New Zealand Superannuation Loan Scheme

For Consideration as part of the Retirement Commission 2022 Retirement Income Policy Review

Prepared by Lynley Jenness
October 2022

Policy Proposal

1. The proposal is to accrue NZ Superannuation pension payments (net of tax) as a loan to be paid from the estate on death of individuals with greater than median net worth. Repayments would be limited to wealth above a specified threshold.

2. In addition, a mechanism similar to a reverse equity mortgage (REM) would be introduced to allow a pensioner, where desired, to access a portion of the equity in their home, increasing their income. The REM would be drawn from their residual estate. This product could be through a government scheme, or private provider with interest rates and fees regulated.

Policy Objectives

1. By recouping the pension paid from the estates of asset rich individuals, the objectives are:

- To increase the net amount available for government spending, in particular housing, health, and education initiatives that will benefit a younger generation when they most need it, without reducing welfare benefits or increasing taxes.
- To reverse the upward trend of annual superannuation spending
- To reduce inequalities within and between generations and groups in society by redistributing funds to areas of greatest need.
- To gradually shift the burden of superannuation back to the generation that has incurred it, reducing some of the impact of NZ's aging population on the next generations.
- To ensure the scheme does not negatively affect cashflow of pensioners in the way other proposals such as means testing, land taxes or increasing the pension age would do.
- To fund a reduction in the age of pension eligibility to 60 from 65 for people who retire early due to sickness or disability.
- To bring superannuation more into line with asset testing for residential care.
- To bring superannuation more into line with "pay if you can" income testing for student loan repayments.

2. To allow pensioners to meet the increasing cost of living without the need for increases in government benefits or special targeted payments by giving them a means to access a portion of the capital tied up in their homes.

3. To change the public's perception from "pension as a right" to "pension as an interest free loan" or "welfare payment for those unable to pay back the loan."

Rationale

New Zealand's population is ageing, and government annual superannuation spending is rising each year as a percentage of total government expenditure, yet many pensioners are struggling to survive on the pension despite being asset rich on paper. At the same time, the list of demands on the tax system is growing and there is increasing inequality between current retirees and future generations.

House prices have risen sharply over the past two years (albeit currently declining at the time of writing) netting windfall capital gains to homeowners, investors, and owner- occupiers alike. Current prices mean home ownership is virtually unachievable for the next generation without help from family. This gain in net worth has also increased inequality between children whose families' own property and those who do not.

If a cross party agreement could be reached in this area in the same way as the recent housing density initiatives have been, some progress could be made to address the issues.

There has been discussion about raising the pension age to 67, but some groups already struggle to work to the current retirement age of 65 due to poor health, in particular manual workers, Pacific people, and Māori. The current retirement age means on average the pension will be paid for around 20 years after retirement, but these groups often do not reach this age.

Capital gains, wealth and land taxes have been proposed by some groups but are unlikely to ever be acceptable to all political parties and could be rescinded on a change of government.

The existing universal entitlement to NZ Superannuation is elegant in delivering a simple cost-effective solution to helping fund retirement. Most changes that might be considered, for example, means testing, significantly reduce the simplicity and cost-effectiveness. The proposal outlined enables maintenance of these benefits, even while introducing a structure, also simple and cost-effective, that meets the objectives outlined.

"Paying your own way if able" could be more palatable to the public and possibly to a range of political parties on the left and right than other proposed wealth taxes while achieving the same goal of wealth redistribution, albeit with a broader base than other proposals.

Although there is likely be heated opposition to the proposal from those that feel they have earned the pension, and others who want to leave bequests or who hope to inherit, it is conceivable that the philosophy would be acceptable to most people if the threshold was set high enough. For example, very few people would be likely to object to an individual with an estate of $10m being required to repay their pension. So, it is possible that cross party agreement could be reached on the policy in principle if the threshold were set at a high enough level. The point of contention then would only be "how high should the threshold be?"

In time people would adjust to the change in philosophy of "pension as a right," to "pension as a loan," or a 'welfare payment for those in greatest need', then the threshold could be decreased as required.

How would it work?

Pension payments (net of tax) would be accrued as a loan against assets, to be repaid from the estate on death. The amount of the loan accrued each year would be calculated as follows:

Total Net Income = Income from pension + Income from other sources – tax on total income (Actual cashflow)

Net Income from other sources = Income from other sources – tax on other income (Notional)

Loan accrued = Total Net Income - Net Income from other sources

Loans would accrue for future payments only from the time of introduction of the policy, which would phase the change in over time, reaching a steady state in approximately 20-25 years.

Loans would be repaid from the estate from wealth in excess of a specified threshold, for example median net wealth, in a manner consistent with residential care subsidies but at a higher level. If the estate did not exceed the threshold the loan repayment requirement would be waived.

For most homeowners, their house is their largest asset and most individuals with greater than median wealth own at least one house. The median house price in NZ now exceeds $850,000. As an example, if house prices were to increase by 5% pa on average a median house will increase in value by $42,500 per year which exceeds a couple's net annual pension payment. Therefore, the value of a median valued estate less the loan would not decrease on average in a year if the capital gain each year offsets the loan, assuming no interest was charged.

Initially the threshold could be set to limit it to only the wealthiest people but could be adjusted downward over time to increase the amount recouped.

A pensioner with wealth in excess of the threshold tied up in their home would also have the choice to draw down a small additional regular amount as a reverse equity mortgage to be paid back from the residual estate (the amount below the threshold). This would top up the pension to a living income and could act as a sweetener to the policy if interest rates and fees were substantially lower than commercially available REM products.

By recouping a proportion of pension payments each year this could allow funding a reduction in pension eligibility age to 60 on the grounds of disability or sickness, particularly for manual workers who are unable to continue working to age 65. The rest could be redirected to the NZ superannuation fund or to other areas that benefit the next generation.

The current pension age of 65 would then not need to rise, however some people may choose to forgo the pension while they have income from other sources or savings and investments they can liquidate to avoid a loan against their estate.

A statement of assets/debt for major assets would be required when applying for the pension similar to the form required for the residential care subsidy. Some people may need extra help filling out this form so there will need to be extra staff employed to help them. Information would include details of properties owned, KiwiSaver, shares, term deposits, bank balances, cryptocurrency, and other high value items like cars, boats investment art, gold, jewelry etc. It would not include a detailed list of lower value items.

On admission to residential care, the residential care fees would be deducted from the pension as usual, with outstanding loan to be repaid from the estate on death.

How much could this reduce net superannuation expenditure each year?

Figures available online for 2018 show the median net value of personal assets for those aged 65 -74 was over $400,000, and for those aged 75+ is greater than $300,000. With recent house price increases this figure will be considerably higher. For the year ended June 2021 median net worth of New Zealand households was up 21 percent from the year ended June 2018.

If the threshold for loan repayments was set at $300,000 per person this would suggest that well over half 65+ year old people would exceed this threshold.

