

## 2016 Review of Retirement Income Policies



19 December 2016

This document is to fulfil the requirements of the New Zealand Superannuation and Retirement Income Act 2001(amended 2005) for the Retirement Commissioner to report to the Government on the findings of the triennial review of retirement income policies in New Zealand.

The full content of the 2016 review is available at: <http://v.wirewax.com/cffcreview2016>

This report is due to be tabled in Parliament by 31 December 2016. Copies may be obtained at [www.cffc.org.nz](http://www.cffc.org.nz) or by emailing: [review@cffc.org.nz](mailto:review@cffc.org.nz).

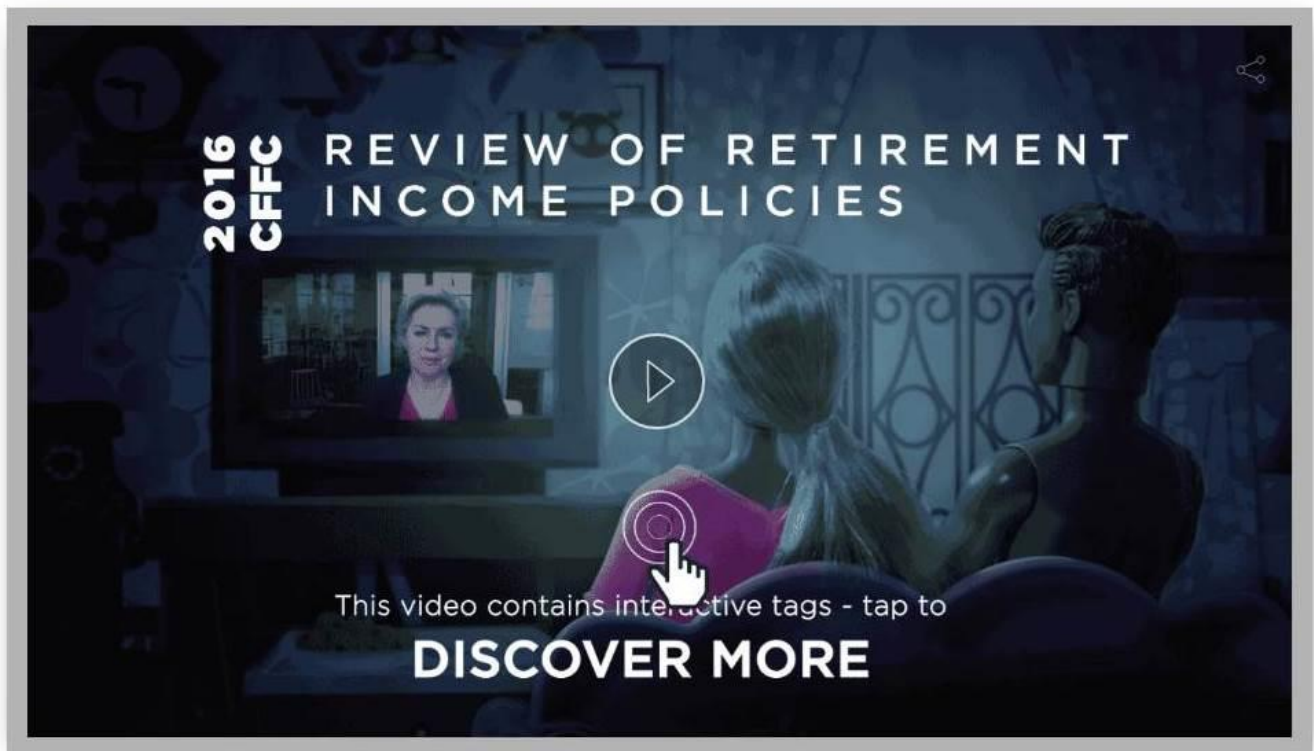
## **Acknowledgements**

The Commission appreciates the contribution of all the New Zealanders who engaged with the review. We interviewed hundreds of people up and down the country with the videos viewed more than 200,000 times to date. Our online surveys attracted over 11,000 people who also contributed thousands of comments.

We also welcomed the contribution of submitters with a number of substantive documents and considered views. The background papers from Ministry of Social Development, Guardians of the New Zealand Super Fund, and a commissioned paper from the Retirement Policy and Research Centre were also gratefully received. CFFC also collaborated with FMA and IRD.

# Toys Talk Retirement

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## The Retirement Income Eco-System

### What does one generation owe the next, and who should pay for what?

New Zealand is undergoing unprecedented demographic change. Our population is ageing as we live longer and fertility rates decline.

The exact impact of these changes on the economy, on productivity and GDP growth is uncertain. How we will continue to fund NZ Super as the number of recipients rises steadily and dependency ratios decline, is a contentious policy issue, complicated by the fact that we navigate the future via forecasts, projections and assumptions that are all contestable.

In the face of that uncertainty we can turn to the indisputable: that demographic changes will leave us with fewer people of working age supporting a larger group of retirees, and an older population will present higher health costs. We know that the biggest increase in crown expenses last year was NZ Super at \$ 700 M, followed by health at \$ 600 M. We know that the cost of NZ Super is growing faster than GDP.

With an optimistic lens we can say that Super will remain low as a proportion of GDP, relative to other OECD countries, but the argument ignores the other government costs that will increase including health and aged care.

Significantly, it also hides the reality of the future choices that will need to be made. NZ Super costs were \$ 10.4 billion (net) in 2015/16, which is 14% of core crown expenses and 4.1 % of GDP. Treasury predict that it will rise to 7.1% (net) of GDP in 43 years. If we play that scenario today using 2015/16 numbers (7.1% of \$ 251 B) the bill for super would be \$ 17.87 billion, which begs the question, where would we draw the additional \$ 7.43 billion from?

We cannot maintain that current NZ Super settings are affordable without letting the public know what those choices would be. We could shave it off health spend? Law and Order? Education? Roads? Or we meet the gap through tax increases?

Unless we are clear with the public today about the choices they, their children and grandchildren will face, those of us who know these numbers are being less than candid. And if we thought extending eligibility of Super to 67 was difficult, is it more or less difficult than reduced health, education or increased taxes?

This debate swings from extremes of panic to complacency. There is a middle ground. We need to do as a country what we ask households to do: invest in today, look after our dependents, save some money and have a plan for the future.

We need to save for the future (resume contributions to the NZ Super Fund), invest in today (training and upskilling for people in their 50s and 60s who can continue to work), invest in our vulnerable (people who cannot work) and signal change a long way out so people can prepare (age of eligibility for Super at 67 by 2034).

And we need to inform. It cannot be that some of New Zealand has access to this information while the population at large gets placated by reassuring rhetoric. And as we ask New Zealanders to consider the issues of

intergenerational equity, what one generation owes the next and who should pay for what – we need to equip them with the facts.

