set up in many locations around New Zealand and hundreds of people stepped in to record interviews across New Zealand in a series called “Tales from the Tent”.

Those and other videos covering retirement income issues and had more than 210,000 views across Facebook and You Tube.

Thousands of New Zealanders contacted the Commission for Financial Capability to tell their stories. Over 11,200 surveys were completed, with people leaving an additional 11,600 comments – many of which were very detailed.

Those qualitative stories challenged the quantitative data. For example, workforce participation for New Zealanders in their 50s was high at 84% and unemployment low at 3.5%, yet many spoke about their humiliating struggle to find work and the fear of running down their retirement savings before they reached 65. This situation left them feeling angry, disengaged and hopeless.

The CFFC worked with Treasury, Ministry of Social Development (MSD) Ministry of Business, Innovation and Employment (MBIE) Financial Markets Authority (FMA) and Inland Revenue Department (IRD) on reviewing data and reports to date (including Treasury’s Long-Term Fiscal Statement) identified gaps and commissioned papers where needed. The CFFC was careful to avoid duplicating work that others had already done (acknowledging that the taxpayer could reasonably expect not to pay two agencies to do the same thing).

In December the Commission brought the resulting 226 pieces of content together including submissions, surveys, research, interviews, videos, presentations, reports and recommendations and uploaded them all onto a Wirewax digital interactive platform accessible via the CFFC site.

The content could be viewed easily on desktop, mobiles and tablets. Viewers could either spend a few minutes looking at videos across the seven themes or can drill down into survey results or go through the “Heavy stuff” section and read reports or look through the recommendations.

All the survey results, including the 11,000 + comments were made publicly available. Viewers could share the content or download/email it to themselves with one click.

The work was uploaded in two stages with a week in between to allow Ageing Workforce and KiwiSaver recommendations to get some airtime before the recommendations on NZS.

On the first day of the release of the 2016 Review it gained more views than Review 2013 gained in three years. The platform was dynamic, and the CFFC committed to add further content throughout 2017.

In addition to the website content, CFFC issued ‘The Little Book of Graphs’ containing 24 graphs on the ageing population. This became “a surprisingly popular ‘coffee table book’”⁵¹.

⁵¹ <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/2016-Review-Of-Retirement-Income-Policies/Ageing-Workforce/Heavy-Stuff/87b48ca456/346-Ageing-Workforce-Little-Book-Of-Graphs.pdf>.

Outputs

Instead of a traditional report, each theme was explained by a “Toys Talk Retirement” Video, along with a menu of options leading to other material:

- A Snapshot of the current state of knowledge about the theme;
- What NZ told us: based on a public survey;
- Making headlines: media coverage of the Review, with particular reference to the theme
- Caught on camera: some “vox pop” videos;
- Heavy stuff: i.e. background papers;
- Even more (additional material);
- Change today recommendations - for immediate action, in the short term; and
- Change tomorrow recommendations for the long term, where more work was required.

Recommendations

The final 26-page report (Commission for Financial Capability, 2016) explained the reasoning behind recommendations related to KiwiSaver, decumulation of assets, the ageing population, housing and “who pays for what”. The report repeated the 2010 and 2013 recommendations that the age of eligibility for NZS should gradually be raised to 67, and did not conclude that there was any need to change the basic public/private mix of retirement income:

Long-term projections show that NZS costs are increasing because of the rising number of recipients and the fact we are living longer. Retaining current NZS policy settings will cost more in the future with a lower ratio of working age people to meet these costs.

Future NZS recipients are dependent on the willingness of future governments to spend more on NZS and for future taxpayers to meet these costs. Affording NZS in the future will likely require raising taxes, spending less in other areas, borrowing or a combination.

Increasing the age of eligibility to 67 by 2034 will reduce costs by around 10% (\$3.56 billion) per annum. This would help contribute to the longer-term affordability.

An alternative funding mechanism is a contributory based system or compulsory savings. These systems add complexity, tend towards greater social inequity, particularly for women, and move away from the universal nature of NZS.

New Zealand’s pay-as-you-go system should remain as the primary funding mechanism to support a stable superannuation system. With an increase in the age of eligibility and resumed contributions to the New Zealand Superannuation Fund the country will be better positioned to afford NZS long-term.

In addition, as KiwiSaver balances grow, funded by individuals and employer contributions, they will increasingly become a substantive part of retirement income to supplement New Zealand Superannuation.

Crown contributions should resume to the NZSF which is part pre-funding towards future NZ Superannuation costs. This effectively spreads costs between generations, rather than relying entirely on future taxpayers to meet future costs.

Beyond retirement income, recommendations were aimed at other, complex factors that contribute to financial vulnerability in retirement. The long-standing issue of direct deductions of international pensions was also revisited.

The final report included a summary list of recommendations, along with a fuller, more comprehensive narrative on each one. The recommendations were divided into those for “Change Today” (immediate action) and “Change Tomorrow” (where more work was needed).

The summary is reproduced below, with the Government response as communicated by the Minister of Commerce and Consumer Affairs in a letter dated 7 June 2017. Where known, further outcomes are also noted in brackets.

Table five: Recommendations plus Government Response

Recommendation		Government Response
1. KiwiSaver		
<i>Change today</i>		
1.1	Increase employer and employee contributions from 3% to 4%.	Rejected
1.2	Automated option to increase member contributions up to a certain level.	Rejected
1.3	Add 6% and 10% to increase the range of employee contribution rates options.	More work required (subsequently implemented)
1.4	Decouple the age of access to KiwiSaver funds from NZ Superannuation and discuss appropriate eligibility age for access to KiwiSaver funds.	Government has announced its intentions to do this
1.5	Allow people over 65 years to join KiwiSaver.	Government has announced its intentions to do this (Subsequently implemented. As a result, the minimum 5 years of Member Tax Credits no longer applies to those joining after age 60)
1.6	Change the name of ‘contributions holiday’ to ‘savings suspension’ and reduce the maximum time to one year.	Supported in principle, was considering (Subsequently implemented)
1.7	KiwiSaver providers to disclose the total dollar cost of all fees on annual statements.	Government has announced changes in this direction
<i>Change tomorrow: more work required on</i>		
1.8	Non-contributing members and Member Tax Credits (MTCs).	Undertaking work on this, but no significant benefit in changing name of MTC
1.9	Increasing the coverage of KiwiSaver.	Supports in principle
1.10	Align KiwiSaver participation information and data reporting.	Rejected
1.11	Allow membership of more than one KiwiSaver scheme.	Rejected
1.12	Default funds.	Government will continue to monitor
1.13	Decumulation options.	Government will continue to monitor

