***Intergenerational impacts: the sustainability of New Zealand Superannuation*, by Susan St John and Claire Dale, Retirement Policy Research Centre - University of Auckland**

<u>Summary compiled by CFFC</u>

Context

- The ageing population means rising pension and healthcare costs will put increasing pressure on the government's budget.
- Taxes are used to pay for existing retirees' pensions on a Pay-As-You-Go (PAYGO) basis.
- NZ's comparatively flat tax structure means a single superannuitant living alone and earning enough extra income to qualify for the highest tax bracket still receives 77.5% of the net pension paid to a superannuitant with no extra income.
- The New Zealand Super Fund is funded by contributions from today's taxpayers. It offers some tax smoothing but does not prevent future tax increases, nor does it change the future cost of age pension provision.
- More government funding allocated to the ageing population means a smaller slice for the working age population, regardless of how or where the funding comes from.
- Early action to mitigate a future problem will be better than abrupt, dislocating action later.

To date, New Zealand Superannuation (NZS) has been successful in preventing poverty among most of those over 65

- This has been in part thanks to high rates of mortgage-free home ownership.
- Poverty among older NZers may be increasing, especially for those who are not mortgage-free or are renting.
- Reducing the level of NZS is not an acceptable option. However, rationalising the different rates of NZS could create some cost savings

New Zealand has one of the highest labour force participation rates for people over 65 in the OECD

- While it may make a significant contribution to tax revenue much of this is part-time work.
- The changing nature of work - digitalising and automation - will affect older workers who may find themselves without the skills needed in the new economy.
- The unpaid work of older New Zealanders is also a valuable contribution to the economy.

Age of eligibility for NZS

- An increase in age of eligibility may be inevitable to reflect longer average lifespans.
- Such an increase is only politically feasible and fair with a long lead-in time. Therefore no immediate savings would ensue.
- Raising the age of eligibility may be particularly problematic in a rapidly changing job market.
- Savings will be offset by welfare payments for those unable to work longer, and society will experience some loss of the unpaid work done by those who must keep going in paid work.

Authors propose a basic income approach to NZS

- Each superannuitant receives a universal grant that is not part of taxable income.
- When additional income is earned, it is taxed under a progressive tax regime so that high income earners effectively pay back the grant.
- This approach retains simplicity and universality while reigning in the expenditure at the top end. These changes would decrease the fiscal cost of NZS through reductions in payments to

high income superannuitants, allowing more spending or lower taxes for younger taxpayers, leading to improved perceptions of inter-generational equity.