In an era of sound-bites, social media domination of information flows and the rise of ‘fake news’, where even mainstream media platforms apply click-bait algorithms, the task is daunting. Sourcing news through selected social media entry points means that increasingly people are only exposed to news and opinions that support their world view, in that environment many people are not exposed to broader perspectives or information that challenges entrenched beliefs.

At its best the subject of an ageing population is compelling, at its worst it is dry, complex and the preserve of ‘someone else’. Sometimes the enormity of it is off-putting and the fact that it is not yet visible makes it easier to ignore than the immediately pressing issues. (There are some parallels with climate change).

So, how do we inform the public and drive awareness when the discussion is hijacked by circular, jargon-filled rhetoric and remains the preserve of academics and officials. A printed report, no matter how good, will fail to capture the public imagination. It will be another case of content written by ‘experts’ for experts, peer-reviewed by experts to confirm firmly-entrenched views that don’t get changed by reports. If the subject of an ageing population and its associated costs remains opaque to the public they will be informed, and misinformed, by sound-bites such as ‘we can afford it’ - as the only *consumable* pieces of information available.

Those soundbites need to be replaced by a more substantive, relevant, meaningful public discourse on the subject in plain English. With that in mind, public engagement became a central plank of Review 2016.

## The Approach

**‘Politics is downstream from culture’ and it largely reflects the popular imagination, which means there is a job to do to with the public before policy changes can follow.**

The approach also reflected the fact that the retirement income framework is an eco-system, meaning ‘a complex network’ or ‘interdependent system’. The all-dominating subject of age of eligibility cannot be addressed without also acknowledging the interdependencies: the ageing workforce, the role of KiwiSaver, decumulation options, and more. The much-needed national discussion needs to be reframed to focus on people aged 50-70, recognising that we do not all arrive at 65 in the same shape, physically or financially. Those differences became very apparent across 2016 as we heard from 58 year olds who either could not work, or could not find work, and 65 year old’s who were healthy, working and did not view themselves as retirees.

It was a clear reminder that for some 65 is too early, and for some it is too late.

Early in 2016 the Retirement Commissioner launched a plan to the media, outlining seven themes (below) and a commitment to deliver survey results, research and insights, and interviews monthly across the year.



It was an approach that drove public engagement, built public awareness and broke the issues down so that each got an 'airing' away from age of eligibility. The media engaged and 1,450 stories ran, with a cumulative audience reach of 11.4 million New Zealanders.

Hundreds of people stepped into our roaming tent to record interviews across New Zealand in the series Tales from the Tent. Those and other videos covering decumulation, ageing workforce and more, had more than 210,000 views across Facebook and You Tube. Spurred on by the media, thousands of New Zealanders contacted us to tell us their stories.

Over 11,200 surveys were completed, with people leaving an additional 11,600 comments – many of which were very detailed. Those stories challenged the reality the data had provided us. For example, workforce participation for New Zealanders in their 50s is high at 84% and unemployment is low at 3.5%, and yet thousands told us about their humiliating struggle to find work, and the fear of running down their retirement savings before they reached 65, leaving them angry, disengaged and hopeless.

The Commission worked with Treasury, MSD, MBIE, FMA and IRD on reviewing data and reports to date, identified the gaps and commissioned papers where needed. The three-yearly policy review typically follows the release of the Treasury's long term fiscal statement and CFFC drew on that report and others, rather than duplicating the work (acknowledging that the taxpayer could reasonably expect not to pay two agencies to do the same thing).

Across the year CFFC tested hypotheses and options with the public, private sector and government agencies, reviewed and challenged the data including the international picture and reached a series of recommendations, alongside some observations, which are listed at the back of this document. The latter reflects areas outside the Review mandate but that sit within the retirement income eco-system such as the ageing workforce. Some of that work will continue across 2017.

## Output

**Driving awareness and delivering the facts by making the work accessible, interesting and consumable.**

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

The core target of the work was New Zealanders aged 30-55 who are at a critical life stage in preparing for retirement (whether they know it or not). Financial, career, family and home ownership decisions across that period have a big impact on retirement outcomes.

The content can be viewed easily on desktop, mobiles and tablets. Viewers can either spend a few minutes looking at videos across the seven themes or can drill down into survey results, or can go through the 'Heavy stuff' section and read reports or look through the recommendations. All the survey results, including the 11,000 + comments are available via the content. Viewers can share the content, download/email it to themselves with one click.

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

On the first day of the release of the 2016 Review it had gained more views than Review 2013 gained in three years. The platform is dynamic, and we will add content across 2017.

**Hosted on CFFC's website, a 60 second intro video takes the viewer to a menu of seven subjects.**

## Toys Talk Retirement

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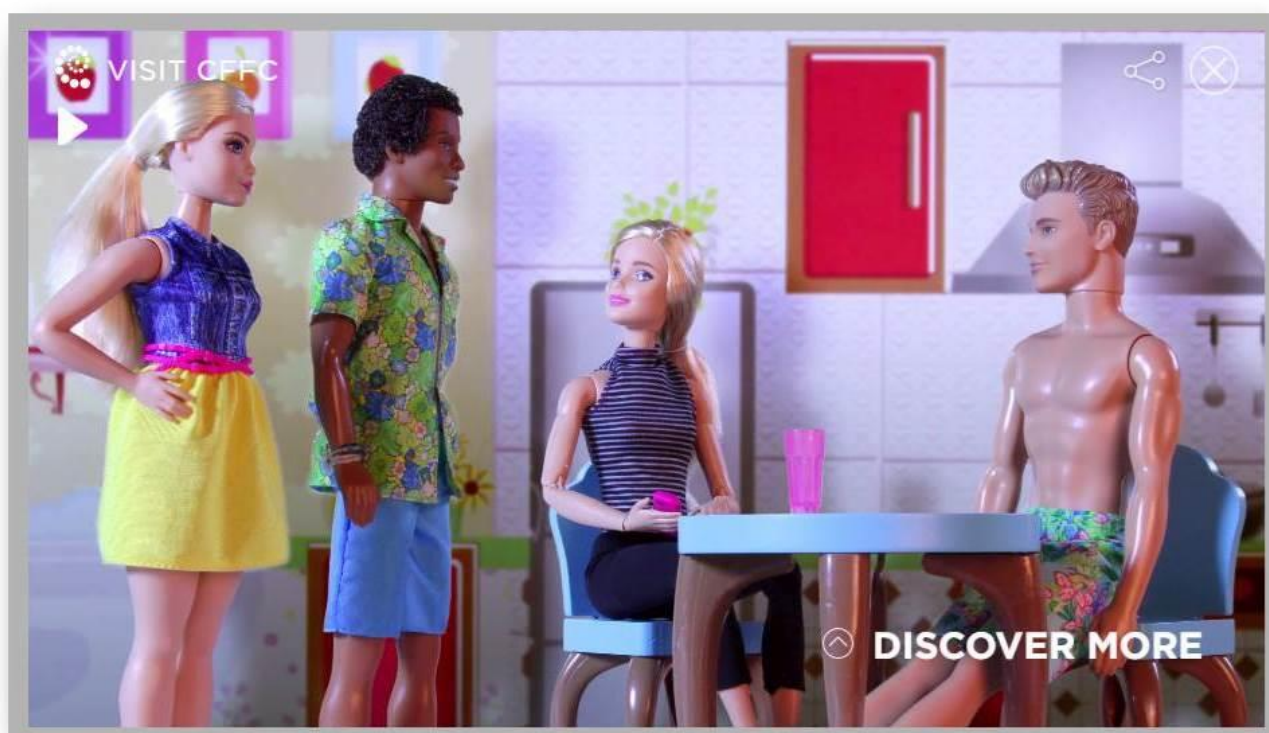
Seven comical stop motion videos featuring 'toys talk retirement' intro the seven areas of work. Viewers can choose from a menu to look at one of the seven subjects.



