New Zealand retirement income policies and how they compare within the OECD

SUMMARY

The Retirement Commissioner is tasked with monitoring the effects of retirement income policies. To facilitate assessing the effectiveness of retirement income policies in New Zealand it is useful to compare their institutional structure and performance to retirement income systems in other OECD countries.

KEY POINTS

- The framework of pension "pillars" or "tiers" is a useful and widely-used descriptor but in practice, each pension system has evolved over time due to specific preferences or events, and pension systems are not as ordered or uniform as the framework suggests.
- New Zealand compares well with other OECD countries on pension coverage, replacement rates and pension wealth for low earners and elderly poverty rates. This is achieved despite not having a second pillar, unlike the majority of OECD countries.
- Pension reforms in OECD countries (including New Zealand) over the last 50 years have trended towards transferring risk from the state to the individual. New Zealand has one example of this, KiwiSaver, where the individual bears a lot of risk. However, it also has one example of the state bearing almost all of the risk, in NZ Super.

MAIN MESSAGE

NZ Super performs well against OECD indicators and is highly effective in preventing elderly poverty. A major future risk to the performance of New Zealand's pension system is that the purchasing power of NZ Super would decline.