Introduction

This paper aims to provide a simple description of New Zealand Superannuation [NZ Super] for the purposes of understanding the policy situation. It aids well-informed discussion of NZ Super by outlining the details of the policy, especially as there are a variety of superannuation systems around the world, and ours has some unique features. To understand NZ Super from an individual's perspective, see the Ministry of Social Development website, or the Office for Seniors website, or visit sorted.org.nz.

NZ Super is a pension for those aged 65 and over that has been in place, in more or less the same form, since the major welfare reforms of 1938 (Carpinter, 2012:3). It is a cash payment that is not means-tested and has some residency-based eligibility criteria.

The OECD refers to retirement income schemes as either tier 1, 2, or 3 schemes based on the objectives they aim to achieve. NZ Super is a 'tier 1' benefit as it aims to protect from poverty in old age. Tier 2 aims to ensure the adequacy of retirement income and tier 3 aims to raise the individual income replacement rate.

This paper is structured in two parts. Part One covers the operation of NZ Super, and outlines eligibility criteria, the payments and how they are financed. Part Two outlines the policy framework and settings, and explains its classification and purpose, provides distribution details, and examines the interaction between NZ Super and other New Zealand transfers and overseas pensions.

Part One – Operation of NZ Super

ELIGIBILITY

Eligibility for NZ Super requires being at least 65 years of age, a NZ citizen or permanent resident (including resident class visa holders), and living in New Zealand, the Cook Islands, Niue or Tokelau.

There is also a requirement to have lived in one or more of these countries for at least 10 years since the age of 20 and for at least 5 years since the age of 50 (MSD, a).

The 10-year requirement is in the process of being changed for future superannuitants[1]. The first cohort to be impacted by the change are those born between 1 July 1959 and 30 June 1961 who will now need to meet an 11-year residency requirement. The residency requirement will continue to increase incrementally until reaching a 20-year requirement for those born after 1 July 1977. The requirement applies not just for inbound migrants to New Zealand but also to New Zealanders who have spent significant periods of time living overseas.

The change of residency eligibility was originally proposed (in a Private Member's Bill in 2018) as an immediate change from 10 to 20 years but this was amended during the legislative process. The Select Committee recommended a phased implementation starting immediately: a Supplementary Order Paper resulted in the staged changes noted above. However, the residency change does not apply universally, as time spent in countries with whom Aotearoa New Zealand has a pension agreement can also be counted. The countries are as follows: Australia, Canada, Denmark, Republic of Ireland, Jersey, Guernsey, Greece, Malta, Netherlands, and the United Kingdom (with South Korea joining soon). Rules for individual countries vary and details are available online (Work and Income, a).

One particularly relevant point, given the numbers of Kiwis that spend time living in Australia, is that the Australian age of entitlement will apply (rather than the New Zealand age of entitlement) if time spent in Australia is counted towards the residency requirement for NZ Super. This is currently age 67. Many home countries of recent migrants and returnees to Aotearoa New Zealand are not covered by pension agreements. Inbound migrants from China, Taiwan, India, and South Africa, as well those from the Pacific Islands (other than Niue, Tokelau and the Cooks) will be impacted by the change.

1 New Zealand Superannuation and Retirement Income (Fair Residency) Amendment Bill (PCO, n.d.)

Eligibility when outside Aotearoa New Zealand

There is some ability to receive NZ Super if a person moves to an overseas country but the initial application for NZ Super must have occurred while the person was residing in Aotearoa New Zealand, a Realm country (Niue, Tokelau and the Cooks), or a pension agreement country (as listed above).

If a person moves to one of 22 Pacific nations, they can take a proportion of their NZ Super or Veteran's Pension with them. They can receive 50% of the rate of NZ Super payable in Aotearoa New Zealand if they have had ten years' complete residence in New Zealand since age 20, rising by 5% for each additional complete year of residence, up to 100% at 20 years' residence. This is known as the 'special portability arrangement'.

If a person travels in or moves to any country not covered by a social security agreement or special portability for a period of 26 weeks or more, they may take a proportion of their NZ Super or Veteran's Pension with them. The proportion they receive of the relevant rate is the proportion of their life between ages 20 and 65 that they were resident in Aotearoa New Zealand. This is known as 'general portability'.

