Retirement Income in New Zealand: *the historical context*

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Commissioned by the Retirement Commission

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FOREWORD

By Diana Crossan, Retirement Commissioner

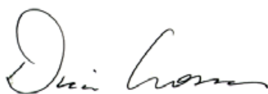
The Retirement Commission has commissioned this paper to provide a factual, historical context for current retirement income policies. The last retirement income history was issued by the Commission in 2004. This updated history is designed for anyone who works in the area of retirement income policy and the financial services industry; anyone interested in or who reports on these issues; and for New Zealanders seeking independent background information.

Since 2004 policy towards the provision of public pensions in New Zealand has experienced a period of relative stability. Changes to New Zealand Superannuation (NZ Super) have been relatively small. There has been a modest increase in the minimum pension/wage ratio as a consequence of a Confidence and Supply agreement, and increased overseas portability of payments for New Zealand superannuitants migrating abroad. However, in most respects NZ Super itself has remained very much on the policy track already operative in 2004.

What has changed in the period since 2004 is the financial and economic context surrounding the broader provision of living standards in retirement. Home ownership rates have fallen further as the inflation of housing prices between 2004 and 2007 pushed the ratio of house prices to incomes to a historical high. Employment rates amongst people aged 65 plus have risen strongly. The New Zealand Superannuation Fund which was still relatively new in 2004 has since grown into an investment fund with assets of over $14 billion. Home equity conversion has become a rapid growth industry, albeit from a small base.

However, the biggest change of all for retirement provision has been the 2007 introduction of KiwiSaver. New Zealand now has a second major policy plank in retirement living standard provision. The KiwiSaver contributory cash accumulation schemes assisted by government and employer contributions are a distinct break with the policies of the previous two decades. Further, the changes in the taxation laws applicable to investment funds classified as Portfolio Investment Entities has made these managed funds potentially much more attractive investment options for many investors.

At time of writing New Zealand policymakers were absorbing the local implications of the international financial crisis. These may dominate the policy agenda for the immediate future. For the longer run New Zealand will need to focus on how to adjust to the reality of a rapidly ageing population, including the implications for retirement income provision.



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RETIREMENT INCOME – A KEY POLICY ISSUE

Retirement income has become one of the major public policy issues of our times. This reflects older citizens' legitimate concerns about having enough income in their retirement, and policy makers' and taxpayers' concerns about how public contributions to retirement income are to be funded with an ageing population.

The issue of retirement income as a public policy issue is relatively new in human history. Until recent centuries in what are now developed countries, most older people did not formally "retire" on any type of separate cash income. Instead, most were part of extended families and continued to take part in daily economic activities as long as they were able, sharing the family resources to meet their daily needs. Several generations often lived and worked in the same household, or at least in the same village. Older and younger family members were supported by semi-subsistence peasant farming, and by craft or other activities organised on a household basis.

This pattern still prevails in many developing counties, and is also part of the culture of some recent immigrant groups to New Zealand and was the traditional pattern in Māori society. However, in the modern world of which New Zealand is a part, this type of society has now largely vanished. The household economy has been replaced by a commercial cash economy. And in this type of economy older people:

- formally retire from paid work in later life
- normally live independently from their children or other relatives
- need a significant separate cash retirement income to sustain them.

All developed countries have responded to this by setting up public and private types of retirement income. The nature and basis of these systems have become an increasingly important policy issue as the proportion of older people in the population continues to rise.

This publication provides information on retirement income issues from a New Zealand and international perspective. It:

- summarises retirement income approaches adopted around the world
- examines the New Zealand situation and its history
- identifies the main policy options for adjusting to a rising proportion of elderly people in the population proposed in a range of official reports.

The paper provides factual, independent background information. It does not provide a justification for past policy decisions, nor does it seek to take a position on future policy options.

For an explanation of some of the technical terms in this publication, please refer to the List of Terminology on page 51.

THE INTERNATIONAL PATTERN

Cash incomes for retired people in developed countries can be grouped into three major categories by type of source:

1. Public pensions
2. Private and occupational pensions or superannuation
3. Income from private investment and savings

In addition, provident funds providing for mandatory cash accumulation for retirement are a significant feature in some countries, though mainly in the developing world.

Public pensions

Public pensions are largely a development of the late 19th and the 20th centuries. However, 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.

With the spread of industrial society and the growing proportion of wage and salary earners in the population, all developed countries adopted a more systematic way of providing publicly mandated cash retirement income. Three separate types of public pension emerged:

- Social insurance
- Social assistance
- Universal pensions

Social insurance

Social insurance is the main type of public pension adopted by developed countries, requiring people to make a compulsory contribution from their earnings to social insurance funds. These contributions are invested in income-earning assets, which are built up to finance the pension payments that become due when the contributor retires. Most social insurance schemes require contributions from both employers and employees. Some also receive government subsidies.

A variant of the social insurance model is a system of mandatory contributions towards competing private sector retirement income funds. This approach is sometimes called the Chilean model.

Retirement pensions paid out from social insurance funds are mainly based on members' earnings and contributions, which means that individual pension levels vary. Those with high earnings and a long working life receive high pensions, while

those with low earnings or limited employment periods receive low pensions. Social insurance pensions are paid as of right, and are not subject to any assessment of need.

The retirement income pattern produced by most social insurance systems is somewhat similar to the pattern that would be produced by voluntary private superannuation, as the level of retirement pension depends on contributions made during a person's working life. The fact that fund membership is compulsory means that people with adequate lifetime earnings cannot end up destitute through failing to provide for their retirement. However, because they are contribution-based, social insurance pensions do not provide an adequate retirement income for those with low lifetime earnings.

In practice, a number of developed countries with social insurance schemes do not calculate pensions entirely on the basis of contributions – some groups may receive cross-subsidies from other contributors. For example, some schemes pay guaranteed minimum pensions for those with a specific number of years of contributions, no matter what their actual contribution.

Many social insurance funds have chosen not to fully match their future pension obligations with investment assets, taking a partial or complete "pay as you go" approach. This means that some social insurance funds are experiencing a financial crisis as the population ages and the ratio of pensioners to contributors rises. Resolving this will require some combination of higher contributions, lower pensions, later retirement ages, higher fund investment earnings, and financial assistance from the government budget – a major policy issue in Europe, Japan and the United States.

Social assistance

Not everyone can be adequately covered by social insurance systems. Low earners, the sick, invalids or unemployed, and many parents who drop out of the paid workforce to care for children or elderly parents end up with inadequate pensions under a system that depends mainly on contribution records.

As a result, countries with social insurance systems usually also develop a second level of "social assistance", to ensure that elderly people are not left destitute because they have not earned or saved enough during their working life. Assistance is income or asset tested, and often has other conditions attached to it. It is funded from taxation or other general government revenue and is the lowest cost way of providing public pensions of any given level from taxpayer funds.

Australia is one of the few developed countries with a core public pension system based on social assistance principles, although it now also has compulsory contributory superannuation, the "Superannuation Guarantee".

Social assistance principles that target help according to need have played a large part in New Zealand's public pensions history. However, this targeting has always been unpopular with parts of the population – the Else and St John publication, *A Super Future*, contains more detail on this issue. Currently for qualifying residents aged 65 plus, the social assistance approach applies only to various forms of supplementary assistance but not to New Zealand Superannuation itself.

Some types of social assistance may be tied to particular types of spending or costs, including free or subsidised help for health care, housing, transport or other services. New Zealand examples include the Disability Allowance for health-related costs and the Accommodation Supplement for housing costs. The targeted approach is more heavily used in Australia. However, in New Zealand the social assistance approach applies to social security benefits for working age adults but not to New Zealand Superannuation itself, which is a universal pension for those aged 65-plus who are residentially qualified, though direct deductions may apply in respect of overseas social security pensions.

Universal pensions
Universal pensions – flat rate pensions paid out to all residentially qualified people once they reach a designated age – are the least common form of public pension internationally. They have no income or asset tests, no requirement to make individual contributions to a pension fund, and often no requirement to actually be retired from work. They are usually funded out of taxation or general levies on earnings, or general government revenues.

Universal pensions are the most fiscally expensive way of providing a minimum income for retired people. Their lower administration costs only partly offset the higher pension payment costs. However, preventing poverty is usually only one objective of a universal pension scheme; other objectives may include ensuring separate pension entitlements for women as well as men.

It also needs to be noted that while universal pensions have the highest fiscal costs for the taxpayer, they do not necessarily involve the highest share of Gross National Product (GNP) flowing into pensions. In fact the New Zealand Superannuation scheme in its present form absorbs a lower proportion of GNP than most European social insurance scheme pensions. This is mainly because it does not have to fund earnings-related pensions for higher income earners.

New Zealand is unique among developed countries in having a universal pension (New Zealand Superannuation) as its major form of public pension for those who have reached retirement age. However, Norway, Sweden, Denmark and Iceland operate a "part universal" pension system, where older citizens receive a modest universal pension from the state in conjunction with an earnings-related contributory pension based on a social insurance model. The Netherlands pension system, although contributory, is also effectively nearly universal in coverage for qualifying residents, though the payment rate is reduced for each unexcused year of non-contribution. Universal pensions are also paid to older people in a few developing countries, including Samoa and Kiribati.

Private and occupational pensions

Occupational pensions
Occupational (or job-based) pensions are very common in many countries and form part of the employment remuneration system. Some schemes provide for pensions only, while others may have lump sum and pension options.

The boundary between occupational pensions and social insurance is often blurred. For the purpose of this publication, the term "occupational pensions" means voluntary pension scheme arrangements between employers and employees. This may include pension schemes set up because of an industrial agreement, a unilateral policy of the employer, or a specific employment contract, but does not include schemes required under the general law of a country.

Occupational pension schemes normally provide for contributions from both employees and employers. Many are administered for employers by separate insurance or investment funds.

In New Zealand, as elsewhere, occupational pensions appear to be shifting to a "defined contribution" rather than "defined benefit" basis. "Defined contribution" systems work like investment funds, with the value of entitlement at retirement depending on the level and timing of contributions and the fund's earnings rate. Pension or lump sum entitlements therefore depend on the amount accumulated in the person's account. "Defined benefit" schemes usually link pensions or lump sums to the employee's length of employment and their earnings in the later stages of their career, and require variable employer subsidies. The largest defined benefit scheme in New Zealand, the former Government Superannuation Fund for public servants, has been closed to new members for some years. ("A move to defined contribution schemes" on page 30 discusses this in more detail.)

Private pensions or annuities

Private pensions or annuities purchased by individual investors are of varying importance in developed countries. They provide retirement income options for people who are not covered by other contributory pension plans, such as the self-employed. They also offer a way for people to supplement their retirement pensions from other sources.