1.14	Total remuneration approach disincentive for KiwiSaver.	Rejected
2. Decumulation		
<i>Change tomorrow: more work required on</i>		
2.1	More work required on tools and information, along with identification of needs.	Government will continue to monitor
3. Ageing workforce		
<i>Change today</i>		
3.1	National conversation and attitude change towards older workers.	Office for Seniors working on this
3.2	Retraining and career transition support for people over 50.	Rejected
3.3	Improve tools and capability to manage an ageing workforce.	Some work going on
4. Who pays for what		
<i>Change today</i>		
4.1	Crown contributions to the New Zealand Superannuation Fund should resume.	Government restated policy of recommencing contributions when core Crown net debt falls below 20 per cent of GDP, and continuing to tax NZSF (Contributions subsequently resumed by the next Government)
5. Vulnerable Groups		
<i>Change today</i>		
5.1	Additional assistance for people over 50 who are seeking work.	No response
5.2	Improving financial capability.	No special additional work
5.3	Retraining and career transition support for those over 50	Rejected (same as 3.2)
5.4	Review and adjust supplementary allowances	Rejected
<i>Change tomorrow</i>		
5.5	Increase the provision of suitable housing for older people.	Work currently going on – not particularly targeted at older people
5.6	Support for those caring for others.	Work currently going on
6. Who gets what		
<i>Change today</i>		
6.1	Increase the age of eligibility to 67 years for New Zealand Superannuation.	Government policy in 2017 (subsequently rejected by the next Government)
6.2	Increase the length of residence required for New Zealand Superannuation from 10 years to 25 years.	Government policy was 20 years (Private Member's Bill for 20 years introduced to Parliament in 2019)

6.3	Remove the non-qualifying partner option.	Rejected by the Government of the day (But included in the New Zealand Superannuation and Veteran's Pension Legislation Amendment Bill being passed through Parliament in 2019)
6.4	Reform the direct deductions policy for overseas state pensions.	Rejected (But removal of spousal deductions included in the New Zealand Superannuation and Veteran's Pension Legislation Amendment Bill) ⁵²
6.5	Review and adjust supplementary allowances.	Rejected
7.	Who gets what	
7.1	No recommendations	

As with 2013, the 2016 Review was independently (and unsolicited) critiqued by external parties. They were unimpressed:

We were very disappointed with the Retirement Commissioner's 2016 review of retirement income policies. The findings, cloaked in a jokey, cartoon-like presentation on the web site of the Commission for Financial Capability, amounted to a series of 34 recommendations and observations with little to no supporting evidence for most of them....

The Retirement Commissioner's 2016 Review was a wasted opportunity; an evidence-free zone. Asking people what they think about retirement and saving issues is particularly unhelpful; finding out what they do is much more important. That requires the gathering of evidence (Littlewood & Chamberlain, 2017).

The same authors have updated their report in 2019 and posed 133 Questions that they believe need to be addressed in 2019, or by future Reviews (Littlewood & Chamberlain, 2019)⁵³. It should be noted that one of the authors of this critique (Michael Littlewood) was a member of the original Todd Task Force – in some senses bringing us back to where we started, and to the 2019 Review that is underway as these words are being written. Terms of Reference for the 2019 Review can be found on the last page of this report, in Appendix Three.

⁵² The Explanatory Note introducing this bill describes the consultation process undertaken with political parties but makes no reference to the 2016 Review recommendations.

⁵³ To be found at <https://alt-review.com/>

References

- Belgrave, M. (2012). *Social Policy History: Forty Years on, Forty Years Back* Paper presented at the Affording our Future, Wellington. <https://www.victoria.ac.nz/sacl/centres-and-institutes/cpf/publications/pdfs/1.8-Belgrave-paper.pdf>
- Bolger, J. (1998). *Bolger: A View From the Top. My seven years as Prime Minister*: Viking.
- Commission for Financial Capability. (2016). *2016 Review of Retirement Income Policies*.
- Commission for Financial Literacy and Retirement Income. (2013). *Focusing on the Future: Report to Government. 2013 Review of Retirement Income Policies*.
- Consultative Committee. (1988). *Tax Treatment of Superannuation*.
- Douglas, R. O. (1988). *Consultative Document on Superannuation and Life Insurance*
- EY Ltd. (2019). *Growing New Zealand's Capital Markets 2029: A vision and growth agenda to promote stronger capital markets for all New Zealanders*
- Financial Services Council. (2019). *KiwiSaver 2050: Pathways to the Future*.
- Hanson, E. (1980). *The Politics of Social Security: The 1938 Act and some later developments*: Auckland University Press and Oxford University Press.
- Harris, P. (2012). *New Zealand's Retirement Income Framework: trends, continuity, change. Background paper prepared for the 2013 review of retirement income policy*.
- Hawke, R. (2005a). Providing for retirement: some key issues. *Policy Quarterly*, 1(2). doi:10.26686/pq.v1i2.4233
- Hawke, R. (2005b). *Retirement Income Provision in New Zealand: a way forward*. Wellington: Institute of Policy Studies, Victoria University of Wellington.
- Holzman, R., & Hinz, R. (2005). *Old-age income support in the 21st Century*.
- Littlewood, M. (2008). *A condensed history of public and private provision for retirement income in New Zealand - 1975-2008*.
- Littlewood, M., & Chamberlain, M. (2017). *The Missing 2016 Review: building trust for life beyond work*.
- Littlewood, M., & Chamberlain, M. (2019). *Informing the 2019 Review: 133 questions that New Zealand needs answered*.
- OECD. (2016). *OECD Pensions Outlook 2016*.
- OECD. (2018). *OECD Pensions Outlook 2018*.
- Periodic Report Group. (1997a). *Retirement Income Report : a review of the current framework (interim report)*.