There is also provision for temporary absences. A superannuitant or veteran's pensioner may receive their NZ Super or Veteran's Pension for the first 26 weeks of any absence from Aotearoa New Zealand that does not exceed 30 weeks, or that exceeds 30 weeks and the absence beyond 30 weeks is due to circumstances beyond the person's control that he or she could not reasonably have foreseen before departure (MSD, n.d.).

PAYMENT

People meeting the eligibility criteria for NZ Super and wishing to receive NZ Super must apply to the Ministry for Social Development [MSD]. Applications can be made anytime from 12 weeks before the 65th birthday (MSD, b), but if the application is made after the 65th birthday, it cannot be backdated.

NZ Super is assessable income for tax purposes. The recipient advises MSD of their tax code and the net amount is paid directly into their bank account every two weeks.

The rate of payment is calculated with respect to average wages. This is sometimes referred to as the 'wage floor' for NZ Super. For couples the rate is 66% of average wages, for a single person living alone it is 65% of the married rate, and it is 60% of the married rate for a single person sharing.

The figure for average wages is determined as the average ordinary time weekly earnings [AOTWE] for full-time equivalent employees taken from the last Stats NZ's Quarterly Employment Survey published before 1 March (generally the previous December).
The net amount of AOTWE, after tax and ACC Earner levy, is used.

The current payment rates (for the period 1 April 2021 – 31 March 2022) are as follows (MSD, a):

Table A – Payment rates (fortnightly) for the period 1 April 2021 – 31 March 2022

If you:	Before tax:	'M' tax code:	'S' (17.5%) tax code:	'SH' (30%) tax code:	'ST' (33%) tax code:	'SA' (39%) tax code:
Live alone or single with a dependent child	$1013.28	$873.88	$836.18	$709.68	$679.32	$618.60
Live with an adult but not as part of a couple	$932.06	$806.66	$768.96	$652.46	$624.50	$568.58
Live as a couple with another adult	$768.92 each	$672.22 each	$634.52 each	$538.52 each	$515.48 each	$469.40 each
Included your partner (who is not eligible for NZS) in your NZS payments*	Up to $728.64 each	Up to $638.94 each				
Live in residential care in a hospital or rest home and receive the residential care subsidy	n/a	$46.56 a week (and an annual clothing allowance of $292.02)				

Source: Collated from separate tables on the MSD website (MSD, a).
*This option ceased to be available on 9 November 2020.

NZ Super is not means-tested. However, those people who had included their ineligible partner in their NZ Super payments (a reducing number of recipients as this option is no longer available), have a specific income test. After an initial $160 of combined weekly income before tax, the NZ Super payment (currently $1,457.28 before tax) is reduced by 70 cents for every additional $1 of income, and the reduced amount is divided into two and half is paid to each partner. As a result, if the couple has income before tax over $33,887.66 it is financially beneficial if the non-qualifying partner is not included in the qualifying partner's NZ Super payments (MSD, c).