Annuities from private pensions provide a reasonably certain income in retirement. However, inflation may affect real payment levels – and because it is difficult to forecast inflation, it is difficult to obtain a private pension whose payments are fully indexed to price changes. In addition, once someone entitled to the pension or annuity dies, the payment stops and there is no capital asset left to hand on to any heirs. This means private pensions will suit the retirement income needs of some people but not of others.

In New Zealand the private annuity market is very small, and most "retail" superannuation schemes are in fact cash accumulation schemes.

Private investment and savings

Providing for retirement income through investing in other income-earning assets is more common than private pensions. The wide range of investment approaches includes shares, rental property, government bonds, debentures, mortgage lending, bank deposits, mutual funds, unit trusts, deposits with finance companies or investing in a business or farm.

This type of saving normally means that the assets can be passed on to heirs once the retired person dies. However, the retirement income actually achieved depends on business profit levels, dividends and interest rates earned on the assets in retirement. Risks also vary depending on the type of asset, as seen recently with finance companies.

Provident funds

Provident funds are cash accumulation schemes usually linked to employment. Characteristically the individual member makes ongoing contributions at specified percentage rates from their earnings which may be supplemented by employer contributions. These combined contributions are then invested by the provident fund into income earning assets, and an apportionment of subsequent earnings made to each member's individual account. At retirement or vesting age the member receives the accumulated value of their own and employer contributions, plus the accumulated investment earnings. Provident funds thus belong to the "defined contribution" model of retirement provision.

Provident funds linked to employment are compulsory in a number of developing countries in Asia, Africa, and the Pacific. However, compulsory provision and compulsory employer contributions are usually confined to enterprises with more than a specified number of employees. In Indonesia, for example, the compulsion applies to enterprises with ten or more employees or a specified size of payroll.

Singapore is the one developed economy which has based mandatory retirement provision on the Provident Fund model. The Singapore Central Provident Fund is now perhaps the internationally best known such system, though it has other functions as well as its core role of retirement savings provision. In New Zealand's Pacific Island neighbourhood well established provident funds operate in Fiji, Samoa, and several other countries.

Some provident funds now offer a pension option as well as a cash lump sum option to retirees. In this development they have perhaps become hybrids between provident funds and defined contribution pension funds.

New Zealand has a long-established National Provident Fund, which provides employment linked retirement savings options for a part of the population, and has been traditionally important for local authority employees. It is a trustee for 14 separate superannuation schemes.

A HISTORY OF PUBLIC PENSIONS IN NEW ZEALAND

New Zealand is similar to other developed countries in having a significant public pension system. However, the New Zealand system is unusual in its complete reliance on taxation funding and its focus on universal benefits. This reflects New Zealand's social and political history since the 19th century.

The 19th century pattern

Until 1898 New Zealand had no public pensions. 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 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 pensions debate and the 1898 Old Age Pension

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 an Old Age Pension was introduced, for which those aged 65-plus could apply 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-deserters) 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 rate. Asians were excluded, 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:

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

Fortunately, economic conditions improved from the latter 1890s.

The debate on alternatives continued, 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 alternatives 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 and the pensions debate

In the aftermath of World War I, government attention largely focused on the need to fund adequate war pensions for disabled returned servicemen. For a time, war pensions were more costly than the Old Age Pension. However, the debate on alternatives to the Old Age Pension continued.

Officials in the Pensions Department promoted a compulsory national or social insurance scheme during the 1920s. In 1927 a National Insurance Bill was drawn up but did not proceed. Others mooted the case for a universal pension or at least higher Old Age Pensions.

British experts visiting in 1936 advocated a compulsory national insurance scheme and for a period the Labour Minister of Finance Walter Nash championed the idea and had officials develop a proposed scheme. However, as in 1882 and 1927, the national insurance proposal did not go ahead. 1936 saw pension levels lifted by 28 per cent, from 17 shillings and sixpence to 22 shillings and sixpence a week. More dramatically, the Social Security Act 1938 installed a two-tier public pension system that was also to last for nearly four decades.

Age Benefit
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 situation. 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 change.
- 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 retirement. The contributory scheme was short-lived and repealed by the newly-elected National Government in 1976.
- 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. Only 10 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.

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 Pension. However, the surcharge was highly unpopular with superannuitants.

In 1988 tax concessions on contributions to private and occupational pension or superannuation schemes were abolished, as were tax concessions to the superannuation funds themselves. 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 income.

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 1987.

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 entitlement age, 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 phase 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 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. These are described in a subsequent section.

The 1993 Accord

In 1993 an Accord was signed between the then major parliamentary parties which accepted the main elements of the superannuation changes, but also introduced a Transitional Retirement Benefit for the age cohort most affected by the increased age of entitlement for New Zealand Superannuation. This transitional benefit was to phase out by 2003-04.

The Accord also provided for the establishment of the Retirement Commission, and for the provision of Periodic Reports on Retirement Income trends and policy. These are commented on in a subsequent section.

The 1996 Coalition Agreement and the superannuation referendum

The Accord provided several years of stability in retirement income policy. However, by 1996 differences emerged among the political parties about the best direction of longer-term policy, including the future of the surcharge.

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, and favoured a compulsory superannuation savings scheme of a social insurance type.

The Coalition Agreement provided for a referendum on the superannuation savings scheme in 1997. A Compulsory Retirement Savings Scheme (CRSS) was designed

and put to the voters, involving 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 retirement annuities to be paid at age 65, which were to be 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 buildup of CRSS annuities was to be matched with a phase down in New Zealand Superannuation.

The CRSS was rejected in the referendum by 91.8 per cent of voters.

The Late 1990s – Universal Pension at lower rates

The 1996 budget had announced changes in surcharge policy effective from 1 April 1997, which reduced the impact of the surcharge and cut the numbers of superannuitants affected by it. From 1 April 1998 the surcharge was abolished entirely as part of the Coalition Agreement of the National-New Zealand First Government.

For the second time in its history New Zealand had a universal pension with no form of targeting. However, compared with its predecessor in 1977-1985 the pension was set at a lower level in relation to wages, and with a rising age of entitlement.

Income tax reductions in the late 1990s meant that tax-paid New Zealand Superannuation was projected to fall below 65 per cent of the net ordinary time wage; thus triggering the "wage floor" provisions of the superannuation legislation. In addition, domestic and external economic developments in 1998, including the "Asian Crisis"produced a weaker fiscal position. The Coalition Government between National and New Zealand First dissolved, and in 1998 the National Minority Government introduced and passed legislation that:

- removed the 65 per cent "floor" on the pension wage ratio
- specified that New Zealand Superannuation was to be adjusted on the basis of prices subject to a new 60 per cent pension-wage ratio floor.

However, subsequent political developments meant that the new policy lasted only one year.

Policies of the new Labour-Alliance Coalition government

The Labour-Alliance coalition which took office after the 1999 election reversed the pension-wage ratio decision of the previous government. It announced:

- The restoration of a 65 per cent floor for the ratio of the Married Couple rate of New Zealand Superannuation to average net ordinary time wages, with counterpart increases in the minimum ratios for other superannuation rates.
- The entitlement age to go up to 65 years by April 2001 as previously agreed in the Accord.
- The setting up of a Superannuation Investment Fund to provide for part of the future cost of New Zealand Superannuation.

The 2005 Confidence and Supply Agreement

In the wake of the 2005 election a Labour-led coalition Government continued in office. However, one of the results of the election was a Confidence and Supply agreement between Labour and New Zealand First. This provided that the minimum floor for New Zealand Superannuation would be a rate for a couple set at 66 per cent of the net average ordinary time wage rather than the 65 per cent specified in existing legislation.

2008 superannuation portability abroad

In the 2008 Budget the Government announced that where New Zealand Superannuitants migrated to a country with which New Zealand did not have a bilateral social security agreement or other specific policies, superannuation portability would be proportional to years of qualifying residence in New Zealand. Previously, portability to these countries was capped at 50 per cent of gross New Zealand Superannuation.

Summary

By 2008 New Zealand Superannuation appeared to have settled down into a more stable arrangement with little political momentum evident for any further major policy changes in the short term.

Annex 9 has a stylised representation of the evolution of New Zealand public pensions and their relationship to wages from 1898 to 2008.

However, in the background major changes were occurring in the areas of the tax treatment of savings vehicles, and in incentives for private provision for retirement. These are looked at in the next section.

PRE-FUNDING PENSIONS AND THE RETURN TO INCENTIVES FOR RETIREMENT SAVINGS

The tax policy changes of the 1980s had abolished the previous tax incentives for private superannuation and other forms of designated retirement savings. For the two decades which followed, the dominant policy ethos was the idea of a "level playing field" of equal tax treatment for all forms of saving, plus the idea of voluntary choice in private provision for retirement. New Zealand Superannuation itself continued to be tax funded on a "Pay As You Go" basis.

In 2001, however, the Labour-led government decided to partially pre-fund the future cost of New Zealand Superannuation by building up an investment fund called the New Zealand Superannuation Fund.

The 2006-07 period saw the introduction of two major changes in retirement savings policy. These were the introduction of Portfolio Investment Entities, and of the employment-linked KiwiSaver scheme.

The New Zealand Superannuation Fund

The first investment innovation in the decade was the setting up of the New Zealand Superannuation Fund in 2001. This public sector investment fund was established to finance part of the projected future cost of New Zealand Superannuation from investments. These were to be built up from government contributions funded from budget surpluses. The aim of this investment fund would be to reduce the net fiscal cost ratio of New Zealand Superannuation to GDP in the future. The objective was described as a "smoothed Pay As You Go" arrangement which would bring forward part of the future fiscal cost of rising New Zealand Superannuation payments.

The Fund was to be managed independently by a Crown Entity, the Guardians of New Zealand Superannuation, which would receive and invest Government contributions. Actual funding requirements would be calculated each year by the Treasury and reported in the Budget Economic and Fiscal update. These net fiscal transfers into the Fund would begin to decline again as the actual current spending on New Zealand Superannuation rose. Transfers would eventually fall to zero, and the Fund would begin contributing to meet the cost of New Zealand Superannuation.

While future governments would not be bound to fund the specific transfer amount indicated in the Treasury calculations, the proposed legislation would require any government which did not do so to explain in its Fiscal Strategy Report the reasons for the deviation from the target, the implications for future contribution rates, and the action it planned to take to return to the required funding levels.

It was also proposed that the accumulated assets and income of the Fund would not be able to be drawn on until after the year 2020, and then only to fund New Zealand Superannuation payments.