- Periodic Report Group. (1997b). *Retirement Income Report: Building stability (Concluding report)*
- Periodic Report Group. (2003). *Retirement Income Report*.
- Preston, D. (2008). *Retirement Income in New Zealand: the historical context*.
- Retirement Commission. (2007). *Review of Retirement Income Policy*.
- Retirement Commission. (2010). *Review of Retirement Income Policy*.
- Retirement Income Act (1993).
- Savings Product Working Group. (2004). *A Future for Work-Based Savings in New Zealand: Final Report*.
- Savings Working Group. (2011). *Saving New Zealand: Reducing Vulnerabilities and Barriers to Growth and Prosperity: Final Report to the Minister of Finance*
- Stephens, R. (2014). Focusing on the future: a summary and critique of the 2013 retirement income report. *Policy Quarterly*, 10(3). doi:10.26686/pq.v10i3.4496
- St John, S. (1991). 'Retirement Income', in Hawke, G. (ed.) *A Modest Safety Net? The Future of the Welfare State*. Wellington, Institute of Policy Studies, pp. 50-63.
- Task Force on Private Provision for Retirement. (1991). *Private provision for retirement, the issues : interim report*.
- Task Force on Private Provision for Retirement. (1992a). *Private provision for retirement : the options*
- Task Force on Private Provision for Retirement. (1992b). *Private provision for retirement : the way forward (final report)*.
- Todd, J. (2008). *Superannuation Task Forces in the 1990s and the Political Accord*. Paper compiled by the Retirement Policy and Research Centre (RPRC) with the assistance of M.Claire Dale, from a presentation at the RPRC Symposium on Retirement Income Policy, "Looking back and looking forward", 16 April, 2008, University of Auckland Business School. RPRC Monograph 2008-1. <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/OtherPapers/Superannuation-task-forces-in-the-1990s-and-the-political-accord.pdf>

Appendix One: The Origins of New Zealand's Pension System

Bismarck was first

Credit for the world's first national old-age social insurance (pension) program generally goes to Germany's Chancellor, Otto von Bismarck, who introduced his scheme in 1889. The idea was first put forward in a letter to the German Parliament, stating ". . .those who are disabled from work by age and invalidity have a well-grounded claim to care from the state." However, Bismarck had mixed motives. He introduced social insurance both "in order to promote the well-being of workers in order to keep the German economy operating at maximum efficiency, and to stave-off calls for more radical socialist alternatives"⁵⁴. The retirement age was also set at 70 years, and life expectancies at the time were such that not many people lived long enough to get the pension.

New Zealand's experience in the 19th Century

Extracted from Preston (2008)⁵⁵

England has had some degree of public financial provision for supporting the elderly since at least the 16th century. For example, the English Poor Laws provided for the destitute elderly to be financially supported by local or parish property rates. This largely rural-based system came under increasing strain as the population shifted to urban areas and was not transplanted to New Zealand during 19th century colonisation. New Zealand began its modern era without any form of public pensions for the elderly.

The 19th century British colonists did not bring the Poor Law into New Zealand, and the relatively small number of elderly Pakeha were expected to provide for themselves or be supported by their families. Older Māori were supported in the traditional way by their whānau or extended family.

The expectation that immigrants would provide for themselves and their family members was enshrined in the Destitute Persons Ordinance of 1846 and subsequent Destitute Persons Acts in 1877, 1883 and 1894. New Zealand was seen as a land of opportunity and the government focus was on getting individuals and families to be self-supporting through developing land, setting up businesses, or obtaining waged and salaried work. New Zealand was to be a land without poverty, and thus a land that did not need public income support for the elderly or others.

This theory did not entirely match the facts, despite the prosperity of the 1860s and 1870s. Some settlers were unable to escape poverty and their numbers grew in the wake of the "Long Depression" of the 1880s and 1890s. In addition, many older, single workers, particularly single men, had no family in New Zealand and appeared to suffer unemployment or under-employment more than the fitter, young workers.

There were few elderly people in the early decades of settlement. As late as 1881, people aged 65-plus comprised only 1.3 per cent of the Census population. Average life expectancy for males was only 54 years, and less than half of those born could expect to reach 65 years of age.

The lack of a formal public pension system did not mean the public sector did not help the elderly. A small group received Imperial or New Zealand war pensions for military service, and some former public servants obtained government pensions on retirement. The really destitute elderly could

⁵⁴ <https://www.ssa.gov/history/ottob.html>.

⁵⁵ <https://cffc-assets-prod.s3.ap-southeast-2.amazonaws.com/public/Uploads/Retirement-Income-Policy-Review/Background-papers/History-and-trends/27b4c9b6d8/RI-Review-BP-Retirement-Income-History-2008.pdf>.

receive charitable aid, which attracted some government subsidies. This process, pioneered in the original provinces, was formalised in the Hospitals and Charitable Aid Act 1885. However, the majority of those aged 65-plus had to find their own source of support throughout the 19th century.

By the late 19th century the problem of poor elderly people was growing. People aged 65-plus reached 2.1 per cent of the population in 1891 and 3.8 per cent by the 1901 Census. Demographic projections indicated that the proportions would keep on rising.

The late 19th century saw a vigorous debate on the appropriate way to respond to the growing numbers of relatively poor elderly people. Some proposed widening the scope of family responsibility or private charity, while others favoured expanding the role of Friendly Societies, or replicating the English Poor Law. Colonial Treasurer Sir Harry Atkinson proposed a compulsory national insurance scheme in 1882. Others proposed a universal pension. Funding any public pension was a key problem for the debt-burdened Government.

In 1898 the New Zealand passed into law *An Act to Provide for Old-Age Pensions*⁵⁶. Preston (2008) also describes the first decades of pensions policy and evokes many themes that have resonated throughout history, and which help to set the scene for developments from 1990 onwards.

1898-1990

Abridged from Preston (2008). Also see Hawke (2005a, 2005b)

The 1898 Old Age Pension was subject to a rigorous means test that covered both income and assets. The pension was set at a maximum of £18 a year (about a third of a working man's wage) and twice this for a couple. Other provisions included evidence of good character (designed to exclude criminals, drunkards and wife-deserters⁵⁷) and the requirement to apply in a public court session. Overall, slightly more than one-third of the population aged 65-plus qualified for the pension. The total costs were calculated as being only one-third of the alternative cost of a universal pension set at the same rate.

Māori were entitled to the pension, although the inclusion of shares of communally owned Māori land as individual assets for asset test purposes and other targeting measures meant that most Māori received less than the full £18 rate⁵⁸. Asians were excluded⁵⁹, a discrimination that continued until the Pensions Amendment Act 1936, which also stopped Māori land being included in the asset test.