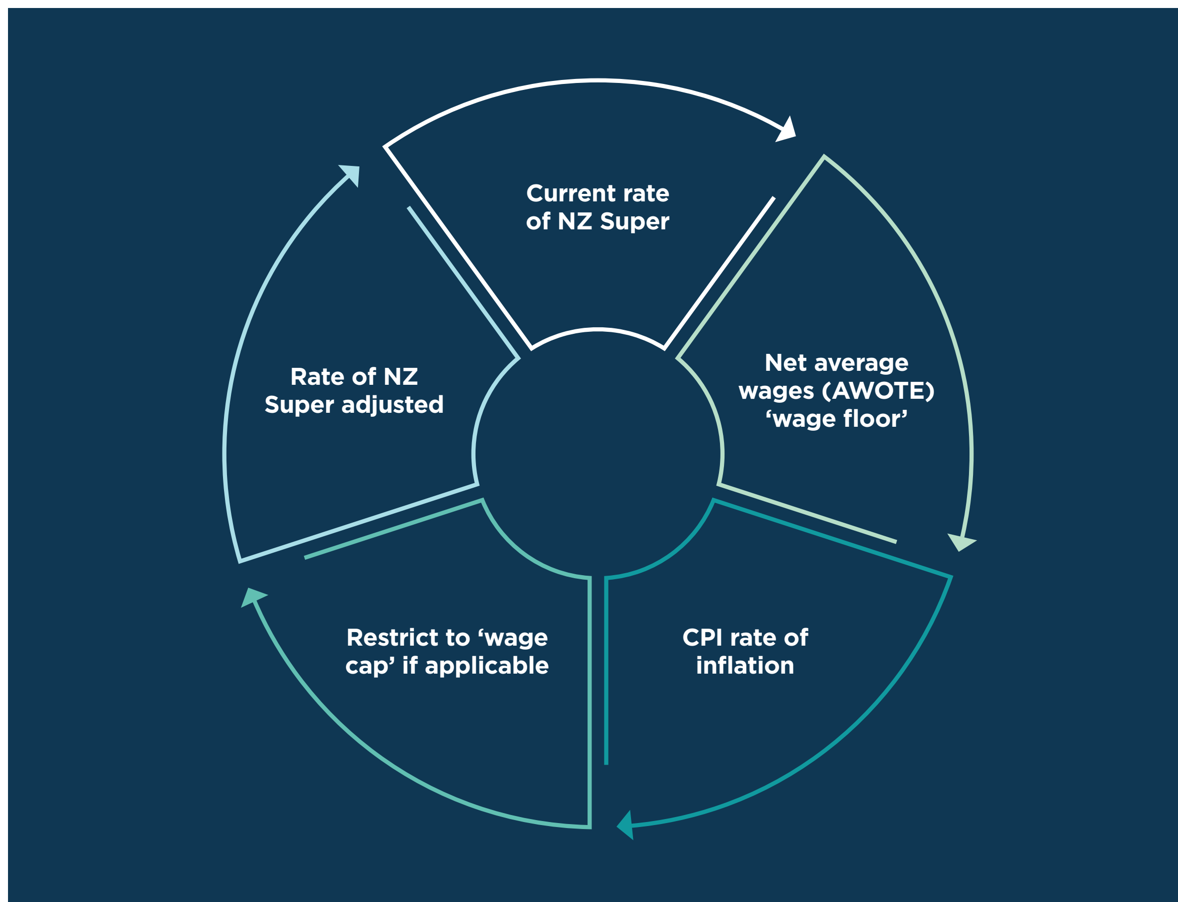
Indexation of the payment rate

Payment rates are reviewed annually and any changes take effect from 1 April. Rather than immediately reset the rate against average wages, as outlined above, a check is made to consider the impact of inflation. The Consumer Price Index [CPI] rate of inflation over the year to the previous December is applied to the current rate of NZ Super[2]. If the resulting figure is higher than the figure produced by the 'wage floor' calculation the inflation indexation is used. Although this has not actually occurred in the last decade it would apply in a high inflation environment.

2 Note that NZ Super can only be increased through the annual adjustment process, so if CPI were to fall, no adjustment would be made to the rate of payment.

A further consideration in review of the payment rate is a 'wage cap'. If the inflation indexation is used, the resulting payment rate is restricted to a maximum of 72.5% of the net AOTWE, although to date this constraint has never actually had to be applied.

Figure 1 – Indexation



The indexation approach for NZ Super contrasts strongly with how other 'first tier' main benefit transfers are revised. Prior to the 'Wellbeing Budget' in 2019, main benefits were indexed against the CPI[3]. From 1 April 2020 they have instead been indexed against increases in the average wage (Treasury, 2019:24). Unlike NZ Super, higher tier benefits (such as Accommodation Supplement and Working for Families payments for children) are not indexed at all.

FINANCING

NZ Super is paid for from government income, which mostly consists of tax revenue, in line with the majority of transfers[4] in Aotearoa New Zealand (ACC is a notable exception).