By 2008 the New Zealand Superannuation Fund had accumulated over $14 billion in investment assets. This aggregate was approximately equal in value to the total of the assets of all employer-sponsored superannuation funds.

Tax treatment of Portfolio Investment Entities

A significant tax policy introduced in 2006 and applicable from 1 October 2007 changed the tax treatment of investment funds classified as Portfolio Investment Entities (PIEs). These are mainly superannuation funds and other types of managed funds.

Prior to the changes, the "level playing field" or TTE tax regime taxed the income of these funds at the company taxation rate. This was then 33 per cent, but has been 30 per cent since 1 April 2008. Income distributions to members were regarded as tax paid or excluded income. However, this meant that a low income person whose marginal tax rate was 19.5 per cent was in effect being taxed at 30 per cent in respect of this distribution.

Under the new PIE rules the PIE income attributable to a resident member is taxed at their Prescribed Investor Rate (PIR). This is 19.5 per cent if the individual members taxable income (excluding allocated PIE income) is $38,000 or less, or if taxable plus PIE allocated income is $60,000 or less. For others the PIR remains at 30 per cent. For non-residents the rate is also 30 per cent.

For the investment vehicle its effective tax rate is now the weighted average of member marginal PIR rates rather than a flat 30 per cent. For some individual members on low or modest taxable incomes the effect is a significant tax reduction which makes these PIE entities a more attractive savings option.

However, while the tax changes in relation to Portfolio Investment Entities may be viewed as being more in the nature of the elimination of previous tax rate anomalies in the fiscal level playing field, what subsequently emerged with the KiwiSaver scheme was an explicit return to preferential tax treatment for retirement savings, as well as the introduction of compulsory contribution requirements for employers to employee KiwiSaver accounts.

Introduction of KiwiSaver

In 2007 the Labour-led Government launched a new contributory retirement savings scheme which involved a substantial departure from the previous New Zealand Government stance towards voluntary retirement savings. While the KiwiSaver scheme is essentially voluntary for individual members, it incorporates a government subsidy, tax advantages, and compulsory employer contributions.

In structure the KiwiSaver scheme is an employment-linked defined contribution retirement savings scheme with lump sum payouts of the accumulated value of each individual member account at retirement age. Its closest parallel is a system of competing retirement investment funds.

Key features of the KiwiSaver scheme in its 2008 form were the following:

- Membership of the scheme at the July 1 2007 commencement date was voluntary for existing employees and for other New Zealand residents under the age of 65 years, who had to choose to opt in if they wished to become KiwiSaver members. However, new resident employees between the ages of 18 and 65 were automatically enrolled unless they choose to opt out within a specified time period allowing six weeks for decision. Only a few employee groups are exempt from this requirement, involving mainly temporary workers and non-residents.
- Provision for a "contribution holiday" in the case of hardship.
- A standard employee member contribution rate of 4 per cent of wage or salary (also allowed to be made at 8 per cent).
- An employer contribution starting at 1 per cent of the wage or salary from 1 April 2008.
- An employer tax credit of up to $20 per week per employee member to offset some or all of the cost of the employer contribution.
- The government providing an initial KiwiSaver member grant of $1,000 for new members.
- A member tax credit up to a maximum of $20 per week ($1040 approx per year) linked to the member contribution.
- Administration of the collection mechanism by Inland Revenue, using the PAYE tax system. IRD then passes individual contribution on to qualifying funds,
- Competing alternative qualifying provider funds which members can choose between rather than one central provident fund. By June 2008, 33 Funds had qualified as KiwiSaver providers. Where members did not select a specific provided, their accounts were randomly assigned to one or other of six initial provider funds.

Each KiwiSaver member accumulates a capital sum in their individual account which is the sum of their own, their employer, and government contributions plus accumulated earnings. In most cases this can only be withdrawn at New Zealand Superannuation entitlement age (currently 65 years), or after 5 years of membership, whichever comes later. An exception is for permanent emigrants. However, some funds are also able to be used to fund the purchase of a first house.

As of 30 September 2008, KiwiSaver membership had climbed in its first year to 812,018 members, enrolled as follows. The data is from the KiwiSaver website.

Opted in via provider	392,959
Opted in via employer	125,621
Automatically enrolled	293,438
Total	**812,018**

At the same date a total of 166,450 people had opted out from automatic enrolment, and 4,493 accounts had closed. Membership was 51 per cent female and 48 per cent male, with 1 per cent not identified.

The statistics suggests that nearly two thirds of those automatically enrolled are choosing to stay with the KiwiSaver scheme, either by active choice or inertia. A further interesting feature was that 111,400 people aged 0-17 or 14 per cent of the total were enrolled, suggesting that many families have enrolled their children as KiwiSaver members. Some of those aged 18-plus enrolled via providers may also be non-working adults as well as the self-employed.

On the face of it would seem that KiwiSaver membership amongst those aged 18-plus is already more than twice the level of membership of employer-sponsored superannuation funds. However, the superannuation funds currently still have significantly more investment assets per member.

Significant features of KiwiSaver

KiwiSaver in its 2007 form was significantly more incentivised than the original scheme announcements had indicated. As well as larger fiscal subsidies, the modifications announced in the 2007 budget required employers to also provide contributions to the accounts of participating employees. In this respect it has moved the New Zealand system somewhat closer to the Australian model of employment - linked retirement savings.

Distinctive features of the New Zealand KiwiSaver model include provision for "Auto-enrolment" of employees unless they specifically opt out of the scheme, plus the use of the Inland Revenue collection mechanism to gather contributions before these are forwarded on to the participating funds.

The new pattern since 2007

The introduction of KiwiSaver in a highly incentivised form meant that by 2007 New Zealand had two major retirement provision schemes which were the subject of public policy mandates.

- The first was New Zealand Superannuation, a universal flat rate pension for those residentially qualified and aged 65-plus.
- The second was an essentially voluntary contributory savings scheme for individual members with significant employer and government contributions. Unlike the earlier CRSS proposals rejected in the 1997 referendum, the benefits of KiwiSaver were to be received in addition to New Zealand Superannuation.

The recommendations of the 2007 Review of Retirement Income Policy by the Retirement Commissioner on these developments together with recommendations from earlier expert groups are summarised in the last text section of this report. The next three sections, however, deal with the economic situation of older people, trends in retirement provision, and longer term demographic projections.

SOURCES OF RETIREMENT INCOME IN NEW ZEALAND

Sources of living standards for older people in New Zealand

Introduction
The 2004 Survey of Living Standards undertaken by the Ministry of Social Development showed that in that year the age group 65-plus was the least likely age group to be experiencing any form of economic hardship. Comparative figures were as follows:

Age group	% with any hardship
Dependent children under 18	38
18-24 years	22
25-44 years	25
45-64 years	17
65 plus	8

Source: New Zealand Living Standards 2004, page 63.

The favourable living standards situation position of those aged 65-plus was not a result of particularly high average cash incomes. In fact both the 2003-04 and 2006-07 Household Economic Surveys showed that most older people were in the lower middle income deciles. A little more than 20 per cent of older households had above average incomes.

Personal income distribution of persons aged 65-plus – percentage shares

Decile	2003-04	2006-07
1st (bottom)	0.8	2.6
2nd	1.6	4.1
3rd	27.7	24.3
4th	31.5	29.1
5th	18.6	18.2
6th	6.9	6.1
7th	4.4	4.1
8th	3.3	3.4
9th	3.2	3.9
10th (top)	1.3	4.2
Total	100.0	100.0

Source: Household Economic Survey 2006-07, Table 6 and 2003-04, Table 15.

The figures above show income distribution by income deciles. Each decile represents 10 per cent of the population aged 15-plus. While the figures suggest some tendency for both the highest and lowest income deciles to grow between the survey years, this may simply be a result of changes in survey methodology. What is clear in both

surveys is that most older people remained clustered in the moderate cash income groupings.

Because most were receiving New Zealand Superannuation or Veterans Pension there were very few older people in the bottom fifth of the income distribution where the most significant concentration of economic hardship occurs. The income floor provided by New Zealand Superannuation to most older people provides part of the explanation for low hardship rates amongst the age group.

The income distribution indicates that most older people in New Zealand had either an income level at New Zealand Superannuation rates (mainly people in the third decile), or else New Zealand Superannuation plus some other income. Somewhat over a fifth of the age group had income from other sources which exceeded New Zealand Superannuation levels and elevated them to above average income deciles.

The low levels of hardship experienced by older people despite most having only modest cash incomes also reflected a range of other factors which do not show up in cash income statistics.

- The 65-plus age group living in households were mainly homeowners with their mortgage paid off. Consequently, housing costs for most of the age group were low.
- Very few still had to support dependent children.
- The fully retired group no longer had work-related expenses.
- Most had some cash savings or investment assets, and few had significant debts.

In effect the discretionary income of most older people was higher than their gross money income would suggest because of lower basic living costs.

Average weekly expenditure on housing by age groups

Age group of reference person	**Housing cost - $ week**
All 15 plus	196.0
15-24	217.6
25-34	287.2
35-44	281.4
45-54	205.9
55-64	148.1
65 plus	50.1

Source: Statistics New Zealand Household Economic Survey 2006-07.

It should be noted that the housing cost figure which includes all housing costs, including maintenance, rates, insurance etc, is a household and not individual cost figure. Hence in some case this payment is met by one adult individual, but in other cases shared by two or more adults.

Sources of income of those aged 65-plus

The 2006-07 Household Economic Survey indicates the composition of regular and recurring income sources for the households containing the estimated 479,300 persons aged 65-plus living in households. The total excludes people living in rest homes and other institutions. The survey showed the following income source pattern.

Income source	**Weekly amount $**	**% of income**
Wages or salaries	130.80	18.8
Self-employment	19.50	2.8
New Zealand Superannuation	335.20	48.3
Other government benefits	29.30	4.2
Investment	114.90	16.6
Other sources	64.30	9.3
Total	**693.90**	**100.0**

New Zealand Superannuation provided slightly under half of the aggregate cash income of these households, though if other government transfer payments are added in the total coming from the taxpayer was just over half of the total.

However, the average conceals a wide variation in the situation of different older individuals within these households. Also while most of these households contained only one or two adults, there were also some with more than two adults included. Accordingly, a second measure is the individual incomes of the persons aged 65 plus contained within these households.

To provide a clearer picture of this income distribution, the survey population have been split into three groups with individual incomes separately identified as follows:

- Those individuals for whom New Zealand Superannuation was the only significant income source. This is defined to mean that any other income was under $25 per week.
- Those with other weekly income of $25 or more, but whose main source of income was still New Zealand Superannuation. Defined as “NZ Super plus”
- Those whose main income was from sources other than New Zealand Superannuation.