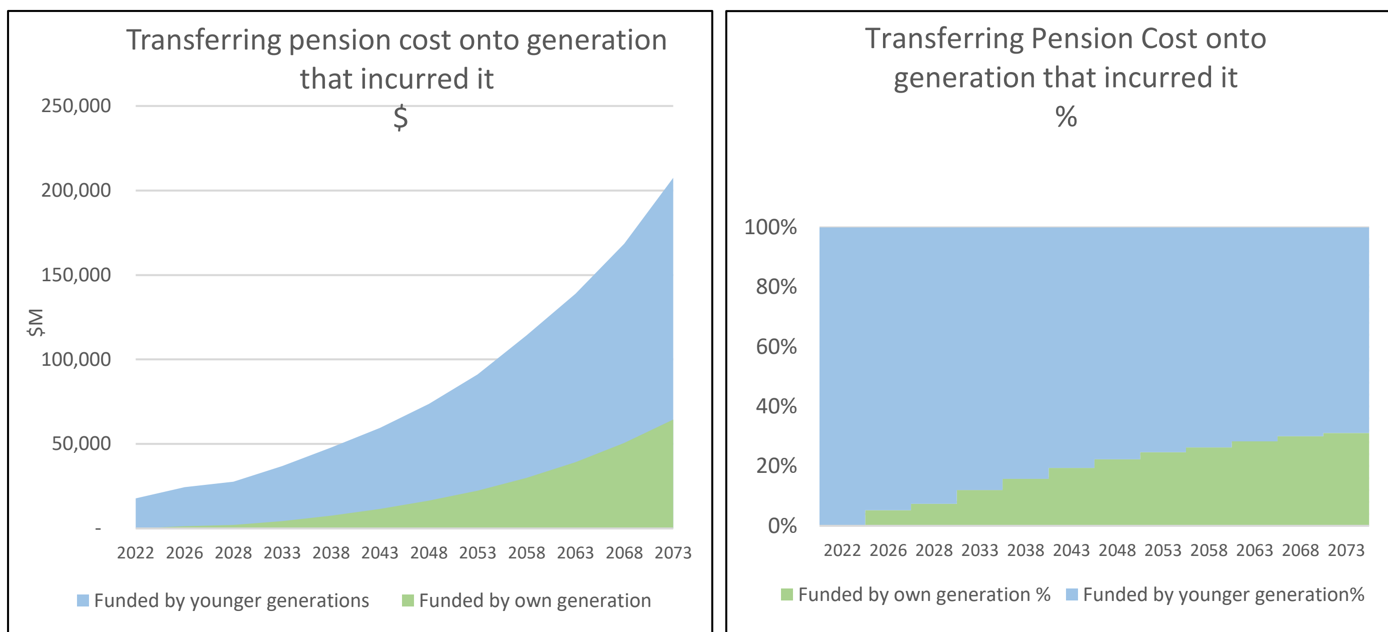
Pension payments exceeded $16.5b gross of tax in 2021. As an approximation, if pension loans were accrued from 2023, and 3.5% of pensioners were to die over the year, and half of them were required to repay one year's worth of net pension payments this could recoup around $300m. In year 2 the figure would be more than twice that, and in 20-30 years the net pension repaid would reach a steady state of approximately 30% of the annual pension bill.

Decreasing the threshold would increase the amount recouped without the need for any further new taxes, or tax rises, as would the introduction of an interest charge on the loan, should this subsequently be implemented.

Some workers aged 65+ may choose to delay pension payments while they have other income, savings, or investments to avoid a loan against their home or business, further reducing pension payments.

To be acceptable to most people the threshold might need to be set higher initially so less people are impacted. The key is to first change the public's perception of pension as a right. Then once the principle is widely accepted the threshold could be reduced. The number of years of pension to be repaid by individuals will increase each year as it is phased in, so by starting at a higher threshold, then decreasing it in future, a higher initial limit would not affect the total amount recouped substantially over the long term. To phase it in even more slowly the threshold could just be left to decrease in real terms with inflation.

Forecast of pension payments



- Projections assume 3% pension payment increases p.a. See appendix for data sources. These graphs are illustrative of the concept only, because the only publicly available data is grouped and out of date so it is not possible to make better estimates without more up to date and comprehensive wealth data.
- Transferring part of the cost onto current pensioner generation reduces the effect of the aging population
- Note people aged 65+also pay tax (income tax, GST) so do also contribute to funding the pension.

Problems to address, likely arguments, solutions, and rebuttals

1. There could be avoidance of the loan by hiding assets in trusts or giving them away.

   This can be an issue with residential care subsidies so there are already systems in place to address this, but they may need to be reworked, particularly trusts involving the family home. As the pensioner is usually living in their biggest asset it is likely to be difficult for them to access wealth to dispose of it if the government works with financial institutions to prevent such schemes. The pensioner could sell their house and rent another, then spend the money but the loss of capital gains each year on doing so could be more than the increase in the loan. And while some people may want to spend their retirement years devising ways to avoid paying their own living expenses, most would not be comfortable giving away control of all their capital at such an early age, or want to move house, and in any case are unlikely to be better off than just living in their appreciating asset.

Over time once the pension is repositioned as a loan or welfare payment people may be less likely to avoid paying it back.

2. People with assets will resent paying the pension back when others who have not provided for themselves do not have to.

   This could be said of any welfare benefit. A marketing campaign repositioning the pension as an interest free loan rather than an entitlement for all based on age may change perceptions over time.

   If pensioners can choose to access some equity in their house by taking a higher regular amount than the standard pension it might appease them somewhat if the terms (interest and fees) were more favorable than comparable schemes.

   Because this proposal is broad based it may be seen as fairer than other proposals by some people, particularly the wealthiest, since half of all pensioners will be included once the threshold has been reduced to "median wealth." And it might be seen as the lesser of two evils if the alternative is a capital gains tax or wealth or land tax.

3. The current pension system is simple to administer and adding compliance will increase costs.

   The amount of money at stake (well over $8b per annum in the long run) would seem to be worth some extra expense, especially as some of these systems are already in place for residential care subsidies and other welfare payments. Any other new taxes or means testing of pension each year would also create extra administration costs and avoidance.

4. The scheme would be expensive and complicated to administer and to make system changes.

   It would be simple to administer, and no complicated changes would be required to the current systems. The IRD already has the net income per year and can easily calculate the notional tax on the income excluding pension for an individual; the difference between these two numbers is the loan accrued for that year. The executor of the will would treat this in the same way as outstanding tax on the estate and deduct it from the estate before paying beneficiaries out.

   There would also be a check at this point of any outstanding pension loan carried over from a partner. A flag would be put against the individual's IRD number on the death of the partner if loan was deferred. Any optional additional payments would be administered in the same way as a reverse equity mortgage product, possibly by a current provider, and recorded on the property title.

5. Requiring people to pay back their pension could lead to a perverse incentive for some parents to commit suicide to ensure their wealth was passed on to their children. And some children could encourage and facilitate this.