After choosing a subject the viewer watches a 60 second video.

# Toys Talk Retirement

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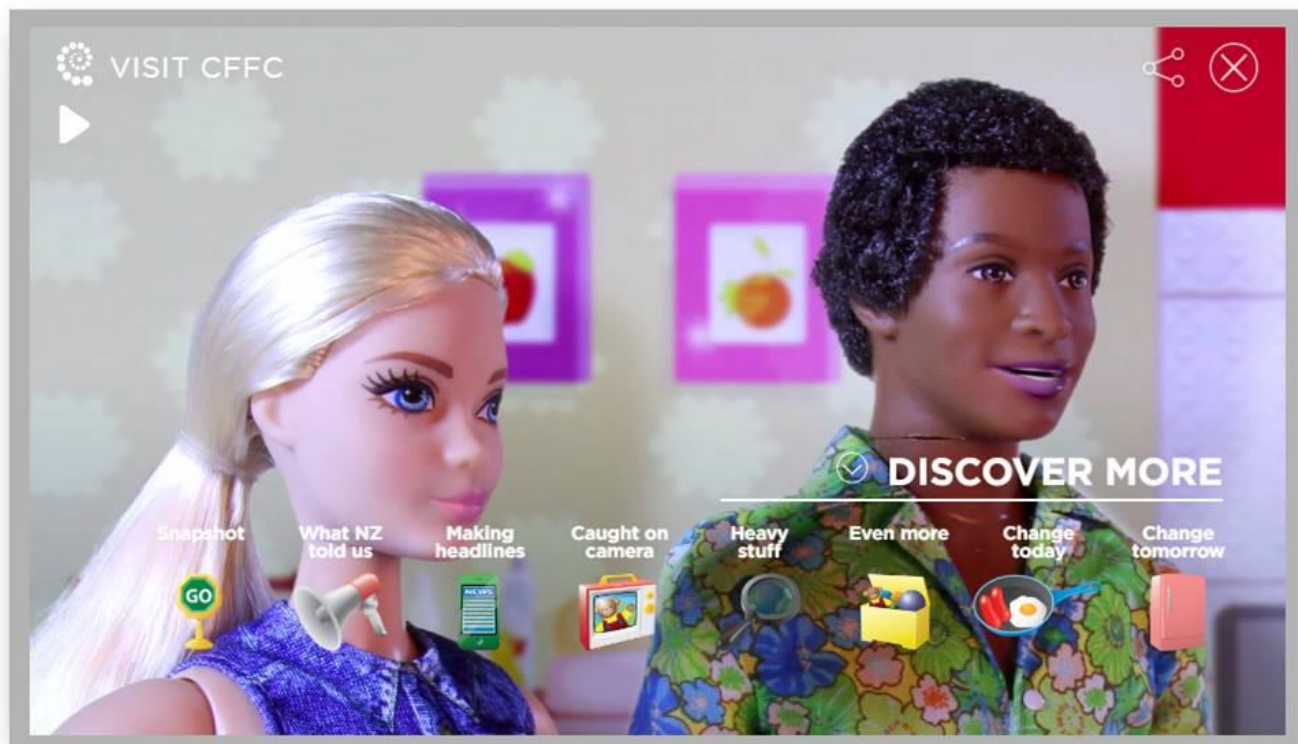
They then choose from another menu to go through the content.

Clicking on 'Discover More' reveals a menu of options:

- Snapshot
- What NZ told us
- Making headlines
- Caught on camera
- Heavy stuff
- Even more
- Change today
- Change tomorrow.

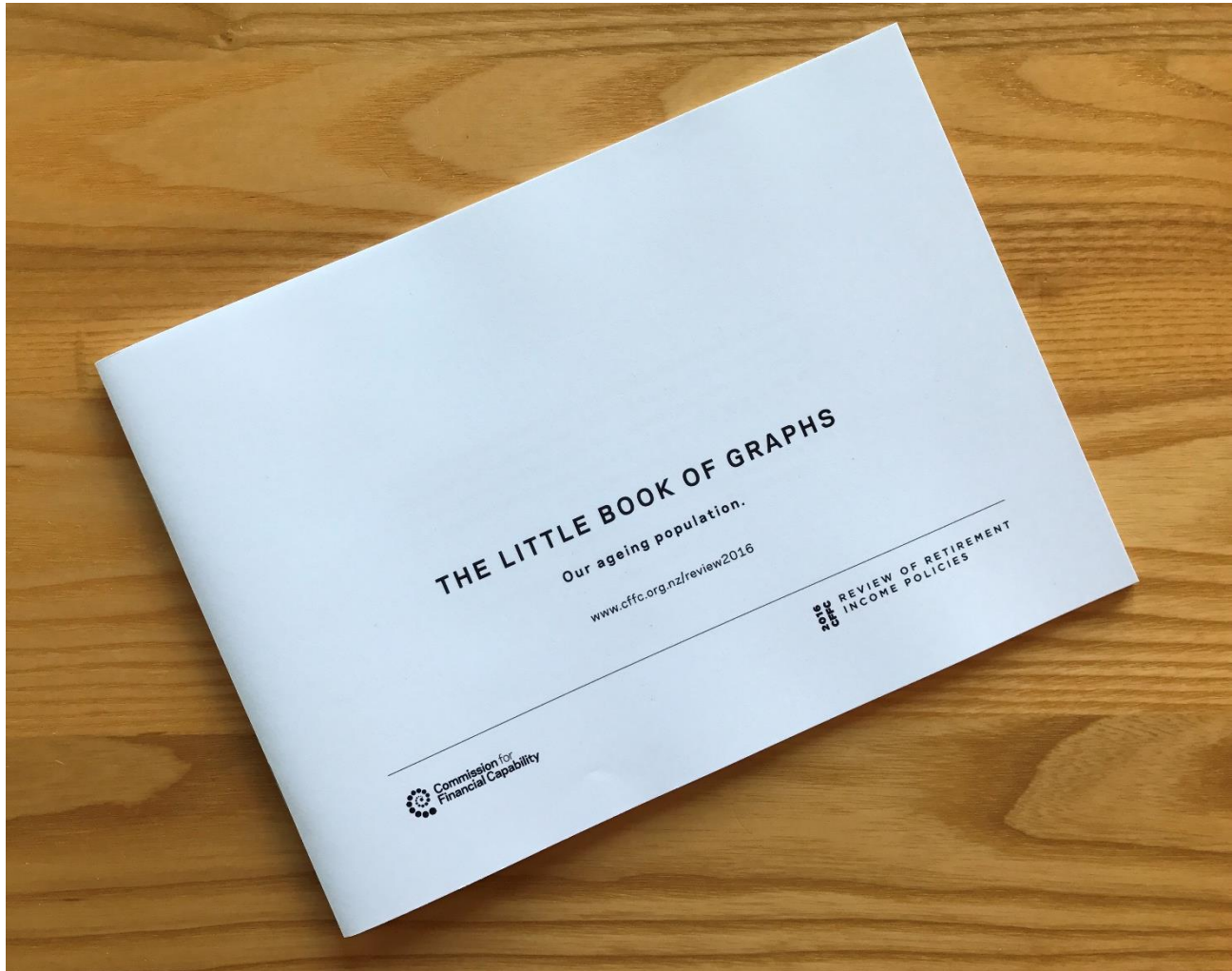
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## The Little Book of Graphs