This subdivision produced the following results:

Category	**% of age group**
NZ Super only significant income	40.4
NZ Super plus	33.9
Other income main source	25.7
Total	**100.0**

For those people for whom New Zealand Superannuation was the main income source (the total of 74.3 per cent of older people in the first two categories) the sources of income were as follows:

Incomes of those mainly dependent on New Zealand Superannuation

Income category	% with this income	Average amount	% of total income
NZ Super	100.0	260.80	83.1
Other government pensions	3.4	2.50	0.8
Other govt transfer income	22.0	8.80	2.8
Private superannuation	5.6	6.10	1.9
Wages or salaries	3.8	4.10	.3
Other employment earnings	3.7	1.30	0.4
Interest	44.9	22.80	7.2
Dividends	6.0	2.40	0.7
Other income	11.5	5.00	1.6
Total		**313.90**	**100.0**

Source: Statistics New Zealand Household Economic Survey 2006-07.

This majority group amongst the 65-plus population were mainly fully retired, as the low proportions with any employment income indicates. New Zealand Superannuation provided over 83 per cent of their regular weekly income. Their main other source of income was interest on savings. Other income sources were small, though a full 22 per cent also claimed some other transfer incomes. Ministry of Social Development statistics indicate that this was mainly Disability Allowance, with smaller numbers receiving Accommodation Supplement and other benefits. The average weekly income for the group was $313.90.

Incomes of those whose main income source was not New Zealand Superannuation

A very different income picture emerged for the 25.7 per cent of the 65-plus age group whose main income source was not New Zealand Superannuation. While a few per cent were on income tested benefits only, or on Veterans Pension, most were on significant other incomes. The average income for the relatively affluent group was $819.90.

Income sources of those not dependent on New Zealand Superannuation as main income source

Income source	% with this income	average amount $	% of total income
NZ Super	75.9	160.70	19.6
Other government pensions	5.9	10.20	1.2
Other govt transfer income	13.6	25.50	3.1
Private superannuation	17.2	79.50	9.7
Wages or salary	35.4	231.40	28.2
Other employment income	11.6	45.00	5.5
Interest	58.8	115.10	14.0
Dividends	19.3	40.00	4.9
Other income	35.2	112.50	13.7
Total		**819.90**	**100.0**

The taxpayer provided less than a quarter of the income of this group. Many were still in employment, which provided significantly more income than did New Zealand Superannuation. Others had significant incomes from investments and pensions.

The very low average figure for New Zealand Superannuation for this high income group of older people reflects in part the fact that only three quarters of the group received this payment. However, this factor alone is not enough to account for the difference. Some may have been on New Zealand Superannuation for only part of the year, while some others may have had their New Zealand Superannuation reduced by "Direct Deductions" in respect of overseas social security pensions they were receiving. (See Annex 6.)

Overall, the picture which emerges is one of significant variation in the income levels of those aged 65, but with most clustered into the lower middle income deciles, and very few in the lowest income groups. Because most of the age group had lower housing costs than the bulk of the New Zealand population, this income situation translated into adequate living standards for most older people, resulting in the lowest proportion of economic hardship of any age group.

The combination of New Zealand Superannuation plus supplementary allowances for those with exceptional costs was significantly responsible for this outcome.

PRIVATE PROVISION FOR RETIREMENT IN NEW ZEALAND

New Zealanders provide for their living standard in retirement through a variety of private sources. One of the most significant is home ownership, although its value is excluded from taxation statistics on incomes. Nearly 80 per cent of New Zealanders aged 65-plus living in the community are homeowners, and most have paid off the mortgage or reduced it to low levels. However, home ownership trends are now downwards. In 1991 the ratio for the age group was 84.4 per cent. By the 2006 Census the ratio (including an allowance for homes held in family trusts) was 79.5 per cent. For younger age groups home ownership ratios were dropping much more rapidly. (See Annex 8.)

Investment income and occupational pensions are the main private income sources for people who have stopped working. Older New Zealanders tend to keep or increase their asset holdings in their early retirement years, and reduce their assets when they enter rest homes or nursing facilities. However, real trends are somewhat obscured by the practice of transferring assets into family trusts.

Home equity conversion (which allows owners to stay in their homes while releasing some of their housing wealth) until recently had little attraction for older people in New Zealand. However, by 2006 the Towbridge Deloitte survey identified 4,500 reverse mortgages with a value of $277 million. The older pattern of frugality and retention of housing equity is beginning to change.

Nevertheless, many of the current older generation still have conservative attitudes to assets. The reasons may include:

- a wish to leave bequests to their children or grandchildren
- uncertainty about the length of their life and future needs
- frugal habits acquired as a result of the 1930s Depression and World Wars.

The people currently approaching retirement include a significant proportion with income-earning assets and/or income other than New Zealand Superannuation. They still have high home ownership rates. However, succeeding generations may not necessarily be as well placed because:

- Home ownership rates have been dropping rapidly among younger and middle-aged adults. For example for the age group 40-44 years the ownership ratio fell from 82.1 per cent in 1991 to 68.5 per cent in 2006.
- The proportion of employees with employment-based superannuation is still dropping, and is now down to 13 per cent.
- Higher sole parenthood rates are restricting earning and savings potential for part of the population.

Conversely other factors are likely to boost the income position of some other groups of older New Zealanders, notably:

- higher employment levels amongst older people
- more married women working in paid employment

- high KiwiSaver membership levels
- potentially higher inheritance levels for some.

It seems likely that in the future there will be increasingly different retirement living standard situations between two-earner, one-earner and no-earner households, and between savers and non-savers, and between those who inherit large amounts and those who do not. In this scenario future cohorts of older New Zealanders will become a much more varied group in terms of economic situation than the current cohorts of older people.

With these factors in mind, statistics on pension and investment patterns in New Zealand show some interesting trends.

Occupational pensions

The 2006 Census showed 63,807 persons or 12.9 per cent of the group aged 65-plus claiming to be in receipt of superannuation or pensions other than New Zealand Superannuation, Veterans Pension, or War Pensions. This figure appears to involve a large degree of under-reporting. The Government Superannuation Fund alone was paying out over 47,000 occupational pensions in 2006, and Ministry of Social Development statistics showed that over 51,000 overseas pensions were being received in the same year. In addition, registered superannuation funds were paying out over 24,000 private occupational pensions. However, some of the pension recipients may have been under 65 years of age, and some 65-plus recipients may have had two or more types of pension. Also, it is possible that some Census respondents classified their government superannuation as “other income from government”. It is also possible that many recipients of overseas pensions subject to the direct deductions policy simply reported receipt of New Zealand Superannuation in their Census declarations.

Even allowing for under-reporting, New Zealand statistics have generally indicated that the proportion of retired people who ultimately receive occupational and private pensions has been much lower than the proportion of the working age population who are members of occupational pension or other schemes. This is despite the fact that many immigrants bring in with them entitlement to contributory social insurance or occupational pensions from abroad, which should boost the total. For example, in 1987 (before tax concessions were withdrawn) about one-quarter of the adult population aged under 60 and about one-third of the workforce claimed to be members of occupational or private superannuation schemes. However, at the same date only 13 per cent of adults aged 60-plus were identified as receiving pension payments from these schemes.

A 1992 survey of retirement provision showed a similar pattern, with a preference for schemes that provided lump sum endowment policies. Approximately 47 per cent of people aged 15 to 59 reported having some form of retirement superannuation. However 28 per cent were lump sum schemes only, and only 19 per cent were schemes that provided for some pension in retirement. Men aged 45 to 59 had the highest proportion of policies with pensions, but this ratio was still only 37 per cent.

The gap between the reported superannuation fund membership percentages in the workforce age groups and that of the retired population who reported private superannuation income may also be affected by a time lag. However, two other factors seem more important:

- Many superannuation schemes are simply lump sum cash accumulation schemes. For example, in 1987 a total of 68 per cent of all private benefits (or entitlements) and 23 per cent of occupational benefits (or entitlements) were in lump sum form
- Many members withdraw from superannuation schemes before they retire, and use the policy's surrender value for other purposes. The Government Actuary's 1998 report indicated that most people leave superannuation schemes for reasons other than retirement, although it is not known what proportion of them invest their cashed-up policies in other income-earning assets.

Since 1987 the share of the workforce in occupational pension schemes has been trending downward, and Government Actuary statistics up to 2007 indicate that this trend is continuing. Whereas in 1993 a total of 22.6 per cent of the labour force were in superannuation schemes by 2007 the ratio was down to under 13 per cent

Membership is also concentrating in fewer schemes, though total assets are still rising. However, there has also been a distinct shift away from defined benefit towards defined contribution schemes.

A move to defined contribution schemes

The Government Actuary's report for 2008 showed that between 1990 and 2007 total assets of employer-sponsored superannuation funds rose by 49.7 per cent to $14,224 million despite a 6.6 per cent drop in membership. However, the assets of the defined benefit schemes fell by 21.3 per cent to $5,562 million while those of defined contribution schemes rose 218 per cent to $8,965 million.

In terms of numbers of members, the defined benefit schemes lost 35.3 per cent of their members over the 17 years to end up with 65,506 enrolled in 2007. The defined contribution schemes experienced a modest 7.3 per cent membership growth to reach 224,839 members in 2007. It should be noted that these figures include pensioners as well as active contributors, plus some currently inactive members who would still have entitlements.

Also noticeable in the statistics is the major extent to which membership and assets are concentrating in fewer and fewer schemes.

Research in New Zealand and elsewhere indicates that occupational pensions are more common among higher earners and those in stable, full-time work. They are much less common among low earners and part-time workers, or those with broken career patterns. Overall, occupational pensions are received by a minority of the retired population in New Zealand.

Employer and NPF Superannuation Fund membership 1990-2007 (Excluding Government Superannuation Fund)

	1990	2005	2006	2007
Total number of funds	2,242	371	320	288
Total assets ($million)	9,508	11,439	13,274	14,224
Number of members	310,741	304,559	288,732	290,345
Active contributors	273,065	278,408	263,098	265,727
Pensioners	36,644	24,578	24,046	22,971

Source: Reports of the Government Actuary 2006, 2007 and 2008.

Total superannuation scheme membership

The statistics of the Government Actuary indicated that up till about 1997 rapid growth in “retail” schemes had more than offset the decline in employer-sponsored schemes. Hence total superannuation scheme membership continued to grow. Subsequently, aggregate membership plateaued, with growth in retail scheme membership just offsetting the continuing decline in employer-sponsored schemes. More recently total membership has fallen, with both employer and retail schemes losing members, though employer schemes did regain some members in the 2007 calendar year.