   This could be said for people needing residential care too and I am not aware of this being an issue. By enabling some equity to be drawn as a reverse equity mortgage people could help their children with home deposits etc. before they die if they wish to.

6. Beneficiaries of pensioners' estates might resent reduced inheritances.

Funds under the threshold will still be available. A couple with three children, and threshold of $600,000 will still leave them $200,000 each. And people often do not inherit until they are in their sixties so an inheritance will not help them into a family home when they need it. If some of the money recouped is targeted towards first home buyer and other initiatives to benefit the younger generation, it could be available to help the beneficiaries at a younger age when they most need it and would also help people without family wealth to buy a home. However, as some would still inherit less than they would have previously they may still not support it.

7. Rules need to be developed on how to treat business assets e.g., a family business or farm where repayment of the loan in a lump sum would affect cashflow. Rules are needed to cover relationship breakdown, co-owning assets, moving house and death of a partner.

8. Some elderly people may be distressed about incurring debt against their home, but as it becomes normalized in future it should be less of an issue. Elderly people would not incur much debt in their remaining years when the scheme is first introduced as it only includes future payments.

9. Some peoples' wills may need to be adjusted if they have included monetary gifts e.g. to charities because there will be less remaining than they would have previously anticipated. If the scheme is phased in over many years, there is time to adjust expectations. Residential care payments already have this effect.

10. The cost of residential care will reduce the size of the estate so people who are in care for many years will have had their estate whittled away by the time they die so may be below the threshold. This is represented in the median wealth data which shows decreasing wealth in the oldest age groups. As the probability of death increases with age this will mean the likelihood of the estate over the threshold being insufficient to repay the pension increases with age which may mean my crude estimate based on publicly available data may be overstated. However, data from 2021 shows median wealth still exceeds $300k for the 75+ age group. More accurate estimates should be run using more detailed and recent data sets.

11. If capital gain does not keep increasing house values, or share markets fall, the loan will erode the value of the estate.

12. Easier access to some of the equity in the family home might be inflationary. On the other hand, it could help offset recent price increases.

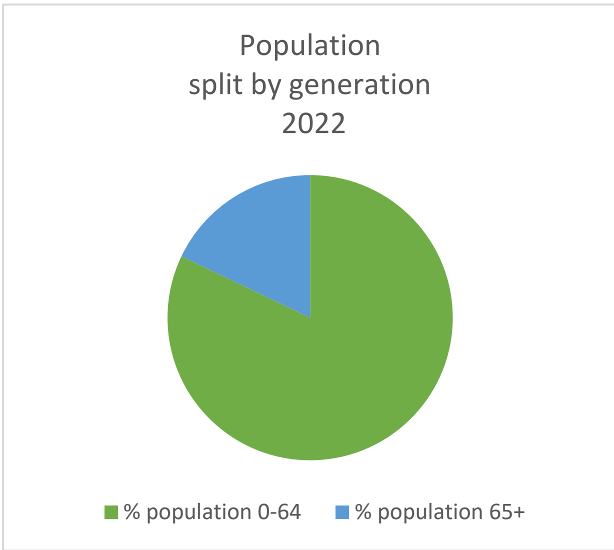
13. Banks and financial institutions that currently profit from Reverse Equity Mortgages may lose business if a more competitive product is available through the government scheme.

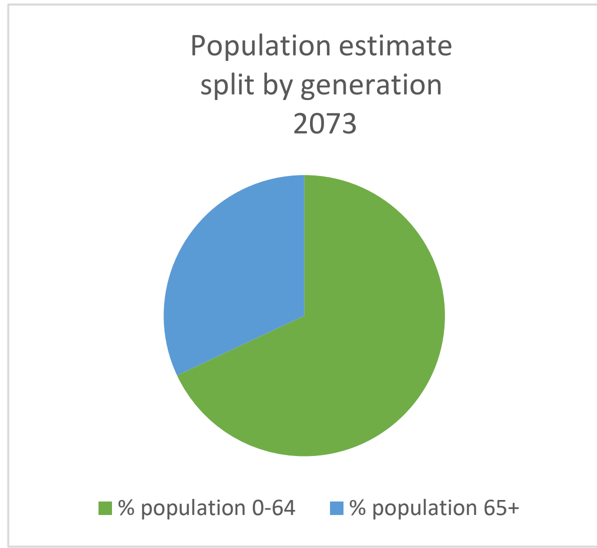
14. Opponents of the policy are likely to represent the repayment of the loan as an estate tax at a rate somewhere between 0% and 100% of estate assets in excess of the threshold, with all the implications that reintroduction of an estate tax would have. This is likely to come from opposition political parties who hope to discredit government policies and win votes for themselves, and people who had hoped to benefit from family estates, and their parents who hoped to be able to help their children out.

    This will need to be managed through a well thought through marketing strategy, clearly explaining the difference between taxing of personal wealth and income, and reduction of government expenditure. For the policy to be successfully implemented it is crucial that it is introduced as a cross party solution, much like the housing density policy has been to avoid politicking.

Philosophy of Treating Pension as a Loan, Marketing and Politics

(Why now? Why this solution? Why not wealth taxes instead?)

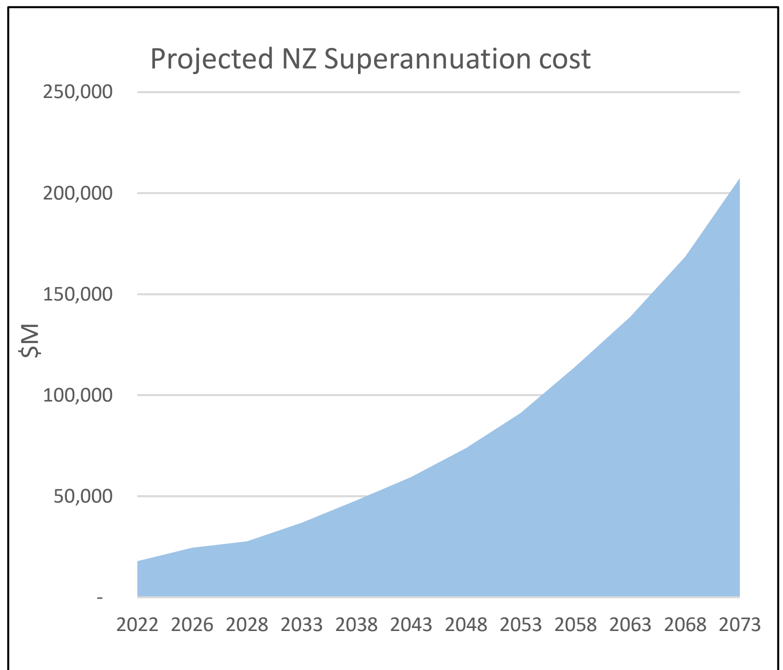




Currently 18% of the population is aged 65 and over. By 2073 this will have increased to 32% of the population.