The financing of transfers using current tax revenue is known as 'PAYGO' or pay-as-you-go, because each year, pension payments are financed from current tax collection. The alternative to PAYGO is 'SAYGO' or save-as-you-go, when taxes are collected in advance and accumulated into a fund, and the pension is financed by drawing down the fund (Coleman, 2010:1).

3 Between 2011 and 2021, CPI excluding tobacco products has been used, but will return to CPI from 1 April 2022.

4 Transfers are redistributive payments by a government without any goods or service received in return. The word is used as an alternative to the more pejorative 'benefit'.

Current expenditure on NZ Super

Annual expenditure on NZ Super in the previous, current, and next three financial years is set out in the table below.

Table B – Expenditure on NZ Super (forecast period)

	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
	Final Budgeted	Budget	Estimated	Estimated	Estimated
Appropriation (gross)	$16.580 billion	$17.691 billion	$18.930 billion	$19.976 billion	$21.022 billion
As a percentage of GDP	5.0%	5.1%	5.1%	5.1%	5.1%
Net of tax	$13.964 billion	$14.892 billion	$15.905 billion	$16.769 billion	$17.632 billion
As a percentage of GDP	4.2%	4.3%	4.3%	4.3%	4.3%

Sources: Appropriation - Vote Social Development (Treasury,2021a:256); Net and GDP figures – BEFU NZS model (Treasury, 2021b)

Ways of thinking about the expenditure on NZ Super

This paper refers to 'expenditure' rather than cost for two reasons. The first is that benefits are usually considered alongside costs and the benefits of NZ Super have not been calculated in dollar terms. One significant benefit is the security that NZ Super offers an individual because it is available until the end of the person's life. It is difficult to put this benefit into dollar terms. Other benefits, such as the administrative simplicity of a largely universal policy, may be calculated in dollar terms. The second reason is that 'cost' implies a fixed amount. However, policy settings (such as the payment rate and eligibility criteria) can be adjusted at any time by the Government, so the expenditure can be varied. Finally, the NZ Super expenditure figures referred to in government documentation are 'gross' figures, that is, they include some PAYE income tax that will be returned to the government and reduce the actual amount the government is required to finance. Another form of tax, GST, is paid by superannuitants when they spend their NZ Super or other income.

It is possible to consider costs and benefits in a different way, using wellbeing frameworks, such as He Ara Waiora and Fonofale. He Ara Waiora is built on te ao Māori knowledge and perspectives of wellbeing (Treasury, 2021c:41) and Fonofale (MPP, 2021) is a Pacific model of wellbeing. These frameworks enable a holistic consideration of a policy and include concepts of relevance for older people (especially kaumātua and tuaāsinasina) such as acting with manaakitanga (enhancing mana by showing proper care and respect) to nurture mana tuku iho (identity and belonging) and mana tauutuutu (participation and connectedness).