Superannuation scheme membership by type

	1990	2005	2006	2007
Private	550	121	179	258
Employer	310,741	304,559	288,732	290,345
Retail	236,062	333,443	313,833	291,432
Total	547,353	638,123	606,744	582,035

Source: Report of the Government Actuary 2007 and 2008.

What these figures actually mean for retirement provision by people in the working age groups is more open to question. Clearly, membership of employment-based schemes fell sharply, once tax concessions were abolished. Membership had some partial revival with the new public sector schemes which emerged in the wake of the closure of the Government Superannuation Fund to new members. However, this growth barely offset the decline amongst private employers, and total employer scheme membership since has since risen less than the proportionate rise in the size of the labour force.

After the earlier boom, retail scheme membership has been falling sharply though the asset levels of the schemes have increased. Many members of the expanding “retail” schemes in the 1990s appear to have been older people reinvesting assets into “surcharge-efficient” superannuation policies. These investment shifts allowed investors to reduce or eliminate their liability to pay the then superannuation taxation surcharge. The motivation for much of this growth has changed since the surcharge

was abolished. There are still some tax advantages for higher income earners, but in future membership may be affected by the new PIE tax rules.

It is not clear what proportion of people in the working age groups are investing in "retail" schemes, as this detail is not given in the Government Actuary reports.

Government Superannuation Fund

The Government Superannuation Fund has for many years been the biggest defined benefit retirement pension scheme in New Zealand. The closure of the Government Superannuation Fund to new members has seen a rapid fall in the number of current contributors. At 30 June 1994 there were 52,554 contributory members. By 1999 this had dropped to 33,690, and by 2008 further declined to 17,031.

Beneficiary numbers have begun dropping only in the more recent period, and since 1996 the number of annuitants has exceeded the number of contributors. In 1994 beneficiaries numbered 46,287. By 2000 the number was actually slightly higher at 47,779, but the total has since edged down to 47,158 in 2008 as deaths of existing annuitants have begun to exceed new retirements of Fund members.

Benefit payments from the Government Superannuation Fund were $943.1 million in the year ended 30 June 2008. Of this amount contributing members provided $64.9 million and the Government $724.4 million. Most of the balance came from earnings on Fund investments.

As at 30 June 2008, the Government Superannuation Fund had net assets of $3.3 billion, down from over $4 billion the previous year, reflecting adverse trends in investment values. The estimated actuarial value of future annuitant commitments was around $14 billion. Consequently there was an unfunded liability of over $10 billion. The General Manager's 1997 report noted in relation to then unfunded liability that this liability happened because "the government as an employer does not meet the liabilities of the Fund as they are accrued, but pays out its share of benefits as they fall due". The 1999 report also commented that "reliance is placed on the provisions of the Act for the Crown to ensure that sufficient funds are available or will be available to pay benefits as they fall due".

Private pensions

Voluntary private pensions and annuities other than occupational superannuation have traditionally been less important in New Zealand than in other countries. In the statistics in the preceding sections the Government Actuary's classification of "retail" schemes covers most of what are commonly referred to as private pensions, although most are lump sum schemes.

Annuities or private pensions are based on the concept of using savings to buy an income stream that stops when the person dies. They have rarely been able to compete with New Zealanders' preference for putting discretionary savings into assets such as property, shares or interest-bearing securities, which are seen as more easily realised to meet particular needs and as having a continuing value for bequests. Lump sums

received under superannuation policies may be invested in other assets, but there is little reliable information about what people do with their lump sums when their policies mature.

Generally the average value per fund member of private superannuation policies is lower than in occupational schemes. For example, in 2007 retail schemes in New Zealand had an average asset value per member of $25,992 compared with $48,990 for employer superannuation schemes. The retail schemes are also heavily oriented towards lump sum endowment policies rather than pensions or annuities.

While the superannuation payment from a private superannuation fund is notionally tax free to the recipient, the income of the fund providing the payment has been until recently taxed at the company tax rate. Before 2008 this was 33 per cent, but is now 30 cents in the dollar. This was higher than the tax rate many individuals would pay if the "grossed up" amount was treated as their ordinary income, though lower than the 39 per cent maximum percentage tax rate.

The new Portfolio Investment Entity (PIE) tax rates for qualifying "widely held" funds will change this position, and may give a new boost to these funds. However, they now also have to compete with KiwiSaver for the funds of working age people. Conversely, since the main KiwiSaver concessions are only available to members under the age of 65 years, PIE status may still be a significant attraction for 65 plus investors.

Private investment and savings

Other forms of private investment and savings have played a significant role in providing retirement income in New Zealand. The relative importance of income from private investments diminished after the Old Age Pensions Act 1898 and fell further after the Social Security Act 1938. In recent decades it has been less important than public pensions for most retired people. Even so, Household Survey figures indicate that interest and dividend income represented 13.2 per cent of the income of people aged 65-plus in 2006-07, with a further 7.3 per cent coming from other private sources other than employment.

Significant items generating retirement investment income include shares, bank deposits, fixed interest securities, rental properties, and part ownership of businesses. Farmers have traditionally relied on "cashing-up" the farm on retirement, and reinvesting the proceeds.

Up till now however, the main retirement income source for most older New Zealanders has come from various forms of state pension payments. The longer term future of this source depends in part on how future governments react to the fiscal pressures created by an ageing population.

The risk for many in the current workforce is that when they retire the state pension system may provide proportionally less than it provided for their predecessors. Those who wish to maintain more than a modest living standard will need to build up their own income-earning assets. This will require not only a more distinct savings effort,

but good judgement about investment options, including assessing alternative KiwiSaver providers.

THE DEMOGRAPHIC ISSUE

The issues dominating retirement income policy planning in New Zealand are the ageing population and its consequences for the ratio between pensioners and those in workforce age groups. More specifically, it is the ratio between pensioners and those in paid employment.

In common with other developed countries, New Zealand is experiencing a rise in the proportion of older people in the population – the result of a continuing rise in life expectancy and substantially lower birth rates than a generation ago.

Until recent decades the rise in life expectancy was mainly because of reduced death rates at younger ages. In the first 50 years of the 20th century, life expectancy at age 65 did not rise much, especially for men. However, since then a rise in life expectancy at older ages has become an increasingly important component of rising life expectancy. In the 50 years to 2000-2002 men aged 65 added 3.9 years to life expectancy, while women aged 65 saw a 5.2 year increase.

Life expectancy in New Zealand

	1901-05 (Non-Māori)	1950-52 (All groups)	1995-97 (All groups)	2000-2002 (All groups)
At birth				
Males	58.1	67.2	74.4	76.3
Females	60.5	71.3	79.7	81.1
At age 65				
Males	12.2	12.8	15.5	16.7
Females	13.3	14.8	19.0	20.0

Sources: Yearbook 1928 page 144 and NZ Life Tables 1995-97 page 14, and Statistics New Zealand website.

A more dramatic consequence of lower death rates among the young and middle aged is the increased likelihood of their reaching older ages. At the beginning of the 20th century the Assistant Actuary of the then Government Life Department estimated that only 471 out of every 1,000 males, and 530 of every 1,000 females, born in New Zealand could be expected to survive until age 65 (Yearbook 1902 page 353). By 2000-2002 the survival rate to age 65 for males was 839 per 1,000, and for females 891 (Statistics New Zealand website).

The long-term rise in the proportion of the elderly is expected to put increased pressure on retirement income and health systems. The increased costs of providing for the elderly are expected to be much higher than the cost reductions associated with a smaller proportion of children in the population. The major effect is expected in the first few decades of the 21st century, when the large "baby boom" generation will be retiring and there will be smaller numbers of younger and middle-aged adults to replace them in the workforce.

Population projections

Estimates of the speed and scope of this "demographic ageing" vary according to assumptions about future birth rates, life expectancy trends, and migration levels and patterns. The Government Statistician has published a series of population projections that include a range of assumptions such as low, medium and high assumptions for fertility and mortality, and annual net immigration ranging from zero to 20,000 per year. All projections show a substantial rise in the proportion of the elderly in the population.

On the current projections the lowest estimate of New Zealand's total population increase in the 50 years to 2056 is a rise of only 12.9 per cent. The highest is a rise of 52.7 per cent. However, for people aged 65-plus the lowest projection gives a rise of 142.5 per cent, and the highest a rise of 205.4 per cent. In other words, in fifty years time at a minimum the population aged 65-plus will be more than 2.4 times the 2006 level. On the highest projection it will be more than 3 times the 2006 level.

One measure of demographic ageing is the proportion of the population aged 65-plus expected to be in New Zealand in the future. Here are the highest and lowest of the nine alternative projections of the Government Statistician, published in *Key Statistics* and on the Statistics website.

Projected share of the population aged 65-plus

Year	**Lowest projection**	**Highest projection**
2006 Actual	12.2	12.2
Projections		
2011	13.3	13.4
2016	15.1	15.4
2021	16.9	17.4
2026	19.0	19.7
2031	20.8	22.0
2036	22.2	23.8
2041	22.9	24.8
2046	23.0	25.3
2051	23.4	26.1
2056	23.7	27.0

The lowest projection shows the share of the population aged 65-plus nearly doubling over the next 50 years. The highest projection shows the share rising to more than 2.2 times the 2006 proportions by the year 2056. All projections show the same basic pattern of a sharp rise in the proportion of older people and the ratio of the elderly to those in traditional workforce age groups.

The high fertility assumptions produce the smallest (but still very large) long-run rise in the percentage of those aged 65-plus, and the low fertility assumptions the most

extreme ageing pattern. The level of net immigration has a significant impact in the medium term, but less impact over the longer term because the migrants themselves age.

THE RETIREMENT SAVINGS REPORTS AND THE NEW ZEALAND SUPERANNUATION DEBATE

The section which follows summarises the key public reports to government on public pensions and retirement savings issues. This is set in the context of responses to the fiscal and other implications of an ageing population.

The high level of public concern which resulted from a number of the superannuation policy changes from 1985 onwards, and longer term concerns about the impact of ageing populations on public pension costs led to successive governments commissioning a series of expert reports on superannuation policy. There was also a search for a wider political consensus on longer term policy. These reports and developments are summarised in the sections which follow.

The Task Force on Private Provision

In 1991 the National Government set up a "Task Force on Private Provision for Retirement", chaired by Jeff Todd. It was to look at how to improve private provision for retirement, with the terms of reference also including the interface between private and state-funded retirement income. The Task Force's August 1992 report evaluated three options:

1. Reintroducing tax concessions to stimulate private retirement income provision.
2. Introducing compulsory contributory superannuation.
3. Continued public provision of a tax-funded pension, with voluntary retirement income provision on top of this, but without tax concessions.