In addition to the website content, CFFC issued 'The Little Book of Graphs' which is simply that, 24 graphs on the ageing population. It has become a surprisingly popular 'coffee table book'.



## Summary of Recommendations

### 1. KIWISAVER

#### CHANGE TODAY

- 1.1. Increase employer and employee contributions from 3% to 4%.
- 1.2. Automated option to increase member contributions up to a certain level.
- 1.3. Add 6% and 10% to increase the range of employee contribution rates options.
- 1.4. Decouple the age of access to KiwiSaver funds from NZ Superannuation and discuss appropriate eligibility age for access to KiwiSaver funds.
- 1.5. Allow people over 65 years to join KiwiSaver.
- 1.6. Change the name of 'contributions holiday' to 'savings suspension' and reduce the maximum time to one year.
- 1.7. KiwiSaver providers to disclose the total dollar cost of all fees on annual statements.

#### CHANGE TOMORROW

More work required on:

- 1.8. Non-contributing members and Member Tax Credits.
- 1.9. Increasing the coverage of KiwiSaver.

In the future:

- 1.10. Align KiwiSaver participation information and data reporting.
- 1.11. Membership of more than one KiwiSaver scheme.
- 1.12. Default funds.
- 1.13. Decumulation options.
- 1.14. Total remuneration approach disincentive for KiwiSaver.

### 2. DECUMULATION

#### CHANGE TOMORROW

- 2.1. More work required on tools and information, along with identification of needs.

### 3. AGEING WORKFORCE

#### CHANGE TODAY

- 3.1. National conversation and attitude change towards older workers.
- 3.2. Retraining and career transition support for people over 50.

3.3. Improve tools and capability to manage an ageing workforce.

#### **4. WHO PAYS FOR WHAT**

##### **CHANGE TODAY**

4.1. Crown contributions to the New Zealand Superannuation Fund should resume.

#### **5. VULNERABLE GROUPS**

##### **CHANGE TODAY**

5.1. Additional assistance for people over 50 who are seeking work.

5.2. Improving financial capability.

5.3. Retraining and career transition support for those over 50 (Ageing workforce).

5.4. Review and adjust supplementary allowances (Who gets what).

##### **CHANGE TOMORROW**

5.5. Increase the provision of suitable housing for older people.

5.6. Support for those caring for others.

#### **6. WHO GETS WHAT**

##### **CHANGE TODAY**

6.1. Increase the age of eligibility to 67 years for New Zealand Superannuation.

6.2. Increase the length of residence required for New Zealand Superannuation from 10 years to 25 years.

6.3. Remove the non-qualifying partner option.

6.4. Reform the direct deductions policy for overseas state pensions.

6.5. Review and adjust supplementary allowances.

#### **7. INTERNATIONAL PICTURE**

No recommendations.

## Recommendations

### 1. KIWISAVER

#### CHANGE TODAY

##### 1.1. Increase employer and employee contributions from 3% to 4%.

- Annual automated increase of 0.25% per annum from 2018, allowing a gradual rise from 3% to 4% by 2021.
- Both employer and member contributions would increase from 3% to 4% resulting in a total contribution rate of 8%.

Raising the minimum contribution rates will result in a substantial increase to KiwiSaver account balances in the long term. The minimum default rate has an important influence on people's saving behaviour.

There is a risk the current minimum rate of 3% sends the signal it is sufficient to build the assets for the standard of living people want in retirement. Internationally, New Zealand has the lowest rate of minimum retirement savings in the OECD.

An increase in the employer contribution rate will boost the incentive to become a member and contribute 4% to receive the employer-matched 4%. In 2016, of current PAYE KiwiSaver contributors, 66% were contributing at the default rate of 3%, while 25% were on 4%, and 7% at 8%.

For someone earning \$40,000 a year, a 0.25% increase would mean an extra \$2.00 per week in KiwiSaver contributions in each of the four year steps.

#### Effect of 3% to 4% increase.

A 20-year-old earning \$40,000 would increase their KiwiSaver balance over their working life by \$85,500 to \$374,500 by contributing at 4%, with a matching employer contribution, rather than at 3%.

A 30-year-old earning \$50,000 would increase their KiwiSaver balance over their working life by \$61,100 to \$264,800 by contributing at 4%, with a matching employer contribution, rather than 3%.

Sorted.org.nz calculator assumptions as at December 2016.

##### 1.2. Automated option to increase member contributions up to a certain level.

- Add an option to allow members to choose an automated annual increase in their contribution rate of 0.25%, 0.5% or 1% up to a capped maximum rate.
- Members will be able to set and step back from KiwiSaver knowing that their contributions and savings will increase over time.

This option provides an easy way to raise savings over time. It will help overcome inertia in setting and forgetting about members' levels of contributions. There are some operational details to address before implementation, along with the process for managing choices.



1.3. Add 6% and 10% to increase the range of employee contribution rate options.

- Adding 6% and 10% provides more choice in member contribution rates.
- This will provide member contribution rate options of 4%, 6%, 8% and 10%.

Adding more contribution rates gives members more flexibility and control over their saving. Many people have said the gap between 4% to 8% was too large. Higher contribution rates will boost long-term savings when people are able to save more than the minimum level.