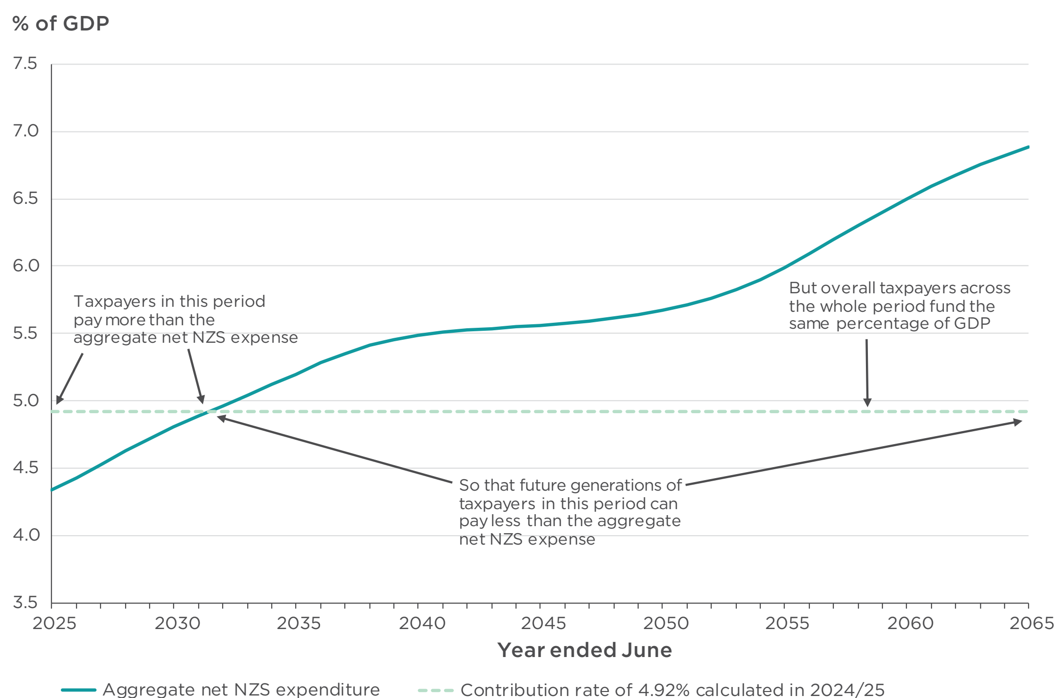
The Role of the NZ Superannuation Fund

The Superannuation Fund was established in 2001 and is still often referred to as the 'Cullen Fund', using the name of the Minister of Finance responsible for devising it, the late Sir Michael Cullen (Bell, 2021:7). The Superannuation Fund is one of Aotearoa New Zealand's largest publicly owned financial assets and had a closing balance of just over $58 billion on 30 June 2021. It is managed by an autonomous Crown entity, the Guardians of New Zealand Superannuation, which has operational investment independence and an independent board (Bell, 2021:5). The Superannuation Fund will not fully-fund expenditure on NZ Super nor was it designed to do so.

Although we currently fund NZ Super as PAYGO, in future it will be a 'smoothed pay as you go', when we start to draw down from the NZ Superannuation Fund or 'Super Fund'. When we say we will 'draw down' from the Fund, we mean that part of the balance of the Superannuation Fund will be released to the Government, thereby reducing the amount of tax revenue that is needed to pay for the expenditure on NZ Super in that year. This process is an example of 'tax-smoothing'.

Figure 5 below depicts how the Superannuation Fund operates as a tax-smoothing device. Note that the graph is based on holding the contribution rate constant at the value calculated in the first year, and that would result in the Fund being fully depleted after 40 years. This is not how the Fund works in practise and, because it is designed to help future taxpayers for much more than the next four decades, the contribution rate is recalculated each year and keeps gradually rising. It still ends up crossing the NZS expense line, and then staying below it, which means it is helping to offset future public pension costs. Contributions to the fund are discussed next and further detail is provided in Bell (2021).

Figure 5 – Taxpayers funding of NZS under a constant NZSF contribution rate



Source: The Treasury

(Bell, 2021:224)

Contributions to, and drawdowns from, the Superannuation Fund are determined by a formula in the legislation, which is The New Zealand Superannuation and Retirement Income Act 2001. Bell (2021:22-26) provides a complete description of the contribution rate formula and its mathematical form. This paper could not do justice to that detail with a summary. However, for reference, we can note that the five main parameters used in the legislated formula to determine contributions to and withdrawals from the Fund are the forecast and projected tracks of the following: the closing balance of the fund in each year, nominal GDP, aggregate net (of tax) NZ Super expenditure, the after-tax annual rate of return on the Fund's assets, the length of the funding horizon (Bell, 2021:16). Forecasts cover the current year and next four years whereas projections refer to years beyond the forecast period. The Treasury, the Ministry of Social Development (MSD), Stats NZ and the Super Fund itself are all involved in producing the figures (Bell, 2021:16).

The premise of the Superannuation Fund was that annual contributions would be made in accordance with the formula. However, this has not been the case, as in its first years (2001/02 and 2002/03) and in 2009/10, the Superannuation Fund received less than the calculated amounts, and contributions were suspended entirely for the fiscal years 2010/11 to 2016/17 inclusive. Contributions recommenced in 2017/18 (although still not at the level calculated by the legislated formula), and in 2019 it was announced that during the fiscal years 2019/20 to 2022/23, small percentages of the capital contributions to the Superannuation Fund would be transferred to a new fund for investment in New Zealand's early-stage capital markets (Bell, 2021:8-9).