The Task Force favoured the third option – the "voluntary savings option" of continuing public provision supported by increased voluntary savings by income earners. To make the ongoing cost of public pension provision affordable for an ageing population, the Task Force endorsed other adjustment policies, including:

- gradually lowering the pension-wage ratio
- targeting the pension.

It also endorsed the 1991 policy of raising the age of pension entitlement to 65 by the year 2001.

The Task Force rejected tax concessions, noting:

- their high financial costs
- the disproportionate gains for high-income individuals
- the distortion of investment patterns
- doubts about whether tax concessions would really produce a net increase in national savings.

It also rejected the compulsory contributory superannuation option, citing:

- negative effects on low-income people

- rigidities in investment results
- lack of flexibility for people to access their own savings
- disruption of the financial sector and the wider economy.

However, the Task Force did develop a model for a possible compulsory scheme which was to influence subsequent initiatives.

The Multi-Party Accord

In 1993 the main parties represented in Parliament developed an Accord on Retirement Income Policies – the result of the Task Force report and the desire for a more stable pension policy. The Accord drew heavily on the Task Force proposals and included:

- Setting up an income-tested Transitional Retirement Benefit for the groups most immediately affected by the increased entitlement age for what was now called "New Zealand Superannuation".
- An allowance for superannuation to be adjusted by prices while it remained within a specified band in relation to wages. A "floor" for pensions set at 65 per cent of net wages was agreed, with the "ceiling" to be 72.5 per cent of net wages.
- Establishing the The Retirement Commission, whose tasks included publicising the need to increase private retirement savings.
- Provision for a Periodic Report Group to report in 1997 and six-yearly thereafter, on trends and developments in public and private provision of retirement income. The report was to identify any areas of risk or unsatisfactory performance, and suggest any required policy adjustments.

The 1997 Periodic Report Group

The Periodic Report Group's 1997 reports endorsed the voluntary savings option and the continued existence of a tax-funded public pension. They discussed a number of ways New Zealand might adjust to demographic change, which included phasing out the difference between payment rates based on marital status. The July 1997 report also expressed regret at the government decision to abolish the superannuation surcharge, and at the broken link between public and private provision.

The 1997 Interim Report of the Periodic Report Group explored three major proposals:

- Further increasing the pension entitlement age in the 21st century.
- Gradually lowering the pension-wage ratio.
- Reintroducing some element of targeting into the public pension system.

The Group also proposed some smaller-scale changes for medium-term policy, notably gradually phasing down the single person rate of New Zealand Superannuation to parity with the married person rate.

The Superannuation 2000 Taskforce

The 1997 superannuation referendum result, the erosion of the Accord, and continuing changes in superannuation policy renewed uncertainties about the longer-term future of public pensions in New Zealand.

In December 1998 the National Minority Government set up a new Superannuation 2000 Taskforce. It was charged to develop longer-term parameters for superannuation policy consistent with long-term sustainability, including modifications required to New Zealand Superannuation, and to report on these in the year 2000.

The Superannuation 2000 Taskforce prepared a number of information reports, and set up a research programme on household savings. However, when the Government changed after the 1999 election the Taskforce was disbanded.

The 2003 Periodic Report Group

In 2003 the Periodic Report Group (PRG) reported to government on Retirement Provision trends. It found that the existing system was working well for the currently retired people, and recommended no major changes to the system or the regulatory environment. However, new risks to saving were noted, including higher household debt, student loan debt, and lower levels of home ownership.

The 2003 PRG also proposed the establishment of a Work Based Savings Group. This was to look at options to promote work-based savings and to remove barriers to the participation of employers and employees.

In the event, the output of the Work Based Savings Group was to lead into the eventual development of KiwiSaver, though by 2007 this had emerged as a much more incentivised scheme than had been envisaged by the 2003 PRG.

The 2007 Review of Retirement Income Policy

Following the 2003 Periodic Report Group, the Labour-led government mandated the Retirement Commissioner to report on a more frequent basis than the previous six year interval between the two PRG reports. This led to the production of the 2007 Review of Retirement Income Policy.

The 2007 Review of Retirement Income Policy by the Retirement Commissioner concluded that New Zealand Superannuation had provided a straightforward and stable retirement income framework for some time. In particular the structure and level in relation to wages of New Zealand Superannuation (NZS) was seen as efficient and effective in maintaining adequate living standards for older people at moderate fiscal cost.

Future issues related to increased longevity and ageing populations and the rising fiscal costs associated with these changes. The Review noted (p 30) that responses to these fiscal pressures "will depend either on taxpayers accepting rising costs as

people live longer, or more likely adjusting NZS so that the cost stays at a level taxpayers will consider reasonable".

The Review (p33-34) summarised a range of potential options for adjusting the future parameters of NZS as being the following:

- Introducing some form of income targeting
- Lengthening the required period of residence in New Zealand for eligibility
- Reducing the ratio of the NZS benefit level as a proportion of the average wage
- Phasing up the age of entitlement
- Phasing down the payment rate for single people sharing accommodation to the lower married person payment rate.

The Review noted that a higher age of entitlement and a lower payment ratio to wages were the future changes suggested by the IMF and the OECD. However, the Review also advised (pages 10 and 29) that political consensus be sought for any future changes in the parameters of NZS, and that such changes should be made with long lead times. The Review also raised the issue of the need to look at NZS eligibility issues for people migrating to and from New Zealand.

The 2007 Review and KiwiSaver

The 2007 Review by the Retirement Commissioner commented in some detail on the new KiwiSaver scheme, and in particular on the extra incentives for KiwiSaver membership announced in the 2007 Budget.

KiwiSaver post the 2007 Budget was seen as a highly incentivised scheme encouraging the build-up of private financial assets. It was also seen as having brought additional complexity and fiscal risks because of the high costs of its new incentives, and being likely to increase differences in retirement living standards between those accessing KiwiSaver and those not doing so, particularly those on low incomes.

Discussing options to deal with the situation of low income people who could not afford to join KiwiSaver, the Review suggested (p 52) that "One approach to making it easier for low income employees to save would be to lower the minimum contribution to KiwiSaver to say 2% of salary".

The Review advised against making KiwiSaver compulsory indicating that (p 53) "such calls are unhelpful to the stability of policy". It also cited (p 53-54) an Infometrics review which had concluded that "no evidence exists that compulsory saving for retirement in New Zealand is necessary or desirable".
Future policy reviews

The next review of Retirement Income Provision by the Retirement Commissioner is due in 2010. On current trends the economic and fiscal situation is likely to be very different from that of 2007.

ANNEXES

Annex 1 Demographic projections

Population projections of the Government Statistician, published in the June 2008 issue of *Key Statistics,* covered the following nine series:

1. Low Fertility, High Mortality, and net immigration of 5,000 per year.
2. Medium Fertility, Medium Mortality, and net immigration of 10,000 per year.
3. Medium Fertility, High Mortality, and 10,000 net immigration per year.
4. Medium Fertility, Medium Mortality, and net immigration of 5,000 per year
5. Medium Fertility, Medium Mortality, and net immigration of 10.000 per year
6. Medium Fertility, Medium Mortality, and net immigration of 15,000 per year
7. Medium Fertility, Medium Mortality, and net immigration of 10,000 per year.
8. High Fertility, Medium Mortality, and net immigration of 10,000 per year.
9. High Fertility, Low Mortality, and net immigration of 15,000 per year.

A fuller description of the technical terms can be obtained from Statistics New Zealand.

The series listed above produced the following alternative projections of the proportion of people aged 65-plus in the New Zealand population. The projections are shown up to the year 2056.

Projections of proportion of New Zealand population aged 65 or above

Year	Series number								
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**
2006 Actual	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2	12.2
Projections									
2011	13.4	13.4	13.3	13.4	13.3	13.3	13.4	13.3	13.3
2016	15.4	15.4	15.1	15.1	15.3	15.1	15.4	15.1	15.1
2021	17.3	17.3	16.9	16.9	17.1	17.0	17.4	16.9	16.9
2026	19.6	19.7	18.9	18.9	19.3	19.0	19.7	19.0	19.0
2031	21.9	22.0	20.8	20.8	21.4	21.0	22.0	20.9	21.0
2036	23.5	23.7	22.2	22.2	23.0	22.4	23.8	22.3	22.5
2041	24.5	24.8	22.9	22.9	23.9	23.2	24.8	23.0	23.3
2046	24.9	25.3	23.0	23.0	24.2	23.5	25.3	23.1	23.6
2051	25.5	26.1	23.4	23.4	24.7	24.0	25.9	23.4	24.0
2056	26.3	27.0	23.9	23.9	25.3	24.1	25.7	23.7	24.5

Source: Statistics New Zealand website.

Annex 2 Public retirement pensions in New Zealand

Number in force

Year	Age Benefit	Universal Superannuation	Total
1950	117,156	69,356	186,512
1955	121,063	78,173	199,236
1960	116,077	87,959	204,036
1965	95,009	119,650	214,659
1970	98,905	142,867	241,772
1975	174,514	114,834	289,348
	Transitional Retirement Benefit	**New Zealand Superannuation**	**Total**
1980		405,484	405,484
1985		459,813	459,813
1990		495,300	495,300
1991		506,047	506,047
1992		504,561	504,561
1993		488,893	488,893
1994	6,540	477,400	483,940
1995	7,327	469,239	476.566
1996	7,832	481,565*	489,397
1997	7,953	474,451	482,404
1998	8,151	469,307	477,458
1999	8,743	461,137	469,880
2000	8,856	453,401	462,257
2001	9,012	446,706	455,718
2002	5,118	450,435	455,553
2003	2,110	457,278	459,388
2004		464,624	464,624
2005		475,215	475,215
2006		488,825	488,825
2007		502,717	502,717
2008		514,276	514,276

Source: Department of Social Welfare and Ministry of Social Policy Statistical Reports 1993-1999 and Ministry of Social Development Report Table 7.1.

Note: The New Zealand Superannuation statistics exclude non-qualified spouses up to 1995. From 1996 non-qualified spouses are included. There were 20,893 non-qualified spouses in the year 2000 and 13,108 in 2007.

Transitional Retirement Benefit statistics from 1997 have been slightly revised. TRB had ceased to exist by mid 2004.