(Estimated population of New Zealand https://figure.nz/chart/UjHz13ja0asuWu66)

	Number aged 0-64 (000)	% Population 0-64	% Population 65+
2022	4,285	82%	18%
2026	4,313	80%	20%
2028	4,334	79%	21%
2033	4,412	77%	23%
2038	4,480	75%	25%
2043	4,586	75%	25%
2048	4,678	74%	26%
2053	4,729	73%	27%
2058	4,729	71%	29%
2063	4,748	70%	30%
2068	4,780	69%	31%
2073	4,793	68%	32%

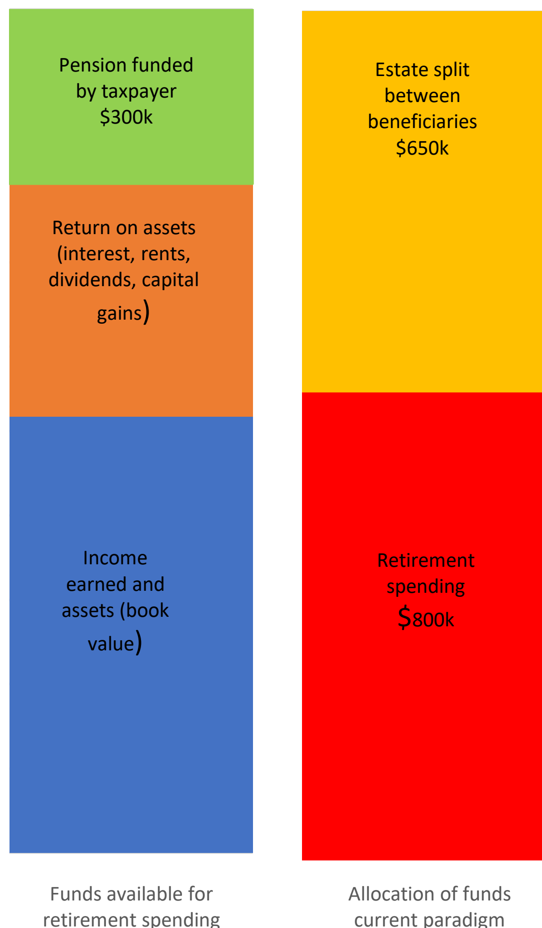


At the same time the cost of NZ Superannuation is projected to increase. If for example payments were increased by 3% p.a. combined with the increased numbers of recipients, the total annual expenditure would increase as illustrated below. This is unsustainable long term.

Step one is acknowledgement of the problem.

Many people die with much of their lifetime accumulated wealth intact, thanks to NZ Superannuation funding a large proportion of their living expenses.

The first bar graph shows funds available for retirement spending from age 65, the second shows the breakdown of how this money is allocated under the current paradigm:



Patrick turns 65 and over the next 13 years he has $1.450m assets and income with which to fund his retirement expenditure.

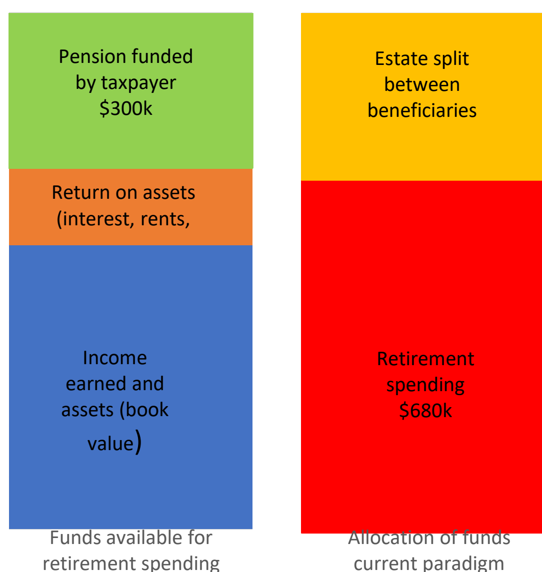
His house is owned freehold and is worth $720k at age 65. He earns an additional $30k net in the year after he turns 65. Over the 13 years before his death capital gain on his house, plus interest and dividends from his investments provide $400k.

NZ superannuation of $300k provides some of the cashflow he needs to live on day to day, as most of his wealth is tied up in the home he is living in which is difficult to access. He also uses his KiwiSaver to top up his income, and several years before his death he has taken out a REM and used up some of the capital in his house.

When he dies aged 78, he has spent $800k since he turned 65. His estate is worth $650k and this is split between his three children aged 48,51, and 53.

Patrick has died with almost half his wealth intact. If he had access to the capital in his home, he would not have needed the pension for cashflow. His beneficiaries in effect inherit the extra wealth provided by the pension.

Others start retirement with less wealth so spend less in retirement and leave less to their beneficiaries:



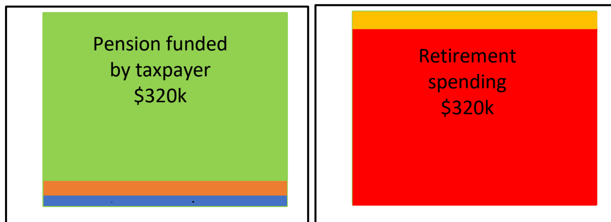
Karen turns 65 and over the next 13 years she has $1.00m assets and income with which to fund her retirement expenditure.

Her house has a mortgage and is worth $550k at age 65. She works part time until age 70 then starts to draw down her KiwiSaver to supplement the pension.

Over the 13 years before her death capital gain on her house, plus interest and dividends from her investments provide $150k after her outstanding mortgage is deducted. NZ superannuation provides some of the cashflow she needs to live on day to day – a further $300k. When she dies aged 78, she has spent $680k. Her estate is worth $320k and this is split between her 3 children aged 48,51, and 53.

Again, pension was required for cashflow, but she did have wealth equivalent to her retirement spending even without any pension.

Those that have been renting are likely to use most of their wealth up including any NZ superannuation received before they die leaving their beneficiaries almost nothing.



Lee turns 65 and over the next 13 years she has $350k assets and income with which to fund her retirement expenditure.

She rents her home. Over the 13 years before her death she earns $50k doing odd jobs and from her KiwiSaver.

NZ superannuation provides all the cashflow she uses to live on day to day – a further $320k.

When she dies aged 78, she has spent $320k including her KiwiSaver funds. Her estate consists of a car, some appliances and furniture and some jewellery and is worth $30k. This split between her three children aged 48,51, and 53.

When looked at in this way it appears that for wealthier people the pension is only required to provide cashflow. They do have enough wealth to pay for their retirement, but most of their wealth is tied up in their family home so it can't be easily spent. Unless they also have part of their wealth in other accessible savings, they may still struggle with living expenses if they no longer have income from employment. For those who are less wealthy the pension is their only means of survival.

Any solution to the problem that negatively affects the cashflow of pensioners (except the very wealthy or those on high incomes) will cause hardship.

Solutions proposed in the past fall into two categories

1. Increasing taxes to cover the extra expenditure
2. Decreasing expenditure by reducing the numbers of people receiving the pension or the amount of the pension.