The 1898 pension structure lasted four decades and substantially shaped the subsequent Age Benefit that emerged from the Social Security Act 1938. The relationship of the Old Age Pension to wages varied within this period, as did the stringency of the means test. However, the combination of moderate pension rates and tight income and asset testing allowed:

⁵⁶ A copy of the Act can be found at <http://nzetc.victoria.ac.nz/tm/scholarly/tei-GovActs-t1-g1-t4-g1-g3-t1.html>.

⁵⁷ Or husband deserters. Although the Act is almost entirely written in the masculine, women were also eligible for the pension.

⁵⁸ It was also necessary to provide proof of age (although this requirement could be waived by the Magistrate considering the claim) and it was more difficult for most Maori born in the 1830s than for Pakeha to provide documentary evidence of date of birth (<https://nzhistory.govt.nz/old-age-pensions-act-passes-into-law>).

⁵⁹ The Act specifically did not apply to "Aliens", Naturalised subjects unless they had been naturalised for at least five years, and "Chinese or other Asiatics, whether naturalised or not".

- real poverty among the elderly to be avoided without massive cost; and
- the cost of a rising proportion of older people to be met within early 20th century budget constraints.

There was continuous debate on alternative approaches to pensions, reflecting the contentious means testing and the fact that the system did not appear to provide for the retirement income aspirations of middle- and upper-income groups. The options of compulsory social insurance, tax concessions for private provision and universal pensions each had their supporters.

Early 20th century initiatives

With the highly targeted Old Age Pension in place, New Zealand governments looked for ways to encourage people to provide for their retirement privately rather than expanding the scope of the tax-funded pension.

In 1910, the National Provident Fund was set up, providing large government subsidies for those who joined as contributors to its superannuation scheme. However, despite virtually pound-for-pound subsidies in its early years, the Fund attracted only a minority of earners.

A second wave of initiatives involved tax concessions for private superannuation. In the Finance Act 1915, individuals contributing to private superannuation funds received deductions from taxable income of up to £100 a year. In 1916 concessions were extended to the investment earnings of superannuation funds, and in 1921 employer contributions qualified for tax concessions.

The 1938 Act

The Social Security Act 1938 installed a two-tier public pension system that was also to last for nearly four decades. The main feature of the 1938 scheme for pensioners was an enhanced, non-taxed but means-tested pension called the Age Benefit. This came into effect in 1939 and was largely the Old Age Pension under a new name. However, the age of entitlement was lowered from 65 to 60 and the pension was boosted to 30 shillings a week, or £78 a year. In effect, pension rates had risen by 71 per cent in four years, shifting pensioners from a somewhat marginal situation after the austerity measures of the early 1930s to a very favourable economic position by contemporary standards.

Universal Superannuation

At age 65 those not entitled to the Age Benefit received a small Universal Superannuation payment of £10 a year effective from 1940, plus the promise that this payment would gradually be increased to match the Age Benefit. However, it was not until 1960 that this point was actually reached.

At its inception the new pension scheme was expensive, with more costs signalled through the Universal Superannuation promise. A new Social Security tax of 5 per cent of earnings (one shilling in the pound) was introduced to cover the increased costs of pensions, other social security payments and health. However, in practice the tax was not enough, and much of the social security cost increases had to be funded from general revenues.

Pensions and the post-war boom

The 1938 Act placed age beneficiaries in a favourable economic situation⁶⁰. Even as late as 1947 the Age Benefit for a couple was equal to about 72 per cent of the average ordinary time wage after tax, although subject to an income and asset test.

However, after World War II the needs of returned servicemen and their families and the rebuilding of an infrastructure base depleted by six years of war took higher priority than pensions. Health, education, housing, roading and power development all competed for public funds. An increase in the social security tax rate to 7.5 per cent (one shilling and sixpence in the pound) was earmarked to fund the 1946 Universal Family Benefit. In practice, time and circumstances eased the problem of funding the 1938 pension commitments. After 1945, production and real wages rose strongly for several decades. A policy of allowing the Age Benefit to decline in relation to wages eroded its relative costs without actually reducing the living standards of age beneficiaries. The special tax treatment of Universal Superannuation also recouped some of its rising cost.

During the 1950s and 1960s the Age Benefit for a couple varied between 50 and 60 per cent of the average gross wage, with a general downward trend. The downtrend was less marked as a proportion of net wages, as taxes were rising as a proportion of average wages.

As late as 1972 the Age Benefit for a couple was around 68 per cent of net ordinary time wages. However, the gradual decline in the relative incomes of many older people in a time of general prosperity created pressures to reconsider public pensions. Pensioners considered they had not shared in the growth of living standards to the same extent as wage earners or other employed groups.

Some of the pressure was relieved by providing more special assistance in the 1950s and 1960s, and by raising the benefit rate for a single person from 50 to 60 per cent of the married rate (recognising that single retirees often had higher living costs than couples who were sharing a household). The better-off group among the retired had also gained from the continuing rise in payment rates for Universal Superannuation. The abolition of the asset test on the Age Benefit in 1960 also benefited some of the older group (although the income test was retained).

The 1970s – renewed debate

By the 1970s public pension policy had moved back to the top of the political agenda.

Three major changes took place:

- In 1972 the Royal Commission on Social Security recommended higher real pension levels, with parallel proposals for increased rates for other benefits. Pensioners received a boost in the real rates of Age Benefit and Universal Superannuation – by 1976 the Age Benefit for a couple had risen to over 72 per cent of net ordinary time wages. However, these changes represented increased generosity within the existing system; the basic two-tier pension structure itself did not change⁶¹;

⁶⁰ Harris (2012) points out that in 1898, policy focused almost entirely on the alleviation of poverty and hardship in old age, and never sought to do much more than cover the necessities of life. The 1938 Act brought more attention to bear on wellbeing and a “citizenship dividend”.