Annex 3 Expenditure on public pensions in New Zealand

Thousand New Zealand Dollars

Fiscal Year	Age Benefit	Universal Superannuation	Total
1950	30,268	4,359	34,627
1955	44,502	13,500	50,002
1960	54,582	30,920	85,502
1965	51,017	59,297	110,314
1970	67,003	88,819	155,822
1975	224,853	140,950	365,803
	Transitional Retirement Benefit	**New Zealand Superannuation**	**Total**
1980		1,334,115	1,334,115
1985		2,743,512	2,743,512
1990		4,774,676	4,774,676
1991		5,173,859	5,173,859
1992		5,514,482	5,514,482
1993		5,315,899	5,315,899
1994	17,385	5,102.551	5,119,936
1995	79,167	5,083,119	5,162,286
1996	90,698	5,170,506	5,261,204
1997	96,819	5,239,129	5,335,948
1998	99,875	5,259,198	5,359,073
1999	105,412	5,221,501	5,326,913
2000	112,384	5,227,598	5,339,982
2001	114,108	5,422,012	5,556,120
2002	86,567	5,600,448	5,687,015
2003	42,013	5,798,873	5,840,886
2004	9,679	6,059,395	6,069,074
2005		6,269,743	6,269,743
2006		6,615,876	6,615,876
2007		7,021,852	7,021,852
2008		7,571,533	7,571,533

Source: Department of Social Welfare and Ministry of Social Policy Statistical Reports 1993-99 and Ministry of Social Development.

Note: Prior to 1990 the fiscal year ended on 31 March. From 1990 onwards the fiscal year ended on 30 June.

Annex 4 Veterans Pension 1990 to 2008

As at end of June	Number	Cost $000.
1990	3,428	1,147
1991	3,130	29,639
1992	5,393	33,331
1993	6,117	47,793
1994	6,278	54,660
1995	6,380	52,217
1996	6,687*	60,612
1997	7,176	64,963
1998	7,277	72,414
1999	7,334	72,645
2000	7,248	73,801
2001	7,425	78,354
2002	7,587	83,605
2003	7,872	87,625
2004	8,465	95,803
2005	8,871	103,890
2006	9,472	112,335
2007	10,065	125,207
2008	10,736	140,686

Source: MSD Statistical Report 2007 tables 7.1 and 7.2. and Ministry of Social Development.

From 1996 figures incorporate non-qualified spouses included in payments.

Annex 5 New Zealand Superannuation, Veterans Pension and Transitional Retirement Benefit

Combined numbers and annual costs

As at end of June	Number	Cost ($000) year to June
1990	498,278	4,775,823
1991	509,177	5,203,498
1992	509,954	5,547,813
1993	495,010	5,363,692
1994	490,218	5,174,596
1995	482,946	5,219,503
1996	496,084*	5,321,816
1997	489,580	5,400,911
1998	484,735	5,429,487
1999	477,214	5,399,558
2000	469,505	5,413,783
2001	463,143	5,614,474
2002	463,140	5,770,660
2003	467,260	5,928,511
2004	473,089	6,164,877
2005	484,046	6,373,733
2006	498,297	6,728,211
2007	512,782	7,147,059
2008	525,012	7,712,219

Source: MSD Statistical Report 2007 tables 7.1 and 7.2 and Ministry of Social Development.

From 1996 figures include non qualified spouses for New Zealand Superannuation and Veterans Pension.

Annex 6 Number of Work and Income clients receiving an overseas pension

Country of pension provision	2004	2005	2006	2007	2008
United Kingdom	37,754	40,193	42,521	40,417	41,359
Australia	914	2,549	3,960	3,928	4,918
Netherlands	2,400	2,709	3,027	3,146	3,324
Other	1,268	1,545	1,956	2,798	3,155
Total	42,336	46,996	51,464	50,019	52,756

Source: Ministry of Social Development Statistical Report 2007 Table 6.9 and Ministry of Social Development.

Annex 7 Pension-wage ratios 1972-2008

Change date	Universal Superannuation	Age Benefit
July 1972	64.93	68.45
August 1973	64.78	69.15
July 1974	64.43	69.67
July 1975	63.89	69.62
July 1976	65.41	72.65

	New Zealand Superannuation
August 1977	78.28
August 1978	89.45
February 1980	80.01
March 1981	80.00
March 1982	80.00
March 1983	80.00
March 1984	80.17
March 1985	84.78
April 1986	89.54
April 1987	80.00
April 1988	80.48
April 1989	76.45
April 1990	75.87
April 1991	72.18
April 1992	69.64
April 1993	69.58
April 1994	70.29
April 1995	70.17
Revised Series	
April 1996	71.79
April 1997	68.59
April 1998	67.45
April 1999	64.48
April 2000	67.8
April 2001	68.5
April 2002	67.1
April 2003	66.5
April 2004	65.7
April 2005	65.8
April 2006	66.0
April 2007	66.0
April 2008	66.1

Sources:
1. *1972 to1983 and 1985 to 1995 K Goodger "New Zealand Retirement Income Support and Average Wages since 1970" Quoted in Krishnan, V. "Divergent Paths: Changes in Public and Private Income Provision amongst Older Households" Social Policy Journal of New Zealand Issue 9 (November 1997).*
2. *1996 to 1999 Revised Figures K Goodger, Ministry of Social Policy.*
3. *1984 figure interpolated from figures in K Goodger draft.*
4. *2000 to 2008 Ministry of Social Development.*

The New Zealand Superannuation statistics are expressed as net payment to a couple after tax as a proportion of the average ordinary time wage after tax.

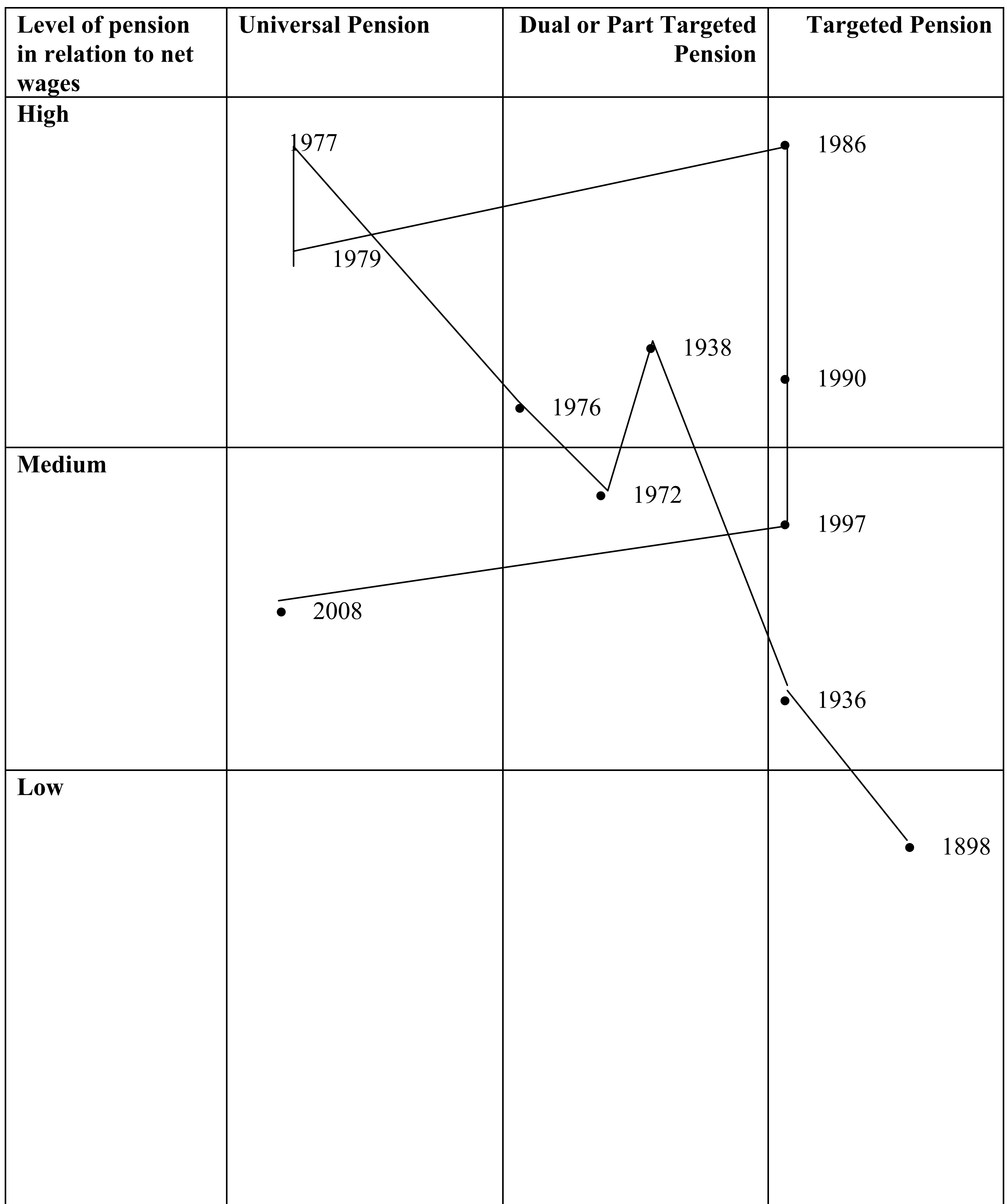
The series from 1996 has been revised because the Average Ordinary Time Wage Series has been revised, leading to a reduction in the size of estimated average wages. The term "New Zealand Superannuation" includes National Superannuation and Guaranteed Retirement Income in the earlier period.

Annex 8 Estimates of beneficial home ownership by age group
As at Census dates

Age Group	1991 %	1996 %	2001 %	2006 %
20-24	26.6	24.8	23.2	21.7
25-29	53.8	46.2	41.5	36.3
30-34	69.1	62.8	57.1	52.6
35-39	77.2	73.1	68.3	61.9
40-44	82.1	78.8	74.5	68.5
45-49	84.4	82.7	79.0	73.7
50-54	85.7	84.8	82.5	77.8
55-59	87.6	86.3	84.6	80.5
60-64	87.4	83.8	83.7	81.2
65 plus	84.4	83.8	83.7	79.5
Total	74.9	72.3	70.5	66.9

Source: 1991-2001 Phil Briggs. Family trusts: ownership, size, and their impact on measures of wealth and home ownership. July 2006. 2006 figures CHRANZ based on Statistics New Zealand data.

Annex 9 Type of public pension system in New Zealand 1898-2008



Note: The chart shown here is a stylised representation of the changes in New Zealand's tax-funded public pension is the period 1898 to 2008. Only the data for recent decades is accurately measured, since there are no comprehensive net wage estimates for the first few decades after 1898. The actual ratio of New Zealand

Superannuation for a couple to net ordinary time wages after tax for the period since 1972 is shown in annex 7.

In the period 1898 to 1977 the New Zealand pension evolution showed a zigzag movement from low rate, highly targeted public pensions to high rate universal pensions. Since that period the changes have involved a move back from the 1977 position.