The following are solutions that have been suggested, none of which are popular with everyone or politically viable. All will be considered unfair by those who are impacted by them. Note there are also advantages to each.

Tax based solutions	Main Disadvantages
Capital gains tax on property	Volatile, may increase rents, will not raise enough tax unless it includes family homes. If only on investment properties encourages capital to be diverted into family home. Taxes inflation
Land taxes	May increase rents, reduces cashflow unless accrued until death or sale, will not raise enough unless it includes family homes
Estate taxes	Causes cashflow problems for family businesses, farms. Double taxing of assets unfair

Increased GST	Impacts cashflow of individuals. The poorest are disproportionately impacted.
Increased Income tax	Punishes people who work the hardest. Encourages avoidance. Further burdens the younger generation reducing cashflow, impacting the ability to save for a home, pay back student debt, support a family.

Also, any increases and new taxes are unlikely to reach cross party agreement so can be reversed on a change of government and can be used as a political football.

Reduced expenditure solutions	Main Disadvantages
Means testing. (Income and asset)	Administratively complicated, punishes people who work the hardest and save, encourages avoidance. Reduces cashflow of pensioners suddenly with no means for them to compensate for the loss. Unless it includes assets, it penalises workers who may not be wealthy, while asset rich individuals may be able to rearrange finance to minimize income.
Raising the retirement age	Lower income, less educated people in physical jobs who may not be physically able to work longer will end up on disability or unemployment benefits so saving may be less than expected, or if they continue working their productivity may reduce. In periods of high unemployment, it may reduce the jobs available for younger workers.
Staggered retirement age. (Increased retirement age with option to take lesser amount early)	May not save taxpayer much and could cost more as individuals maximise their benefits using “insider knowledge”. Those that retire earlier may not have enough to live on. Greatest adverse effects are on lower income, less educated people in physical jobs.

This proposal falls into the category of reduced expenditure solutions but doesn’t have many of the disadvantages listed above if the measures are introduced as a package. That is, the pension loan policy plus the facility to access wealth tied up in the family home as extra income, plus reduction of retirement age to 60 for people retiring on the grounds of chronic sickness or disability.

Cashflow may actually increase for those retiring early with ill health. The sweetener for the people required to repay their pension will be the access to increased cashflow, converting wealth from their home at a cheaper rate than commercially available REM, plus funding of initiatives from their repayments that will benefit themselves and their family. It is administratively simple as it is only calculated at death.

The main disadvantage is that people who work hard, save, and defer spending will pay tax all their lives and ultimately will fund their own retirement leaving less to their family, while others who spend and don’t work as hard are funded. This is however the basis of the whole welfare system in NZ.

Initiatives to benefit younger generations – outside scope of this policy

Without implying that these are policy proposals that should be progressed, examples of the kind of initiatives that would benefit younger generations and families that could be considered for introduction are provided below. These could be added or increased incrementally as the amount of pension loans repaid increases each year. The lower the threshold, the more of these could be funded.

1. First home buyer initiatives:

- Allowing mortgage interest to be deductible for first home buyers for the first 5 years, with tax rebate used to pay down mortgage. (For example, Year 1 100% deductible, tapering to 20% in year 5). This would help to bring mortgage down more quickly, which would be a substantial saving in interest over the lifetime of the mortgage.
- Government co-ownership with first home buyer with option to buy remaining share in future at market value and/or government owned land available to lease for first home buyer to build on at favorable terms for lessee. Rent would be reviewed annually so no large increases. Possibility to buy land at market value in future. This money would be recouped when government share bought out, so funds could be recycled but would need an initial lump sum to fund purchases initially.
- Optional additional pension payments facility can be used to access some of the capital below the threshold and could allow parents to help their children out with their first home deposit, so they do not need to wait to inherit. This would not cost taxpayers money.

2. Health initiatives:

- Increasing Pharmac funding to pay for specialty drugs.
- Free/subsidised dental and eye care for under 25-year old's
- Free/subsidised doctors' appointments for under 25-year-olds.
- Healthy food initiatives
- Fluoridation of water(?)
- Subsidising/funding of sports
- Funding ambulance services, rescue helicopter
- More nurses, doctors and specialists trained

3. Education initiatives

- Free/subsidised university fees for second year students, more scholarships
- Free/ subsidised training for teachers, doctors, nurses
- School facilities
- More teacher aids

4. Environmental initiatives

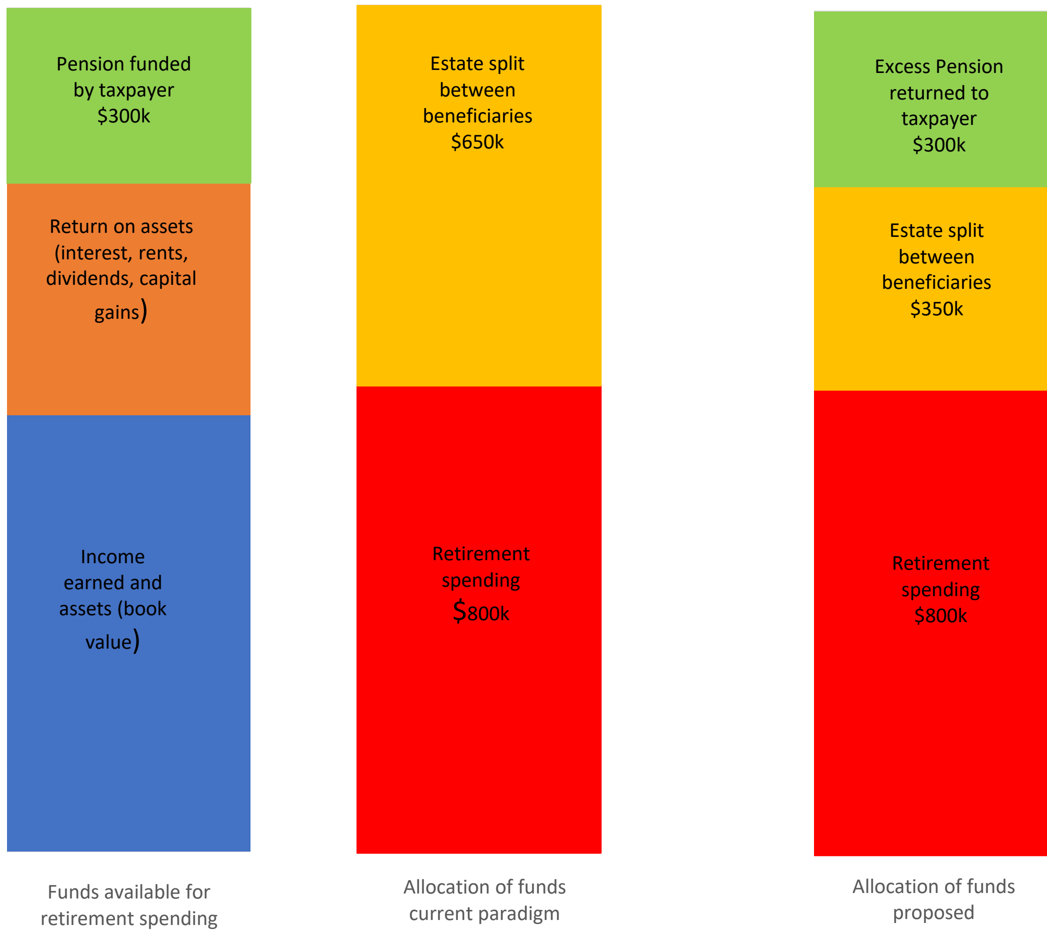
- Subsidies for bicycles, electric vehicles
- Subsidies for public transport
- Extension of insulation and heating subsidies
- Subsidies for retrofitting double glazing
- Subsidies for solar energy