⁶¹ The Royal Commission also defined the responsibility of the state as ensuring ‘that everyone is able to enjoy a standard of living much like that of the rest of the community and thus is able to feel a sense of *participation and belonging* to the community (Belgrave, 2012; emphasis added). Thus, in relation to pensions policy, it could be argued there was a

- In 1975 the third Labour Government set up a compulsory contributory superannuation scheme. Combined contribution rates for employees and employers were to be phased up to 8 per cent of earnings, funding individual contributions-related pensions at retirement⁶². The contributory scheme was short-lived and repealed by the newly elected National Government in 1976; and
- In place of the contributory pension, the new Government announced a revised National Superannuation scheme for a taxable universal pension at age 60, effective from 1977. The new scheme meant the pension for a couple was to be set at 80 per cent of the average wage by 1978, and for a single person at 60 per cent of the married pension. As was already the case, ten years of residence in New Zealand were required to qualify and there were no income or asset tests. There was no requirement to be actually retired to claim the pension.

Consequences of National Superannuation

The new National Superannuation scheme involved a massive rise in costs, the result of higher pension levels, the abolition of the income test previously applied to the Age Benefit, and the increased numbers who qualified.

Between 1975 and 1977 alone, the number of people receiving a public pension rose 28 per cent. Total pension costs increased by 69 per cent between 1975-76 and 1977-78, although a part of this cost reflected the shift from a non-taxed Age Benefit to taxable National Superannuation. However, in one year National Superannuation had become the most expensive single cost in the government budget.

Pension costs had already risen from 3 per cent of Gross Domestic Product in 1971-72 to 4.1 per cent of GDP in 1975-76, partly as a consequence of the Royal Commission proposals. By 1978-79 National Superannuation had pushed this cost ratio to 6.9 per cent. A projected rise in the proportion of the elderly in the population indicated this cost ratio would keep on rising if National Superannuation continued on its announced basis.

There were no dedicated tax increases to cover the increased costs of the expanded pension spending. At the same time, New Zealand's medium-term economic situation deteriorated from the mid-1970s, adding to the strain on government finances. The results were a large overseas borrowing programme and a series of initiatives by successive governments to trim the costs of the new pension scheme and remove tax concessions for private provision. This policy shift reflected a swing back to concerns about the affordability and sustainability of the public pension system.

Cutting back superannuation – 1979-89

The National Government made the first cutback in the National Superannuation scheme in 1979.

progression from poverty alleviation in 1898 to wellbeing to participation and belonging, although all these factors are interrelated, and the later ones subsume, not replace, the earlier.

⁶² Progressively trading off against, and eventually replacing, public provision (Hanson, 1980 p 144); see also https://www.maxim.org.nz/looking_back_to_look_forward_how_welfare_in_new_zealand_has/

A major consideration of the Labour Government scheme, played down at the time, was the savings and investment potential of the superannuation fund (Hanson, 1980). As with Bismarck's original scheme, and often the case in retirement income policies, there were mixed motivations and objectives.

The original legislation had provided for gross pensions to be set at 80 per cent of gross ordinary time wages. However, wage earners on average paid higher tax rates than superannuitants without other income. This meant that by 1978 the net rate of National Superannuation for a couple was over 89 per cent of net after-tax wages. In 1979 the wage-link provision was changed to reduce the net rate of National Superannuation for a couple to 80 per cent of net ordinary time wages after tax. Because prices and wages were then inflating at high rates, this change did not involve any actual reduction in superannuation rates.

In 1985 the fourth Labour Government introduced a taxation surcharge on the other income of National Superannuitants. While this was not legally an income test, it had a similar effect. In the first year of the surcharge about 10 per cent of superannuitants paid the equivalent of their full superannuation back in surcharge payments, and about 13 per cent repaid a partial amount. This total of 23 per cent affected by the surcharge compares with the two-thirds excluded under the original 1898 means test on the Old Age Pension⁶³. However, the surcharge was highly unpopular with superannuitants⁶⁴. Over the period 1987 to 1990 tax concessions on contributions to private and occupational pension or superannuation schemes were abolished, as were tax concessions to the superannuation funds themselves⁶⁵. The funds were required to pay standard company tax rates. The new “level playing field” on investment meant that private superannuation paid out from fully taxed funds was tax free for recipients. For surcharge purposes half of any private pension was counted as income⁶⁶.

⁶³ Not all of those who didn't receive the Age Pension were excluded by the income test. There were other reasons as well - e.g. the good character test.

⁶⁴ This is an understatement. The author of this report still has vivid memories of a former colleague, latterly retired, appearing on Television incandescent with rage and bitterly denouncing the Government's “betrayal”. More time and research would be required to uncover other than anecdotal evidence about public perception of the surcharge in the 1980s and 1990s. However, as related in the body of this report, Jim Bolger's memoir (2008) attests to the climate of the time.

⁶⁵ In a Consultative Document on Superannuation and Life Insurance issued in March 1988, Minister of Finance Roger Douglas reaffirmed that the tax treatment of superannuation and life insurance would be moved onto the same basis as other forms of savings and investment. “The application of a consistent tax treatment for income from alternative types of investment puts an end to a variety of tax avoidance practices which have been used for the benefit of a few at the expense of the community as a whole”. The consultative document discussed the reasons behind that decision and presented detailed proposals for the implementation of a non-concessionary regime (moving the tax treatment of life insurance and superannuation “closer to the desired neutral regime”)

In June 1988 a Consultative Committee chaired by Dr Don Brash responded to Mr Douglas in a 163-page report. The Committee had no argument with the proposition that “there is no good basis for providing tax privileges to particular types of institutions” and endorsed the general principle of neutrality in tax matters. Nevertheless, Dr Brash wrote that “(W)e would be failing in our duty, however, if we did not report to the Minister that the overwhelming majority of submissions received were very strongly opposed to the policy which Government has announced in this area....(M)any of those professionally involved in providing superannuation services....resented Government's policy announcements as a fait accompli. Two submissions actually called upon the Committee to resign immediately, on the grounds that the whole consultation process was a farce....”

Furthermore, “(M)any submissions expressed grave concern at the number of changes which had afflicted superannuation arrangements over the years since 1975. More than one submission claimed that there had been five major changes in the policy framework relevant to superannuation during that 13-year period” (p.7)

It was the unanimous view of the committee that “every effort be made to ensure a bipartisan approach to the whole question of the provision of retirement income in New Zealand.”

⁶⁶ For more on the timeframe for changes in taxation, see <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/PensionBriefing/2008->

For a short period in 1985 and 1986 National Superannuation rates were adjusted by price movements. As prices were rising faster than wages at the time, the ratio temporarily exceeded 80 per cent of net wages again. However, this development was short-lived, and the ratio returned to 80 per cent by 1987⁶⁷.