1.4. Decouple the age of access to KiwiSaver funds from NZ Superannuation and discuss appropriate eligibility age for access to KiwiSaver funds.

- Provides a greater sense of ownership and certainty over access to members' KiwiSaver funds by disconnecting from the NZ Superannuation eligibility age.
- Members should have a clear line of sight to when KiwiSaver funds are available and the appropriate age requires further discussion. An earlier age than eligibility for NZ Superannuation provides people with more retirement options.
- In limited circumstances, for people with defined physical and intellectual disabilities, earlier access to funds could be provided.

Decoupling the age of access to KiwiSaver from NZ Superannuation provides greater security of access to members' funds in the future. KiwiSaver provides a supplement to NZ Superannuation without being directly connected to it. This would address concern over changing eligibility rules for access to funds and would provide certainty.

There needs to be debate and further discussion over the appropriate age of access to KiwiSaver. In some limited circumstances, for people with defined physical and intellectual disabilities, an earlier access age would enable them to benefit from their savings. An earlier age of access would provide members more options for retirement, particularly if the age of eligibility for NZ Superannuation increases in the future.

1.5. Allow people over 65 years to join KiwiSaver.

- This would provide access to a lower-cost managed fund for those who have not previously joined.
- Those joining over age 65 would not be eligible for Member Tax Credits, as at present, while New Zealand Superannuation eligibility remains at 65.
- There is no need to require a five-year lock-in period as members joining over 65 are not eligible for any government contributions.

This move would remove a current policy inequity, provide another investment option for those over 65, and would allow employers to voluntarily make contributions for all employees over 65. There is no apparent reason for those over 65 not being able to join.

1.6. Change the name of 'contributions holiday' to 'savings suspension' and reduce the maximum time to one year.

- The maximum period allowable to stop contributions to be one year, reduced from the current five years.
- Members' contributions will automatically resume after one year, unless members have renewed another one-year opt-out.

Stopping contributions for five years has a significant impact and disrupts long-term savings. For many people five years is likely to be longer than necessary and a one-year renewal provides a prompt to reconsider their position and contributions annually.

As at June 2016, 127,360 KiwiSavers were on a contribution holiday and 84% of these were for five years, which is the default period unless another time is specified. The proposed name change removes the positive connection with a holiday and better reflects what occurs. The reduced period would continue to be administered the same way as presently and allow an unlimited number of renewals.

1.7. KiwiSaver providers to disclose the total dollar cost of all fees on annual statements.

- The total dollar cost of all fees paid each year by a member to be disclosed on their annual statement.
- This would be the total of all administration and management costs, including any underlying management or performance fees.

There are a variety of approaches by providers to the disclosure of fees for KiwiSaver funds. Some already provide a dollar fee, which is easier for most people to understand than percentages or basis points. Disclosing fees in dollars would improve transparency and trust.

Policy work has already begun on regulations requiring schemes to provide members with actual fees paid in dollar terms, along with additional important information such as the projected future balance. This will also enable easier comparison between different schemes and promote competition.

## CHANGE TOMORROW

### *More work required on*

#### 1.8. Non-contributing members and Member Tax Credits.

About 1.1 million of 2.3 million eligible KiwiSaver members did not receive their full member tax credits because they did not contribute up to \$1,043 in the past year. 580,000 members made no contribution at all during the past year.

More work is required to understand the reasons why people are not contributing when the government provides a 50-cent credit for every dollar members contributed up to \$1,043. While affordability is recognised as a key reason, it is not fully clear why such a large number have made no contribution at all.

In the year to June 2016 the government contributed \$640 million by way of KiwiSaver member tax credits. This was a 10% increase on the previous year and a 40% increase over the past three years. More policy work is also required on whether this crown contribution could be better targeted to provide more incentive for people on lower incomes to contribute.

As part of the work on member tax credits the name should be considered as it is generally not well understood. 'Government contribution' or 'KiwiSaver credit' are possible alternatives.

#### 1.9. Increasing the coverage of KiwiSaver.

KiwiSaver auto-enrolment has achieved a coverage rate of around 75% of the working age population. This success has been largely built on auto enrolment for those starting new jobs via the PAYE system. Those who are self-employed and contractors are two groups of people outside the workplace-based system.

Inland Revenue work on new payment methods for provisional tax for self-employed may provide an easier way to make KiwiSaver contributions. More work is required on options to further extend the coverage and benefit of KiwiSaver to these groups and others who are not in work.

Work undertaken by the Commission has revealed a number of factors related to those who are not KiwiSaver members. They are more likely to be over 50 years of age and live in provincial areas than active KiwiSaver members. Not being in work or being able to afford contributions to KiwiSaver were key reasons for not joining KiwiSaver, along with changes to government contributions and distrust of changes to the scheme.

### *In the future*

#### 1.10. Align KiwiSaver participation information and data reporting.

The two primary data sources on KiwiSaver are the Financial Markets Authority and Inland Revenue. Both agencies have specific statutory and regulatory requirements to report KiwiSaver information. An identified issue is a difference in reporting years, with Financial Markets Authority reporting on the year ended March and Inland Revenue reporting to the year ending in June. A simple fix could be aligning the reporting periods in regulation to the KiwiSaver year ended June, rather than the tax year ending in March. This alignment would enable same year comparisons of data.

The definition of a non-contributing member also varies. It is proposed the definition of a non-contributing member is 'not having made a contribution in one year'.

The Commission welcomes the addition of reporting by Inland Revenue of KiwiSaver membership by region. This provides a picture of the national coverage of KiwiSaver.

Ethnicity of KiwiSaver members is not recorded. While this gap has been identified previously there does not appear to be any simple mechanism to address this issue. KiwiSaver providers do not usually collect this information and there is no requirement for them to report on the ethnicity of KiwiSaver members.

#### 1.11. Membership of more than one KiwiSaver scheme.

Terms of reference for the review asked the Commission to consider the policy setting which allows membership of only one KiwiSaver scheme. It is difficult to assess whether this limitation has impacted on KiwiSaver membership. However, among non-KiwiSaver members surveyed by the Commission it was not raised as a reason for not joining.

There are a number of issues that allowing membership of multiple schemes would raise. It would increase the complexity of KiwiSaver administratively for providers, Inland Revenue and members. There would be complications as to which scheme contributions from employers and members were directed. It would also mean that members have to track multiple schemes to keep across changes to their total balance. The ability to be a member of multiple schemes in Australia has contributed to a large number of 'lost accounts'. Multiple administrative fees would also apply.

Membership of more than one scheme would not reduce provider risk. This is because funds are invested in underlying assets and not connected to the financial strength of KiwiSaver providers. In addition, Trustees oversee investment allocations and hold client funds. Diversification of assets to spread risk depends on the type of fund and asset classes, which are subject to different market price factors.