5. Other

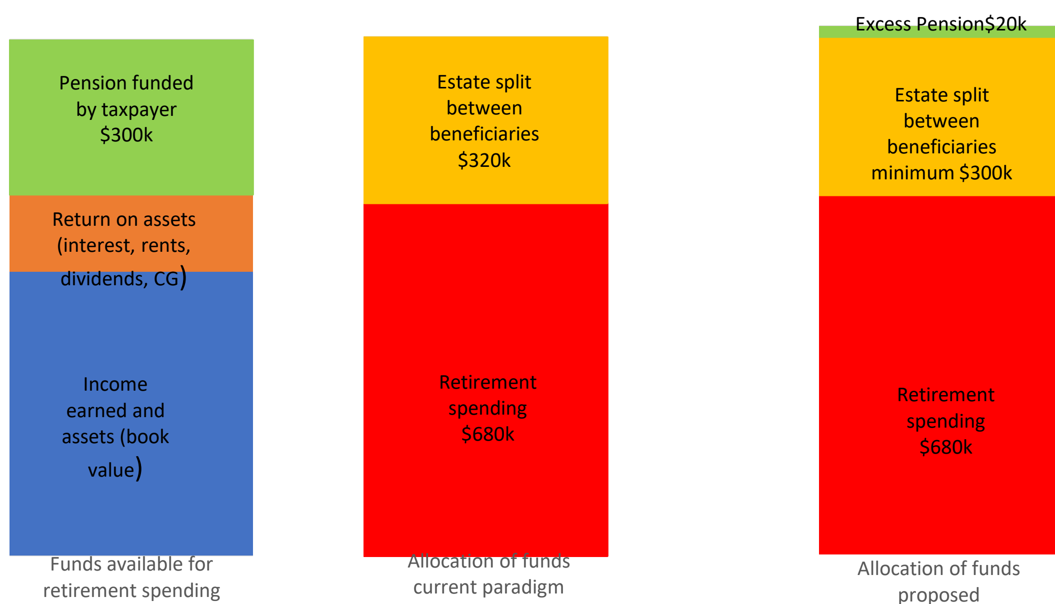
- Extended parental leave
- Extend scope of winter energy payments to other low-income families and individuals

Repeating the 3 examples above the third bar graph shows the breakdown of how this money is allocated under the proposal.

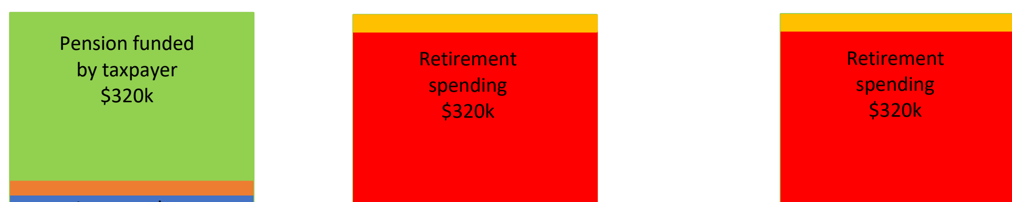
Example 1: Patrick turns 65 and over the next 13 years he has $1.450m assets and income with which to fund his retirement expenditure:



Example 2: Karen turns 65 and over the next 13 years she has $1.00m assets and income with which to fund her retirement expenditure:



Example 2: Lee turns 65 and over the next 13 years she has $350k assets and income with which to fund her retirement expenditure. There is no excess pension and no repayment required:



Step two is changing public perception over time from "pension as a right, funded by taxes paid over a lifetime" to "pension as an interest free loan to provide cashflow in retirement "or "welfare payment for those that can't fund their own retirement".

This has similarities to a student loan where the appeal of interest free money to do with whatever you choose should not be underestimated. Initially there will undoubtedly be protests from people who feel they are losing a right to the free money whether or not they actually need it. However, over time, with clever marketing showing they will not be materially worse off during their lifetime, it will be accepted. In fact, younger generations already anticipate not having the pension as a right once they retire so they may be relieved it will still be available for them.

If asked the question "knowing all the things that need funding at the moment, and with the aging population, would you design a universal non means tested pension as a priority over all other spending?" most people could probably be persuaded that if starting from scratch that pension should be available to those that need it like other welfare payments, and if people have assets, they should use these up before being given taxpayer money. This policy does this by giving a means to access equity in the home while you still live in it.

There is also a philosophical difference between policies that save money by increasing taxes and those that decrease spending. Generally, parties on the left promote policies that tax wealth and high incomes to fund projects they feel are in the interests of the vulnerable and society. Right wing parties generally prefer cuts in "wasteful" spending and believe higher taxes on the wealthy and high-income earners are unfair and discourage effort and investment.

Could this proposal be tailored to be acceptable to most voters and political parties, accepting that some change is necessary to cope with the aging population and associated burden on the next generation, even if it is just the least bad option of a range of alternatives? If policy sweeteners are funded with the proceeds, they might be sufficient to offset any perceived losses. For example:

Political Party	Advantages
Labour/ Green Māori	Lower income, manual workers, renters unlikely to need to repay pension People retiring early due to ill health paid pension from 60 Homeowners can access some wealth from their home to top up their cashflow First home buyer initiatives benefit younger voters Can fund environmental, housing, and social initiatives etc. As above as well as initiatives directly targeting policies they feel strongly about
National/ACT	Fits philosophy of lower taxes, reduced spending Least bad option for wealthy people as amount they will repay is capped at the amount they received, whereas taxes are uncapped. While paying wealth tax is seen as unfair, repaying unneeded welfare payments may feel fairer If money repaid is used directly for causes they feel strongly about some may support it e.g. health, drug funding, pay equity, teacher and nurse shortages etc.

Introducing the policy with a higher threshold initially might be enough to tip the balance across all parties of those in favour.

There is growing resentment of the inequality of wealth distribution in New Zealand from younger people and the least wealthy, in particular those who do not own property. This initiative would also help address this perceived lack of fairness, as some of the wealth of the older generation generated from capital gains on their property would be used to pay for their own NZ superannuation. It might help calm some of the recent social unrest.