In 1989 the Labour Government announced it was suspending the 80 per cent link of superannuation to wages. The renamed “Guaranteed Retirement Income” was to be adjusted by the lower of price and wage movement and intended to move in a band of between 65 and 72.5 per cent of net wages. The Government also signalled a future increase in the age of eligibility, although this was not to start until early in the 21st century.

A new “Single Living Alone” pension rate was announced for 1990, set at 65 rather than 60 per cent of the couple rate. Provision was also made to separately identify the part of income tax required to fund the pension. However, this arrangement did not proceed when the Government changed.

The early 1990s – further cutbacks and higher pension age

In 1990 and 1991 the new National Government introduced three main sets of measures to further trim the cost of the pension:

1. Pension adjustments for 1991 and 1992 were cancelled, and from 1993 onwards rates were to be adjusted by prices alone. By this period wages were rising faster than prices, so the measure implied a downward trend in the pension-wage ratio.
2. The age of entitlement was lifted from 60 to 61 effective from 1992, with a further phased increase up to 65 programmed for the period 1993 to 2001.
3. The taxation surcharge rate was increased from 20 to 25 per cent and the income exemption lowered so that more superannuitants were affected by the surcharge. The tighter surcharge replaced an initial proposal for an income test on superannuation⁶⁸.

As a result of the changes affecting public pensions under their several successive names, the share of public pensions in GDP reduced from nearly 8 per cent in the early 1980s to just over 5 per cent by the late 1990s, with major savings achieved. However, the speed and nature of the changes also produced considerable public concern over pension issues, a period of intense review of policy alternatives, and a search for political consensus on a more stable longer-term pension policy. This was the context for ushering in the series of Reviews discussed in the rest of the current report.

[5%20A%20condensed%20history%20of%20public%20and%20private%20provision%20for%20retirement%20income%20in%20New%20Zealand%201975-2008.pdf](#).

⁶⁷ There was another Royal Commission (on Social Policy) in 1986-88, which examined retirement income policy, but that Commission’s recommendations were overwhelmed by other, higher level, policy initiatives (Harris, 2012).

⁶⁸ The 1991 “Mother of all Budgets” replaced NZS with a welfare style pension and the surcharge with a joint “clawback with Effective Marginal Tax Rates (EMTRs) of as much as 98%. That and the subsequent reversal were factors that contributed to the establishment of the Todd Taskforce (Littlewood, 2008).

Appendix Two: A Chronology of Reviews and Associated Developments

Date	Report	Comment
December 1991	Private Provision for Retirement: The Issues. Interim Report of the Task Force on Private Provision for Retirement (The Todd Task Force). 80pp	<p>“The aim of this interim report is to set out the issues involved in private provision for retirement and to show the links between them. This is intended to provide a common focus and framework for community participation and involvement, as a precursor to our final report”</p> <p>Focus on private provision, but also interaction with public</p> <p>Includes a set of issues that remain relevant, though consideration of tax treatment of and regulation for private schemes has faded over time</p>
August 1992	Private Provision for Retirement: The Options; an overview. Todd Task Force. 129 pp	<p>Emphasised the importance of public understanding, debate and consensus</p> <p>Proposed three options for private provision. Three versions produced: a short information booklet, this overview/summary and a full report incorporating considerable technical information</p>
August 1992	Private Provision for Retirement: The Options. Todd Task Force. 379 pp	<p>Full report as above.</p> <p>Task Force “both conducted and accessed the findings of a number of surveys”. These are unlikely to be retrievable</p>
December 1992	Private Provision for Retirement: The Way Forward. Final Report of the Task Force on Private Provision for Retirement (Todd Task Force). 129 pp	<p>p. 5 “Although our terms of reference excluded a detailed examination of and recommendations related to public provision, we have recognised that there must be a close relationship between the two sources of retirement income...accordingly, the Government agreed that we should report on the wider issues relating to the right mix of public and private provision, as well as on specific issues at the boundary between the two....we have seen our role as finding the best mix of public and private provision to provide a</p>

		<p>sustainable retirement income system for all New Zealanders. Our consultations with all groups revealed overwhelming support for this approach”</p> <p>Supported improved voluntary provision and rejected the tax incentive option and the compulsory option.</p> <p>Contains a history of reforms 1975-1992 (p 366) to State provision and private schemes (Tax Treatment and Regulatory) including reference to the 1988 Brash Report</p>
1993	Accord on Retirement Income Policies. Signed between Alliance, Labour and National Parties. United joined in 1995.	<p>History is related in Grimes and Smith (eds) 1999 and Preston (2008)</p> <p>The Accord was included as a schedule to the Retirement Income Act 1993</p>
1993	Retirement Income Act 1993 (enacted 1994)	Provided for the existence of the Office of the Retirement Commissioner and 6-yearly reports
1993	Financial Reporting Act	Responding to Todd Task Force views on investor information
1994-5	Working group on improved Investment product and investment adviser disclosure	Referred to in 1997 PRG report
1996	General election	“The 1996 General Election resulted in a coalition between the National and New Zealand First Parties. New Zealand First was not a party to the Accord, was committed to abolishing the surcharge, The Coalition Agreement provided for a referendum on a SAYGO, contributory, privately invested scheme. The Coalition Agreement provided for a referendum on the superannuation savings scheme in 1997”.
1997	Retirement Income Report: A review of the current framework. Interim Report of the Periodic Report Group (PRG). 210 pp July	In part to inform public prior to referendum
1997	July the Government released for public information a report prepared for it by the Working Party on the Taxation of Life Insurance and Superannuation Fund Savings - generally known as TOLIS.	TOLIS put forward three taxation options for further consideration by the Government. Of the three options, the Government favours that involving a system of tax credits. The tax rate on fund earnings would remain at a flat 33%, but savers on lower tax rates