A potential benefit of membership of more than one scheme could be from the diversification of management style and assets. Splitting KiwiSaver funds between different fund types can spread risks over asset classes and allocations. A few KiwiSaver providers offer funds from other providers through a fund-of-funds investment option. This approach may appeal to more sophisticated investors with larger balances who want greater investment fund choices.

At this point in the growth of KiwiSaver the Commission does not view membership of multiple schemes as a priority. KiwiSaver providers are innovating and providing greater variety and flexibility in fund allocations and options to invest in other providers' funds.

#### 1.12. Default funds.

Nine default scheme providers were appointed for a seven-year term in 2014. These appointments were made with the expectation that communication and financial capability information would be provided to

default members to enable them to make active decisions on their fund choice. The first year of reporting to the FMA has shown variable results, with default funds reporting between 1% and 22% of members making active decisions. The expectation is that these results would improve with more effort directed to supporting informed active decision-making.

A 2015 Treasury review that looked at KiwiSaver fund allocations noted the current portfolio of assets, weighted towards conservative funds, could lead to less than optimal future retirement incomes. This underlines the importance of raising levels of financial capability and the provision of information to assist members' active decision-making on fund types.

#### 1.13. Decumulation options.

A forum on decumulation during the review discussed a range of existing options for older people to use their savings and assets to provide income and meet their retirement needs. The review found that New Zealanders take a conservative approach to risk and use of their assets when they get to age 65.

Decumulation has been raised as an issue due to a previous lack of annuity products available in the New Zealand market to provide older people with a regular income and help managing their assets. The launch of a new annuity product in February 2016 provides an investment option for retirement income.

In time, as KiwiSaver balances and demand increase, it is expected that KiwiSaver providers will innovate and offer more drawdown options for members.

#### 1.14. Total remuneration approach a disincentive for KiwiSaver.

A point of concern is the disincentive towards KiwiSaver membership created by a total remuneration payment approach. The intent of KiwiSaver legislation is that compulsory employer contributions are paid on top of gross salary or wages. This approach creates a genuine incentive to join KiwiSaver and make contributions in order to receive matching employer contributions. Total remuneration packages erode this benefit.

The review finds that the ability to make contractual agreements that disregard compulsory employer contributions on top of gross wages or salary requires more detailed investigation. In 2011 the Savings Working Group recommended not allowing a total remuneration approach.

A national employers wage and salary survey of almost 300 companies, by the Employers and Manufacturers Association in 2015, found that that 28% of senior managers had total remuneration packages and 20% of all other staff.

An increase in the number of companies offering total remuneration packages, rather than paying KiwiSaver on top of gross salary, has potential long-term implications for retirement savings. The 'casualisation' of work and the increase in self-employed and contract workers could have the effect of reducing KiwiSaver membership.

Analysis of employment practices and payment of KiwiSaver requires more work to better understand the effects of allowing a total remuneration approach in regard to the intent of KiwiSaver legislation.



## 2. DECUMULATION

### CHANGE TOMORROW

#### 2.1. More work required on tools and information, along with identification of needs.

There are a range of existing decumulation options to help older people use their savings and assets to provide income and meet their retirement needs. What is evident is that more tools and information are required to raise awareness of options and help with retirement planning and managing assets. Access to advice is also important, along with self-navigation guides. Government agencies have a role, together with industry, in developing and providing resources.

Monitoring market innovation and development of products is also necessary. It is expected that the financial sector will develop options where there is demand. KiwiSaver providers should continue to innovate and provide withdrawal and regular income options from KiwiSaver accounts. Demand and the importance of these options will increase as balances grow.

Home equity release providers should adhere to the voluntary code of standards. It is essential that standards, including independent legal advice; consultation with family; and a cooling off period; are applied before contracts are entered into.

More work and research is required on understanding what might be needed in the future to assist older New Zealanders with managing their assets and sources of retirement income. A supportive regulatory framework is also important to enable innovation and provide appropriate protection for more vulnerable people.

## 3. AGEING WORKFORCE

### CHANGE TODAY

These recommendations extend beyond retirement policy. The review found that the topic of our ageing workforce is a vital one for New Zealand's future economic and retirement prospects. Recommendations focus on leadership and actions, rather than legislation or policy change.

#### 3.1. National conversation and attitude change towards older workers.

New Zealand's structural demographic changes are not well understood but have significant implications for our future workforce and economy. We need to recognise the importance of older workers' skills and experience and how this can be maximised and transferred.

Age discrimination in the labour market is real and requires a culture change. The depth of response and importance of this topic underlines the call for a national conversation on these issues.

#### 3.2. Retraining and career transition support for people over 50.

The rapidly changing nature of work and the employment market highlight the need to provide retraining and support for older workers. Many people struggle to find work if they have been out of the workforce, despite their best efforts. People in manual occupations also frequently find it difficult to physically continue working beyond their 50s.

These factors point to the necessity for more support to transition between different careers and jobs later in life. The Ministry of Social Development background paper for the review identifies features that can help facilitate older people's workforce participation including: removing labour market age

discrimination; flexible work hours; work with less responsibility or fewer physical demands; job sharing; and age-specific employment assistance.

The Australian Re-start employer subsidy for older workers who have been out of the workforce could be investigated.

### 3.3. Improve tools and capability to manage an ageing workforce.

A clear message from the Commission's ageing workforce forum is a demand for more tools and resources to assist with effectively managing an ageing workforce. Government, the business sector and organisations should work together on developing guides and best practice frameworks. Businesses recognise the impacts of an ageing workforce but are not generally prepared. Flexibility is the key for older workers.

## 4. WHO PAYS FOR WHAT

### CHANGE TODAY

Taxation is the primary funding mechanism for the New Zealand Superannuation (NZS) system.

NZS is currently funded entirely by taxation received by the government each year. This is known as a pay-as-you-go system. Current taxpayers support current superannuitants.

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

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

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

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

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

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

#### 4.1. Crown contribution to the New Zealand Superannuation Fund (NZSF) should resume.

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

Resuming contributions to the NZ Super Fund recognises the future demographic changes, with relatively fewer working age people supporting a larger portion of New Zealand Superannuation recipients.

Consistent contributions to build the fund have a long-term compounding effect, which helps support the longer-term fiscal sustainability of NZS.

The NZSF is expected to be drawn on to help pay for NZS from around 2032/33. Currently, based on Treasury forecasts, the NZSF is projected to contribute 4.5% of NZS costs in 2040 increasing to 10% in 2075.

Continuing to build the NZSF helps reduce the amount of tax required in the future. NZSF returns since inception have demonstrated the ability of the fund to exceed its benchmark expectations.

Crown contributions to the NZ Super Fund provide a supplementary funding mechanism to general taxation for a significant known future expenditure. This helps contribute to the long-term affordability of NZS and provides benefits in which taxpayers of today have a future interest.