It would have a similar impact on net expenditure to capital gains or wealth taxes which might appeal to those wanting these taxes, without actually being a tax.

Case studies

Assumptions:

Threshold is $300,000 per person

Interest on pension loan = 0%, Tax rate "M"

House price increase 5% pa, Pension increase 3% pa

For simplicity, the house is assumed to be the only asset, but the estate would usually also include cash, shares, KiwiSaver etc.

Case 1

Jo retires at age 65 in 2023 and owns a unit in Auckland freehold which is valued at $750,000. They take the standard single pension of $925.88 net per fortnight. Five years later when they die the house is worth $957,211, a capital gain of $207,211. They have received $128,157 in pension payments after tax which is deducted from the estate leaving $829,054 which is left to their 3 children.

Case 2

Marie is a sole parent who has rented her whole life and works as a cleaner. She retires at 60 due to ill health and takes the standard single pension of $925.88 net per fortnight. She dies aged 70 after receiving the standard pension for 10 years leaving a small amount of savings in a bank account. She has received $276,727 in pension payments after tax but there is no loan to repay as her estate is less than $300,000.

Case 3

Guy and Kim jointly own a house in Invercargill freehold which in 2023 is valued at $500,000. Guy retires at 65 in 2023 and takes the standard couple pension of $712.22 net per fortnight. Kim retires two years later in 2025 and receives $712.22 net per fortnight and they decide to take an additional payment of $100 per week ($50 each) to top up their pensions.

Ten years later Kim dies at age 75 having drawn down $212,868 standard pension (10 years) plus $26,071 extra pension (10 years) leaving Guy as the sole owner of their house. Guy has the choice to pay off Kim's pension loan or carry it over as a debt against his estate. As he does not want to move home, he carries it over to his estate.

Guy dies 5 years later at age 82 having drawn down $404,082 standard pension (17 years) plus $39,107 extra pension (15 years).

His house is now worth $1,146,009, a capital gain of $646,009. Kim and Guy together have received 616,950 in pension payments after tax plus an additional $65,179 optional payments.

The threshold of $300,000 per person, or $600,000 total is deducted from the estate to leave $546,009 from which the $616,950 pension loan is deducted. But as the loan is more than the $546,009 remaining after the threshold is deducted the balance is waived leaving $0.

The $65,179 optional payment is deducted from the $600,000 threshold leaving $534,821. There will also be fees and interest to pay on the additional optional payments which will reduce it further which would vary depending on the provider.

In total the remaining estate is $534,821 less the fees and interest on the optional payments.

Variations on Case 3:

If Guy or Kim had bought a new house at any time the liability is not a mortgage on the house so would not affect bank lending as it is only payable from the net proceeds of the estate.

If Guy and Kim owned their house as tenants in common and Guy was not a beneficiary of Kim's will, Kim's loan would be repaid from the estate on death before the beneficiaries were paid.

Case 4

Terri is working earning $50,000 p.a. plus receiving net fortnightly pension of $721.40 (tax code ST (33%)) when they reach age 65 in 2023, and owns a unit in Auckland freehold, which is valued at $750,000. Their gross income is $50,000+ $27,988.48 = $77,988.48. (Gross pension is $1,076.48 per fortnight).

Five years later when they die the house is worth $957,211, a capital gain of $207,211.

Assuming they continue earning an extra $50,000pa over the 5 years for simplicity:

Year1 Total Net Income p.a. (Actual)	= Income from pension + Income from other sources – tax on total income =$61,384
Net Income from other sources	= Income from other sources – tax on other income (Notional) =$41,980
Loan accrued pa year1	= Total Net Income - Net Income from other sources = $19,404

Subsequent years are calculated in the same way with Total loan in 5 years = $102,832

The total remaining estate is $957,211 - $102,832 = $854,379.

which is left to their three beneficiaries.

Conclusion

It could be argued that it is unfair that pension payments paid to people with greater than median wealth will be ultimately inherited by their children, and they could fund their own living expenses if given the mechanism to access their wealth.

Requiring pension payments to be repaid from the estates of higher than median wealth individuals is a way to rebalance inter and intra generational wealth without impacting the cashflow of the recipients of the pension. Additional cashflow could also be made available to pensioners by enabling them to access some of their own home equity.

This would free up a substantial amount of extra funding which could be repurposed to other areas of government spending without reducing benefits or increasing taxes including lowering retirement age to 60 in the case of chronic illness or disability.

To be successful, a cross party agreement should be sought, with the terms modified so each party has some policy gains funded with loan repayments.

Because the policy would be phased in very slowly it should be implemented as soon as practical rather than waiting for the problem to become critical. Like climate change it can't be put off much longer or left as someone else's problem.

Some people may believe KiwiSaver will solve the problem as by the time there is an issue most people will have reasonable balances eliminating the need for the universal pension, but that would require means testing with all the disadvantages listed above. However, KiwiSaver will help push more people over the wealth threshold for repaying their loan so it will be part of the solution.

The group who would suffer the main effect of these changes would be the beneficiaries of the elderly people who would have their inheritances reduced. This could be partially offset by redirecting some of the funds into first home buyer schemes that will benefit them at an age younger than they would expect to inherit and other public services such as health and education from which they could benefit.

In the month of August 2022, there have been articles and podcasts in the media advising retirees how to "Eat their house". If the government doesn't tap into this equity quickly the banks certainly will in order to increase their profits. Then there really may be nothing left in it for the beneficiaries of these retirees as a large portion of the equity in their houses is transferred to financial institutions' bottom lines through fees and high interest rates on REM products.

References

https://www.workandincome.govt.nz/eligibility/seniors/superannuation/payment-rates.html

Single

If you are single, it does not matter how much income you have - it will not affect your NZ Super or Veteran's Pension payments, unless you get an overseas pension.

If you get an overseas pension, talk to us about how this could affect your payments.

Payment (each fortnight):

If you:	Before tax:	'M' tax code:	'S' (17.5%) tax code:	'SH' (30%) tax code:	'ST' (33%) tax code:	'SA' (39%) tax code:
live alone or with a dependent child	$1076.48	$925.88	$888.18	$753.68	$721.40	$656.84
live with someone who is either: • 18 or older (unless they are a dependent child) • visiting and staying for more than 13 weeks.	$990.20	$854.66	$816.96	$693.20	$663.50	$604.10

Couple

It doesn't matter how much income you and your partner have - it won't affect your NZ Super or Veteran's Pension payments, unless either of you get an overseas pension (talk to us about how this could affect your payments).