	August Government Discussion Document: The Tax Credit System. Taxing Superannuation Fund and Life Office Savings Through Tax Credits	could have the difference between 33% and their normal rate credited to their own fund account. The Government wants a workable answer to the problem by the year beginning 1 April 1998 and is consulting with the public and industry on the implementation of the tax credit proposal. If it results that the tax credit system cannot be available by then, the Government will consider adopting a flat rate lower than 33% as a temporary measure until the tax credit system is available.
1997	Superannuation Referendum (September)	A Compulsory Retirement Savings Scheme (CRSS) was designed and put to voters, 80.3 % voted, of whom 91.8% rejected it.
1997	Retirement Income Report: Building stability. Concluding report. Periodic Report Group. December. 97 pages	
1998	Surcharge abolished Taxation (Tax Credits, Trading Stock and Other Remedial Matters) Act	1 April November Act passed as a result of TOLIS work
1999	Can New Zealand Afford to Retire? The challenge of a sustainable, long-term retirement income policy. Issues paper from Super 2000 Task Force 13 pp	Task Force Disbanded by new Labour Government before it had the chance to report
2000	Report of Super 2000 Task Force	Not retrieved
2001	Superannuation and Retirement Income Act	Established NZ Superannuation Fund
2003	Retirement Income Report 2003. Periodic Report Group. 116 pp	Retirement Commissioner a Member of the still-named PRG
2004	State Sector Retirement Savings Scheme (SSRSS) was launched on 1 July for public service employees	
2004	The SuperGold Card, a discounts and concessions card issued free to all eligible seniors and veterans, was introduced in August	
2004	15 September Report of the Savings Product Working Group <i>A future for work-based savings in New Zealand</i>	From 2010 Review chronology
2004	16 November Stobo report on taxing investment income Towards Consensus on the Taxation of Investment Income	From 2010 Review chronology
2005	19 May. Securing your future: budget savings package	Included proposal for KiwiSaver (From 2010 Review chronology)

2005	28 June. Government discussion document: Taxation of investment income	Key proposals around collective investment vehicles, portfolio investment into foreign shares (From 2010 Review chronology)
2005	Amendments to New Zealand Superannuation and Retirement Income Act	The Act was amended to give future responsibility for Reviews to the Retirement Commission, and for such Reviews to be undertaken every three years, commencing in 2007
2005	Taxation (Tax Credits, Trading Stock and Other Remedial Matters) Act largely repealed	
2006	1 February Issues paper: Countering extreme salary sacrifice	From 2010 Review chronology
2006	6 September KiwiSaver Act enacted	From 2010 Review chronology
2006	Taxation (Savings Investment and Miscellaneous Provisions) Act enacted	Introduced PIEs, fair dividend rate method to non-Australasian portfolio share investments, minimise excess salary sacrifice. From 2010 Review chronology
2007	17 May. Budget 2007 tax changes	Reduction in company tax from 33 to 30 percent; KS enhancements. From 2010 Review chronology
2007	Review of Retirement Income Policy. Retirement Commission 95 pp	
2007	NZS - 66% at 65 (1 April)	This rate, which was struck as part of a political agreement, is included in the New Zealand Superannuation and Veteran's Pension Legislation Amendment Bill being passed through Parliament in 2019
2007	KiwiSaver introduced (1 July)	There have been numerous changes made to KiwiSaver, beyond the scope of this report. Various attempts have been made to tabulate these, for example a paper by the Retirement Policy Research Centre at the University of Auckland ⁶⁹
2007	PIE regime introduced (1 October)	The new Portfolio Investment Entity (PIE) rules which came into force on 1 October 2007, along with Fair Dividend Return (FDR) rule for all non-Australian portfolio share investment. From 2010 Review chronology
2008	22 May. Budget tax changes.	Personal tax reductions – bottom rate from 15% to 12.5%, thresholds to be raised. From 2010 Review chronology

⁶⁹ e.g. a 2014 paper <http://docs.business.auckland.ac.nz/Doc/WP-2014-1-KiwiSaver.-Now-we-are-six.pdf>

2008	15 December. Taxation (Urgent Measures and Annual Rates) Act	
2008	Financial Advisers Act passed	
2009	Capital Market Development Task Force December	Made 11 recommendations relating to tax. Increase neutrality, remove distortions re annuities.
2010	20 January. Tax Working Group Report – a Tax System for New Zealand’s Future	Recommendations re broadening tax base, changing tax mix, reducing and aligning tax rates. From 2010 Review chronology
2010	20 May. Budget 2010	Personal and company rate reductions and GST increase. From 2010 Review chronology
2010	24 August. Savings Working Group established	Scheduled to report in January 2011. From 2010 Review chronology
2010	Review of Retirement Income Policy. Retirement Commission. 144 pp	
2011	January. Savings Working Group Final Report to the Minister of Finance: Saving New Zealand: Reducing Vulnerabilities and Barriers to Growth and Prosperity	
2013	Focusing on the Future: A discussion document. Commission for Financial Literacy. 100 pp	
2013	Focusing on the Future: Report to Government. Commission for Financial Literacy. 100 pp	Minor changes from discussion document Ministerial response available
2016	Review of Retirement Income Policies. Commission for Financial Capability. 26 pp	Additional video outputs Ministerial response available
2017	NZ Superannuation and Retirement Income Act amended	To include a specific mandate for the Retirement Commissioner to promote financial education and information, and to advise on financial capability matters
2019	Future of Tax Final Report Volume I. Recommendations	

Appendix Three: Full Terms of Reference for Reviews 2007-2019 (Verbatim)

2007

The New Zealand Superannuation and Retirement Income Act 2001 requires the Retirement Commissioner to conduct a review of retirement income policies before the end of 2007.

The Government has policies relating to both the public and private provision of retirement income.

Public provision of retirement income is provided through New Zealand Superannuation, Veteran's Pension and the operation of the New Zealand Superannuation Fund. The Government also has policies to encourage the private provision of retirement income to supplement public provision. This is currently being implemented in two major ways:

- Through programmes run by the Retirement Commissioner aimed at educating people about the need to save for retirement.
- By the introduction of the KiwiSaver scheme from 1 July 2007.

There is now a broad level of agreement on the parameters for New Zealand Superannuation. In addition, many of the issues surrounding the private provision of retirement income were subject to consideration and debate during the passage of the KiwiSaver Act 2006.

The 2007 Review is to focus on those aspects of retirement income policy that build on this foundation and should include:

- In relation to the government's retirement income policies, an update of and commentary on the trends, and the likely future developments, since the production of the 2003 Periodic Report, that will affect, or will be likely to affect, the provision of retirement income. The commentary should identify any areas of risk, and should include (but not be limited to) areas such as:
 - owner occupied housing
 - level and composition of personal assets and debts
 - social attitudes of younger people in relation to consumption and savings.
- Commentary on any current policy settings which may be acting as a barrier to the continued employment of older people;
- Identification of any areas of policy development needed to enhance employment opportunities for older people, and for people with disability who want to work;
- Identification of the problems facing efficient utilisation of assets accumulated pre-retirement to meet the need for regular and predictable income at different stages of ageing, and suggestions as to potential solutions;
- Commentary on the risks, opportunities and barriers relating to the use of home equity products and any suggestions for change; and
- An independent assessment of the effectiveness of financial education available to and used by New Zealanders, utilising arms-length research.