Since the Crown has suspended contributions, NZSF has paid \$3.3 billion in tax. The effect is a net outflow from superannuation investments for the future to other purposes today. The review recommends suspending NZSF tax payments while contributions are also suspended.

## 5. VULNERABLE GROUPS

### CHANGE TODAY

These recommendations extend beyond retirement income policy. They are aimed at providing more support to address key factors that impact on people's financial security in retirement. Factors that contribute to financial vulnerability in retirement are frequently complex and relate to a number of issues.

Generally, the current retirement policy is working effectively in largely preventing hardship and poverty among older New Zealanders. There are, however, some signs that this position may change unless some responsive and preventative measures are taken. Mortgage-free home ownership, stable employment, good health and good levels of financial capability are key preventative factors identified by the review.

New Zealand Superannuation (NZS) provides a basic income and its adequacy is based on owning a home. Those who rent and have few or no other assets are particularly financially vulnerable. Maintaining the current indexation rate of NZS is important in meeting the objective of hardship prevention among the elderly.

#### 5.1. Additional assistance for people over 50 who are seeking work.

It is recommended that an investment approach is applied to providing additional assistance for people aged over 50 who are seeking work. The review found that people over 50 and not in work often struggle to find suitable employment. More work is required on the best form of assistance, which could include skills and training, employer subsidies such as the Australian Re-Start programme and help with the recruitment process.

#### 5.2. Improving financial capability.

Financial capability makes a significant difference to reducing financial vulnerability and improving financial security in retirement. This occurs across a lifetime and contributes to improving New Zealanders' understanding of retirement savings, decision-making and planning for retirement. A 2015

Productivity Commission report on more effective social services similarly recognised that client capacity was an important factor in navigating options and achieving the best outcomes.

The Commission's survey identified a clear need for more support and resources around retirement planning and advice. Improving financial capability is an essential part of the Commission's strategy.

**Other related recommendations include:**

**5.3. Retraining and career transition support for those over 50 ('Ageing workforce' recommendation).**

The rapidly changing nature of work and the employment market highlight the need to provide retraining and support for older workers. Many people struggle to find work if they have been out of the workforce despite their best efforts. People in manual occupations also frequently find it physically difficult to continue working beyond their 50s.

These factors point to the need for more support to transition between different careers and jobs later in life. The Ministry of Social Development's background paper for the review identifies features that can help facilitate older people's workforce participation including: removing labour market age discrimination; flexible work hours; work with less responsibility or fewer physical demands; job sharing; and age-specific employment assistance.

**5.4. Review and adjust supplementary allowances ('Who gets what' recommendation).**

Currently supplementary assistance, in addition to NZ Super, is means-tested using a combination of income and cash asset testing. These settings require review and appropriate adjustment.

The present cash tests for an accommodation supplement were set in 1988. The rates of \$8,100 for a single person and \$16,200 for a couple are very modest levels and without any change for over 20 years have resulted in a much stricter test due to inflation.

The maximum amount of accommodation supplements were last reviewed in 2005. Given the significant rise in housing costs the lack of periodic review means an increasing share of income is being used for housing costs as the purchasing power of the supplements declines.

## **CHANGE TOMORROW**

### **5.5. Increase the provision of suitable housing for older people.**

Older New Zealanders renting are more likely to be financially vulnerable and have higher material hardship rates than homeowners. There has been a recent decline in the rates of homeownership among those over 50 and a more significant longer-term decline in homeownership among Maori and Pacific people.

The 2016 Ministry of Social Development report on material wellbeing of NZ households highlighted that unless declining mortgage-free homeownership is mitigated by other asset accumulation then low poverty and hardship rates may soon start to rise.

What is apparent is the need for a long-term increase in suitable housing options for older people. The government, community and private sector all have a role in contributing to meeting this need. More work is required to further understand the scope of needs and range of policy options to meet these.

### **5.6. Support for those caring for others.**

The New Zealand Carers' Strategy Action Plan 2014-18 noted there were 400,000 New Zealanders who provide care for others, with about 12% aged over 65. It also acknowledged that as our population is ageing and living longer the need for carers will grow.

The review has identified that caring for others was a factor that contributed to financial vulnerability. Older people are increasingly fulfilling unpaid caring roles for their parents, children, grandchildren and other family members. In addition to caring for those with health and mental illness, older people were often financially supporting family members.

Financial pressures arise from not only the costs involved in caring for others but also the impact on employment and loss of opportunity to do paid work. Supported Living Payments are only available for full-time care for someone that would otherwise require hospital or residential care.

The review recommends that the next national action plan considers the support provided to older carers. Further work should also investigate the UK 'Shared Living' programme model which may be suitable to be adopted in New Zealand to assist people with lower needs who require supported accommodation.

## **6. WHO GETS WHAT**

### **CHANGE TODAY**

#### **6.1. Increase the age of eligibility to 67 years for New Zealand Superannuation.**

Increase the age of eligibility for New Zealand Superannuation to 67, with a gradual rise over eight years starting in 2027. Following a ten-year notice period, the eligibility age would increase by three months each year, to reach 67 in 2034.



Date taking effect – from 1 January	Age eligibility for NZS	Year of birth – cohort impacted	Age in 2017 of people impacted
2027	65 y 3 m	1962	55
2028	65 y 6 m	1963	54
2029	65 y 9 m	1964	53
2030	66 y	1965	52
2031	66 y 3m	1966	51
2032	66 y 6 m	1967	50
2033	66 y 9 m	1968	49
2034	67 y	1969	48

The increase in eligibility age reflects the fact that people are living longer and receiving New Zealand Superannuation for a longer time. Longevity has increased for men and women, with average life expectancy going up by more than 20 years over the past century.

Many people are already working longer past 65, with 43% of all 65 to 69-year-olds participating in the workforce. In September 2016, 23.7% of those over 65 were still in paid employment.

It is recognised that some people will physically not be able to continue working in their current jobs for longer. Additional support is required for this group. Targeted earlier intervention and investment, through employment programmes and re-training for people aged over 50, should accompany raising the age of eligibility.

Internationally the age of eligibility has been increasing, with 67 the new norm for state pensions. This is in recognition of increased longevity and a larger number receiving state pensions, which has put pressure on the fiscal sustainability of pension systems.

Increasing the age of eligibility to 67 is estimated by Treasury to reduce total New Zealand Superannuation costs by approximately \$3.5 billion or 10% in 2034. The savings are estimated to continue to grow each year (in nominal dollars) from 2034 onwards.

A long lead time and gradual increase over eight years provides a clearer line of sight to the age of eligibility, rather than indexing to life expectancy.