Payment (each fortnight):

Your situation	Before tax:	'M' tax code:	'S' (17.5%) tax code:	'SH' (30%) tax code:	'ST' (33%) tax code:	'SA' (39%) tax code:
Both you and your partner meet the criteria for NZ Super or Veteran's Pension	$817.32 each	$712.22 each	$674.52 each	$572.52 each	$548.04 each	$499.08 each

Age group (years)	At 30 June 2021	Deaths 2021	% Deaths
65–69	253,590	2,493	1.0%
70–74	219,540	3,483	1.6%
75–79	151,200	4,203	2.8%
80–84	103,760	5,316	5.1%
85–89	56,420	5,655	10.0%
90+	34,580	7,152	20.7%
65+	819,090	28,302	3.5%

Births and deaths December 2021

https://www.stats.govt.nz/information-releases/births-and-deaths-year-ended-december-2021-including-abridged-period-life-table/

Estimated population of New Zealand https://figure.nz/chart/UjHz13ja0asuWu66

Using Budget 2022 - Table 5.1 New Zealand Superannuation to forecast increase in pension loan repaid each year

	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast
Gross ($M)	16,569	17,775	19,529	21,414	22,963	24,524
net @ 10.5% ($M)	14,829	15,909	17,478	19,166	20,552	21,949
3.5% of net x ½ ($M)	260	278	306	335	360	384
net @ 17.5% ($M)	13,669	14,664	16,111	17,667	18,944	20,232
3.5% of net x ½ ($M)	239	257	282	309	332	354

- Assumes if pension loans were accrued from 2023, and 3.5% of pensioners were to die over the year, half of them would be required to repay one year's worth of net pension payments (if taxed at 10.5%) which could recoup around $306M. In 2024 an additional $335M (total of $641M) would be recouped and by 2025 nearly $1B would be recouped. At 17.5% tax this would be slightly less. Note the only publicly available data is grouped and out of date so it is not possible to make better estimates without more up to date and comprehensive wealth data.

https://www.treasury.govt.nz/sites/default/files/2022-05/befu22-data-expensetables.xls

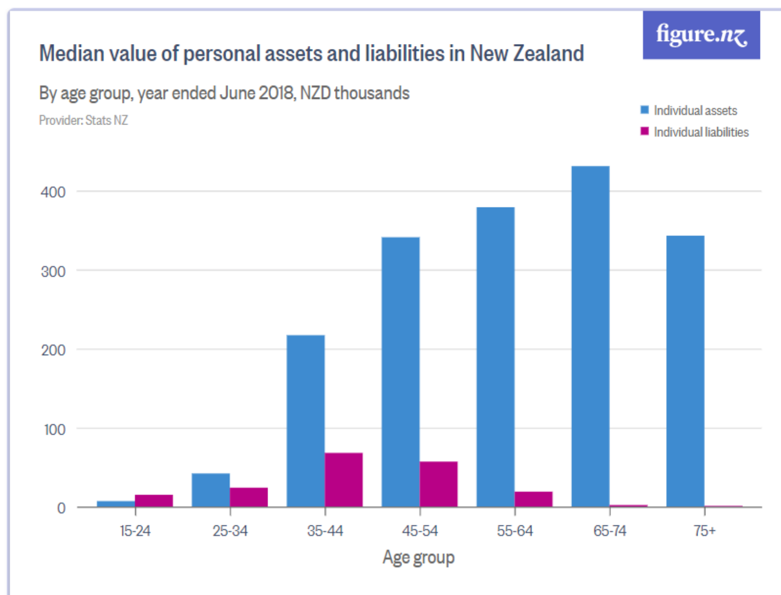
Key facts

For the year ended June 2021:

- Median net worth of New Zealand households was $397,000; up 21 percent from $328,000 for the year ended June 2018.

- The increase in net worth was driven by an increase in the value of owner-occupied dwellings, other real estate, and property held in family trusts. Property values are based on the capital (rateable) value at the time of the survey.

https://www.stats.govt.nz/information-releases/household-net-worth-statistics-year-ended-june-2021/



https://figure.nz/chart/Qlc5p3M4wTkXcqPV

Articles and Podcasts

Reverse mortgage boom boosts Heartland Bank profit by 9.3%, 23 August 2022
https://www.stuff.co.nz/business/money/129653964/reverse-mortgage-boom-boosts-heartland-bank-profit-by-93

"Heartland Bank has recorded a 9.3% jump in profits on the back of a big increase in older homeowners taking out reverse mortgages to cope with the rising cost of living…..Heartland's New Zealand reverse mortgages are floating rate loans, with the interest charged rising and falling over time. The current rate is 7.5%"

French-flavoured retirement income plan for retired homeowners, 24 August 2022
https://www.stuff.co.nz/business/money/129659372/frenchflavoured-retirement-income-plan-for-retired-homeowners

"Heartland Bank says falling house prices are not discouraging retirees from taking out reverse mortgages to supplement NZ Super payments, and money author Martin Hawes approves.
"I would be saying get on with it," Hawes said."

Our Money with Mary Holm 25 August 2022
https://www.rnz.co.nz/national/programmes/afternoons/audio/2018855653/your-money-with-mary-holm

"Today Mary Holm talks to Jesse about whether retired people can "Eat their houses". She is exploring the idea that many retirees are short of cash but own very valuable homes. She has some ideas on how to get an income from your assets.

March 2021 Stuff article, "Time for a student loan repayment approach to pensions", Lynley Jenness
https://www.stuff.co.nz/business/opinion-analysis/300254882/time-for-a-student-loan-repayment-approach-to-pensions

Forecast of pension payments

	number aged 65+ (000)	Gross Total Pension ($M)	3.5% net pension current year ($M)	Cumulative Pension recouped pa ($M)	Remaining Pension paid by younger generation ($M)	Funded by own generation	Funded by younger generation	Number aged 0-64 (000)	Population Aged 0-64	Population aged 65+
2022	935	17,775	-	-	17,775	0%	100%	4,285	82%	18%
2026	1,069	24,524	354	1,277	23,247	5%	95%	4,313	80%	20%
2028	1,138	27,702	400	2,053	25,649	7%	93%	4,334	79%	21%
2033	1,307	36,883	533	4,439	32,444	12%	88%	4,412	77%	23%
2038	1,464	47,894	691	7,565	40,329	16%	84%	4,480	75%	25%
2043	1,568	59,467	859	11,510	47,956	19%	81%	4,586	75%	25%
2048	1,677	73,730	1,064	16,405	57,325	22%	78%	4,678	74%	26%
2053	1,789	91,182	1,316	22,464	68,718	25%	75%	4,729	73%	27%
2058	1,934	114,273	1,650	30,020	84,253	26%	74%	4,729	71%	29%
2063	2,028	138,912	2,006	39,310	99,602	28%	72%	4,748	70%	30%
2068	2,121	168,422	2,432	50,585	117,837	30%	70%	4,780	69%	31%
2073	2,254	207,491	2,996	64,452	143,039	31%	69%	4,793	68%	32%

Population estimates 2026-2073 is data from Department of Statistics.
https://www.stats.govt.nz/assets/Uploads/national-population-projections-2022base-2073.xlsx

2021-2026 actual and official projected pension from Budget documents.
https://www.treasury.govt.nz/publications/efu/budget-economic-and-fiscal-update-2022

Forecast of pension payments from 2027 using population projections and assuming 3% pension payment increases p.a. from 2026, 17.5% tax.