2010

The New Zealand Superannuation and Retirement Income Act 2001 (the Act) requires the Retirement Commissioner to conduct a review of retirement income policies before the end of 2010. In accordance with the Act, the Government has provided these terms of reference which set out aspects of retirement income policy and topics for the Commissioner to discuss. The Commissioner may exercise her power under the Act to identify and discuss matters relating to retirement income policies that go beyond these terms of reference.

The government has policies relating to both the public and private provision of retirement income:

- Public provision of retirement income through New Zealand Superannuation and Veteran's Pension, supported by the operation of the New Zealand Superannuation Fund to smooth the cost over time;
- The government also has policies to encourage the private provision of retirement income to supplement private provision. This is being implemented in two major ways:
 - Through programmes run by the Retirement Commissioner aimed at educating people about the need to save for their retirement; and
 - Through the KiwiSaver scheme.

Topics for the 2010 Review

In the 2010 Review, the Government expects a brief commentary on the developments and emerging trends in the retirement income provision area since the 2007 Review.

The Government then seeks analysis of the impact and relevance of policy settings that impact on retirement income under a broad framework of three key standpoints:

1. The way that government agencies work together and contribute to effective retirement income policy;
2. The role of New Zealand's financial services sector in relation to retirement income provision; and
3. The future wellbeing of New Zealanders in their retirement years, and what this might mean for their communities, and for local and central government

The first standpoint should include consideration of the interaction of retirement income policy with policies on housing, long term care and health, as well as data requirements for reliable forecasting and modelling.

The second standpoint should include a discussion of the products financial services were or could be providing, including KiwiSaver, and an analysis of what further might be done to enhance markets and consumer trust in this sector. The appropriateness of the conservative investment allocation settings for the six default KiwiSaver schemes was an example of a matter that should be discussed.

The third standpoint should address the wellbeing of the current and future retired population including particular population groups such as women and discuss the role that communities and government could play. It should include investigation of how the global financial crisis might affect the adequacy of retirement income provision for individuals at various live stages.

2013

Legislative requirements

Under the New Zealand Superannuation and Retirement Income Act 2001 the Retirement Commissioner is required to conduct a Review of Retirement Income Policies by 31 December 2013.

Retirement income policies

In New Zealand retirement income policy is a mix of public and private provision. Public provision of retirement income is provided through New Zealand Superannuation and Veteran's Pension, supported by the operation of the New Zealand Superannuation Fund to smooth the cost over time. Policies encouraging the private provision of retirement income include the voluntary KiwiSaver scheme and programmes run by the Retirement Commissioner aimed at educating people about the need to save for their retirement. The Commissioner is supported in this role by the Commission for Financial Literacy and Retirement Income.

Topics for the 2013 Review

1. An update of and commentary on the developments and emerging trends in the retirement income provision area since the 2010 Review, both within New Zealand and internationally
2. The intergenerational impacts of New Zealand's retirement income policy, with due consideration given to:
 - a. The effects of increased longevity on present retirement savings schemes
 - b. Alternative retirement savings approaches
 - c. The sustainability of New Zealand Superannuation
3. An assessment of the role of private savings for retirement. This assessment should cover:
 - a. Trends in KiwiSaver, particularly withdrawal patterns of those retiring and the issues that these may raise
 - b. The role of the financial services sector in helping to ensure the adequacy of retirement income for New Zealanders
4. The contributions made by other policies and programmes, such as in housing and health, to maintaining New Zealanders' retirement income.
5. Women's future retirement income prospects
6. The role of financial education and financial literacy in retirement income policy

2016

Aspects of retirement income policies the review must address and the topics to be discussed in the Retirement Commissioner's 2016 report:

1. An update and commentary on the developments and emerging trends in retirement income policy since the 2013 review, both within New Zealand and internationally;
2. The impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current New Zealand Superannuation settings;
3. Trends and developments in KiwiSaver and private savings schemes for retirement, including:
 - a. The impact of policy settings (such as employer contributions, default contribution rates, early withdrawal and the inability to belong to more than one scheme) on KiwiSaver participation and contributions; and
 - b. Any gaps in KiwiSaver participation information and how data reporting could be improved.
4. With respect to all private savings (including KiwiSaver): Decumulation and how retirees manage their assets along with risk and return during their retired lifetime including:
 - a. Withdrawal patterns;
 - b. The development and use of annuity and equity release products; and
 - c. The impact of a low interest rate environment on retiree asset management.
5. New Zealand's ageing workforce and the challenges of the changes to the norms of retirement.
6. An assessment of financially vulnerable groups in retirement and the effectiveness of current retirement policies for them.

2019

Aspects of retirement income policies the review must address and the topics to be discussed in the Retirement Commissioner's 2019 report:

1. An assessment of the effectiveness of current retirement policies for financially vulnerable and low-income groups, and recommendations for any policies that could improve their retirement outcomes.
2. An update and commentary on the developments and emerging trends in retirement income policy since the 2016 review, both within New Zealand and internationally.
3. An assessment of the impact that the following will have on government retirement income policies, including KiwiSaver and New Zealand Superannuation.
 - a. The changing nature of work, including the increasing number of people who are self-employed and/or working in temporary and flexible jobs;
 - b. Declining rates of home ownership; and
 - c. Changes in labour market participation of those 65 years and older
4. Information about, and relevant to, the public's perception and understanding of KiwiSaver fees, including:
 - a. The level and types of fees charged by KiwiSaver providers; and
 - b. The impact that fees may have on KiwiSaver balances.
5. Information about the public's perception and understanding of ethical investments in KiwiSaver, including:
 - a. The level and types of fees charged by KiwiSaver providers; and
 - b. The range of KiwiSaver funds with an ethical investment mandate.
6. An assessment of the impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current New Zealand superannuation settings.
7. Information about the public's perception of the purposes and principles of New Zealand Superannuation.
8. An assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation phase.