#### Estimated fiscal savings for each year in NZD billions

NZS	NZS cost savings (\$ & %)								
	2026	2027	2028	2029	2030	2031	2032	2033	2034
Reduction in NZS spend (\$ b)	0.000	0.363	0.751	1.148	1.529	1.962	2.442	2.973	3.560
Reduction in NZS spend (%)	0.00%	1.5%	3.0%	4.3%	5.4%	6.5%	7.7%	8.9%	10.0%

Estimates provided by The Treasury, October 2016

## 6.2. Increase the length of residence required for New Zealand Superannuation from 10 years to 25 years.

The required length of residence in New Zealand to qualify for NZS is recommended to be 25 years after the age of 20. Years of residence would be counted cumulatively and continue beyond the age of eligibility for NZS as at present. Applicants must be ordinarily resident in New Zealand when applying for NZS. The increase in time lived in the country reflects an expectation of a longer contribution to New Zealand to be eligible to receive New Zealand Superannuation.

25 years' residency represents just over half a working life and would allow for extended periods lived outside New Zealand. The average OECD residency requirement is 26 years and many countries also require lengthy contribution periods to receive a full state pension.

The change would bring New Zealand's policy more into line with other countries and means it would not have comparatively low criteria to qualify for a full government pension. The length of residence needs to be appropriate in the context of increasing international mobility and reform of overseas pensions. Length of residence requirements were last amended in 1990 to simplify criteria following a reduction from 20 to 10 years' residence, in 1972.

Australia and New Zealand have the lowest residence requirement in the OECD, of 10 years. Australia however requires the 10 years' residence to be met before age 65, and also has income and asset test criteria that apply to the age pension. For some older immigrants to New Zealand it may mean that they fulfil the residence criteria after the age of eligibility for New Zealand Superannuation.

For new immigrants to New Zealand the 25-year requirement would apply immediately. The current 10-year residency criteria would apply for any applicants currently living in New Zealand, so the transition would take up to 10 years to fully implement.

## 6.3. Remove Non-Qualifying Partners rate option.

The non-qualifying partners (partners who are not 65 years or have not lived in NZ for 10 years) rate option should be removed as an option for new NZS applicants.

The existing non-qualifying partners rate option should be phased out over five years. Eligibility for New Zealand Superannuation should be based on an individual meeting the eligibility criteria and this option does not meet that principle. New Zealand is the only remaining country in the world that has a non-qualifying partners pension rate.

As at September 2016 there were 12,997 non-qualifying partners included in their partners' NZS. The majority of NQPs were within five years of the age of eligibility for NZS, with 8,226 aged between 60 to 64. There were 3,885 non-qualifying partners aged under 60, including 80 under the age of 40.

NQPs can also receive a couple rate for NZS if they have not met the minimum residency criteria of 10 years in New Zealand; there are currently 846 who do not meet this.

The annual cost of including non-qualifying partners in New Zealand Superannuation is estimated at \$200 million based on current numbers.

#### 6.4. Reform the direct deduction policy for overseas state pensions.

Overseas state pensions are deducted from New Zealand Superannuation payments. The direct deduction policy, under section 70 of the Social Security Act, along with Social Security Agreements require reform to address some areas of inequity and the evolving complexity in pension policy internationally.

##### **The review recommends:**

- Removing spousal/partner deductions with immediate effect.
- Specifying that voluntary contributions to the state pensions are not deducted.
- The Ministry of Social Development publish a determination list of state pensions that are deducted under the policy, which is periodically updated.

Increasing international migration and the reform of overseas state pension systems is adding complexity to the operation of New Zealand's direct deduction policy for overseas pensions. More New Zealanders are living and working overseas, and high levels of migration are contributing to an increasing number of NZS recipients who have overseas pensions which are offset against NZS.

In 2016, 11.8% of all NZS recipients received an overseas pension. The number of people has increased by 30,000 since 2010 to 83,982 in 2016.

The deductions policy is based on being equitable with New Zealand residents who only receive NZS, so there is no advantage or disadvantage with receiving an overseas state pension. This has been the enduring purpose of the policy since 1938 and means that you cannot receive two state pensions.

Further review and reform of the deduction policy is necessary to ensure it continues to be fit for purpose as the nature of overseas pensions change. Increasingly, countries are transferring responsibility for pensions from the state towards individuals, with a range of private savings schemes supplementing state safety net pensions. It is becoming more difficult to clearly define what overseas pensions are comparable to New Zealand Superannuation and should qualify to be deducted.

##### **Spousal deductions**

A recognised inequity in the current policy is spousal/partner deductions. Where someone who receives an overseas state pension that exceeds their individual NZS payment rate, any excess is deducted from their partner's NZS payment. This is inconsistent with the individual eligibility basis of NZS and should be removed with immediate effect. It is estimated that around 500 people receiving overseas pensions and their partners are affected by this policy. Removing this provision is estimated to reduce the amount recovered by \$2 million per annum.

##### **Voluntary contributions**

Voluntary contributions are also an issue and should not be included in any deduction of overseas pensions. The Social Security Agreement between New Zealand and the Netherlands has provisions that exclude any voluntary contributions from the deductions policy. This provision should apply to all voluntary contributions to overseas pensions and not be deducted.

### Determination list

The deductions policy includes pensions that are administered by or on behalf of a government even though there may not be any state contribution, while the same type of schemes administered privately are not included. Defining a state pension or contribution, the objective of schemes, and what counts as a state-administered scheme can be difficult as the lines blur between state and private provision and contributions. A published list of pensions determined to be subject to the deduction policy would provide transparency.

Many countries, including Australia, have compulsory savings schemes that are privately provided and are not included under the deduction policy. These schemes often provide lump sums that are not deducted against NZS. Accumulated financial assets are however means-tested for the Australian age pension. From 2017 the asset test has tightened, which will reduce or stop payments for an estimated 300,000 Australians. This would result in less being offset against NZS if they moved to New Zealand and were eligible for NZS. This is an example of how the impact of change in one country can affect the operation of direct deduction and cost of NZS.

A longer residency requirement to be eligible for NZS will likely reduce the value of overseas pensions transferred to New Zealand. In 2016, \$342 million was offset by overseas pensions against NZS payments.

New Zealand has social security agreements with nine countries whose state pensions are deducted from New Zealand Superannuation under the Social Security Act or other regulations. A number of these will likely need amending to reflect implementation of the recommendations and provide greater consistency.

### 6.5. Review and adjust supplementary allowances.

Currently supplementary assistance, in addition to NZ Super, is means-tested using a combination of income and cash asset testing. These settings require review and appropriate adjustment.

The present cash tests for an accommodation supplement were set in 1988. The rates of \$8,100 for a single person and \$16,200 for a couple are very modest levels and without any change for over 20 years have resulted in a much stricter test due to inflation.

The maximum amount of accommodation supplements were last reviewed in 2005. Given the significant rise in housing costs the lack of periodic review means an increasing share of income is being used for housing costs as the purchasing power of the supplements declines.