The graph has been drawn as a straight line between points, with minor variations in percentages ignored. Hence temporary downward variations in the ratio, as in 1999, are not shown.

LIST OF TERMINOLOGY AND USEFUL TERMS

Abatement Rate – The rate at which a benefit or pension is reduced as the other income of the beneficiary or pensioner increases.

Accord – A 1993 agreement between several parliamentary parties on New Zealand Superannuation policy.

Age Benefit – A means-tested pension paid in New Zealand between 1939 and 1977 and funded from taxation.

Annuity – A series of periodic payments made to an individual, either for their lifetime or for a specified time period.

Asset Test – A targeting regime applied to some types of benefits and pensions that reduces or eliminates entitlement to the benefit or pension according to the level of assets owned by the claimant.

Automatic Enrolment – A provision whereby new employees are automatically enrolled in KiwiSaver unless they choose to opt out within a prescribed notice period.

Cash Accumulation Scheme – A retirement savings scheme which matures in the form of a cash balance rather than a pension or annuity.

Complying Scheme – In New Zealand a superannuation or retirement savings scheme which complies with KiwiSaver requirements.

Default Providers – The funds to which KiwiSaver individual accounts will be allocated if the individual concerned does not select a specific fund provider.

Defined Benefit Scheme – A superannuation scheme that provides retirement benefits according to a pre-defined formula. Defined benefit formulae are usually based on years of scheme membership or length of service with a specified employer or employers, and pre-retirement income. Benefit payments may include pensions and/or lump sums.

Defined Contribution Scheme – A superannuation scheme in which the level of contributions is usually fixed in advance, usually as some percentage of the scheme member's salary. Retirement benefits paid depend on the level of accumulated contributions and the earnings on these contributions. Payments may be in the form of pensions and/or lump sums.

Dependant – A person who depends wholly or partly for financial support on, usually, an earner or taxpayers. May also refer to a retired person living on investment income. In the analysis of the age structure of the population it usually refers to children plus people who have reached a defined retirement age.

Dependency Ratio – Usually refers to the ratio of age group dependants (children, teenagers at school, plus those of a defined retirement age) to those in the traditional workforce age groups. Alternatively, it may refer to the total ratio of those not working in paid employment to those in paid employment.

Direct Deduction – A reduction in the amount of New Zealand Superannuation or other benefit payments made to a New Zealand Work and Income client because of the social security pensions received by that person from another country.

Disposable Income – Income available to spend after deduction of taxes and the receipt of transfer payments from the Government.

Earner – A person who is employed in paid work; one who receives a "market" income.

Earnings-Related Pension – A pension payment received on retirement that is related to the previous level of earnings when in employment. Higher income earners receive higher pensions than lower income earners under earnings-related pension schemes.

EMTR – Abbreviation for Effective Marginal Tax Rate. The combined deductions from additional income arising from taxation, surcharges, and any reduction in entitlement to benefits or pensions.

Employee Scheme – A superannuation scheme operated by an employer on behalf of their employees. Contributions may be made by the employee and/or by the employer. Also called employment or job-related superannuation.

Entitlement Age – The age at which a person becomes entitled to receive a pension or superannuation payment, either from the Government or a job-related or contributory scheme.

Free Zone – Initial level of earnings which does not affect entitlement to a state pension or benefit. Also called a "Disregard".

Fiscal – The term relates to government revenues and expenditures, and to the policies involved in determining how expenditure is to be financed.

Fully Funded Scheme – A superannuation or pension scheme that has enough assets to pay all retirement benefits accruing to current and past contributors.

Government Actuary – The New Zealand Government Actuary.

Guaranteed Retirement Income – One of the names applied to the New Zealand public pension scheme now called New Zealand Superannuation.

Home Equity Conversion – A scheme where part or all of the value of a homeowner's equity in a house is realised to support a higher level of spending in

retirement. The process involves a lender advancing money at interest on the security of the equity in the house. The advance is recouped when the house is eventually sold.

Imputed Income – Income received in the form of a stream of non-monetary benefits from an asset (for example, the rental value of owner-occupied housing).

Income Test – A targeting regime applied to pensions or benefits that reduces or eliminates entitlement according to the level of other income received by the claimant.

KiwiSaver – A New Zealand contributory retirement savings scheme set up by the government in 2007. While essentially voluntary for members, it incorporates a government contribution and compulsory employer contributions.

Locked In Balance – A savings or fund balance attributable to an individual which is locked into a savings scheme until a specified retirement age or other qualifying condition is met.

Lump Sum – A capital payment received upon maturity of a superannuation or insurance policy. Some policies pay only lump sums. Others pay a mixture of lump sums and pensions. Lump sum policies have always been a preferred form of saving in New Zealand.

Means Test – A way of assessing need for a benefit or pension, which reduces or eliminates entitlement according to the other economic resources of the claimant. Means tests in New Zealand are combined income and asset tests.

National Insurance – A form of compulsory social insurance. However, unlike the more traditional form of social insurance, some national insurance systems have flat rate contributions and flat rate pensions.

National Provident Fund – A government-sponsored voluntary superannuation fund set up in New Zealand in 1910. Provident funds with similar names also exist in a number of other countries.

National Savings – The sum of public and private savings in a country.

National Superannuation – Original 1977 name for the current New Zealand Superannuation scheme.

New Zealand Superannuation 1975 – A compulsory contributory superannuation savings scheme introduced in 1975 and repealed in 1976. Not to be confused with New Zealand Superannuation.

New Zealand Superannuation – current name of New Zealand's tax-funded universal pension.

New Zealand Superannuation Fund – A public sector owned investment fund set up in 2001 and funded from fiscal transfers. It is intended to cover part of the future cost of New Zealand Superannuation.

Occupational Pension – A pension linked to employment. Also called a job-related pension.

Old Age Pension – A means-tested retirement pension funded from taxation paid out in New Zealand between 1899 and 1939.

Opting In – A provision whereby existing employees must choose to become members of KiwiSaver.

Opting Out – The provision whereby new employees must choose to opt out if they do not wish to be automatically enrolled in the New Zealand KiwiSaver scheme.

Pay As You Go – A method of financing superannuation or pension schemes whereby costs are met out of current government revenues or current scheme contributions. This has been the traditional New Zealand approach to funding public pensions.

Pension – A series of payments paid to an individual for their lifetime. Retirement pensions are the most common form.

Pension-Wage Ratio – The proportionate relationship between pensions and wages. In New Zealand this is normally defined as the relationship of net (after-tax) pensions to after-tax ordinary-time wages.

Portability – 1. The ability to transfer superannuation entitlements or retirement savings between funds when changing employers, or changing funds.

Portability – 2. The ability to receive a public superannuation or pension entitlement from your home country when migrating to live in another country.

Portfolio Investment Entity (PIE) – Managed funds which qualify under New Zealand law for concessionary tax rates based on the weighted average of member Prescribed Investor tax rates.

Prescribed Investor Rate (PIR) – The tax rate applicable to an individual investor in a New Zealand Portfolio Investment Entity.

Preservation – The retention of the superannuation funds of a member in a superannuation scheme until retirement or a specified age or event. This allows retirement benefits to be preserved when a person changes employment.

Private Savings – The sum of household and business savings.

Progressive – A taxation or contribution scale is described as progressive when the tax or contribution rate increases as a percentage of income as income rises.

Public Savings – Savings made by the public sector. It represents that part of public revenues not spent on current consumption, transfers, or other current outlays.

Retirement – The withdrawal from paid employment in later life.

Savings – The amount of income not spent on consumption but retained for investment or other purposes. Often subdivided for analytical purposes into household, business, and public sector savings.

Scheme Provider Agreements – In New Zealand an agreement between a KiwiSaver scheme provider and Inland Revenue which is necessary for qualifying registration. It provides for provision of information and transfer of funds to the provider collected by Inland Revenue from contributors.

Social Assistance – Social security payments or other forms of assistance which are subject to income or means tests.

Social Insurance – A system where pensions and other benefits are financed by compulsory contributions paid into a social insurance fund. Social insurance pension funds normally pay earnings or contributions-related pensions.

Social Security – A general term used to refer to government financed or mandated systems of benefit and pension payments. Some definitions include health costs.

Social Security Tax – A tax on income used to fund part of the cost of Social Security in New Zealand after 1938. It was initially set at 5 per cent of income, but raised to 7.5 per cent after 1945. Subsequently it was merged into income taxation.

Subsidised Scheme – A superannuation scheme into which the employer contributes on behalf of employees.

Superannuation – A type of payment or pension scheme providing income in later life operating in the private or public sector. It is usually focused on the provision of retirement income. In the private sector the term superannuation usually refers to pensions or annuities linked to previous employment and/or contributions.

Superannuation Guarantee – The name of the Australian mandatory contributory superannuation scheme.

Surcharge – An additional tax levied on top of normal income taxation. The New Zealand Superannuation surcharge applied to the other income of people receiving New Zealand Superannuation where this other income was above a defined exemption threshold level.

Targeting – A system of allocating social security assistance according to need. It usually involves income or asset tests.

Tax Concessions – A provision in a tax system which allows certain types of income to attract lower or no tax, or reduces taxation assessed when certain types of expenditure are made. An example is a tax reduction given because part of the taxpayer's income has been allocated to superannuation investments.

Tax Bracket – The income band affected by a particular percentage rate of income taxation.

Tax Rate – The percentage of income (or outlay in the case of expenditure taxes) which is payable in tax on a specified income band.

Tax Deduction – A reduction in the amount of income that is assessable for tax purposes.

Tax Neutrality – Applies where all income is subject to the same tax treatment irrespective of its source. Sometimes referred to as the "level playing field".

Tax Rebate – A reduction in the amount of tax paid.

Transitional Retirement Benefit – An income-tested benefit payable to some retired people most significantly affected by the increase in the entitlement age for New Zealand Superannuation. It applied in New Zealand between 1993/94 and 2002/03.

Universal Pensions – Flat rate pensions paid to all people reaching a defined pension entitlement age who meet specified residential and other criteria. Universal pensions are paid without any income or asset tests, or requirement to retire from employment.

Universal Superannuation – A tax-funded public pension paid in New Zealand between 1940 and 1977. It was paid to all residentially qualified people aged 65 or above who were not receiving the means tested Age Benefit.

Unreasonable Fees – Fees regarded as excessive for KiwiSaver providers in New Zealand. Qualifying providers for KiwiSaver may not charge unreasonable fees.

Vesting – Retention by an individual of accrued rights in a superannuation scheme upon leaving the scheme before the specified retirement date. Vesting usually includes employer contributions and fund earnings as well as employee contributions.

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