Future expenditure on NZ Super

Future expenditure on NZ Super is often estimated as a percentage of Gross Domestic Product [GDP], rather than referred to in dollar terms, due to the unknown impact of inflation over time. The following table shows the projected future expenditure on healthcare, NZ Super, and education over the next 40 years as a percentage of GDP.

Table C – Projected future expenditure

Table 3: Fiscal projections in the historical trends scenario (% of GDP)

	Historical trends scenario			
	2021	2030	2045	2061
Healthcare	6.9	6.8	8.5	10.5
Gross New Zealand Superannuation (NZS)	5.0	5.6	6.5	7.6
Education	4.7	4.9	5.1	5.6

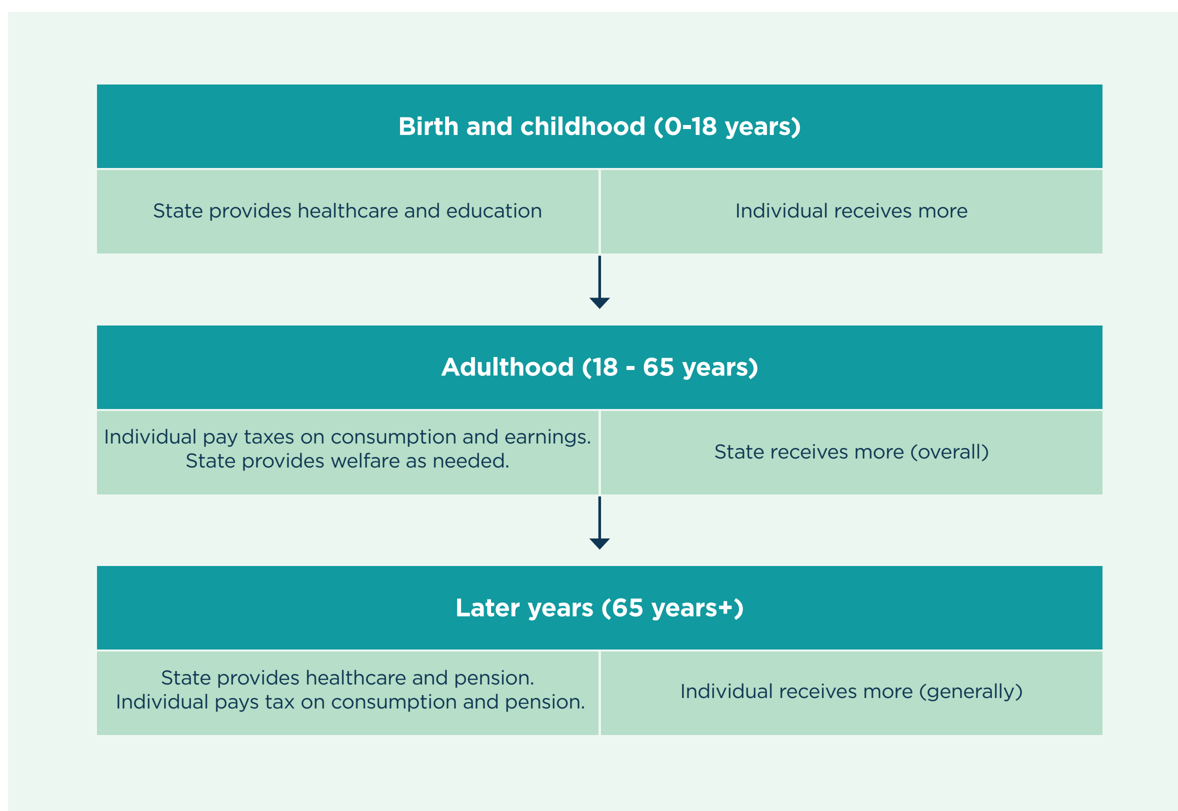
Source: Treasury (2021c:18)

Healthcare is projected to increase by more than NZ Super, as shown in gross dollars, but the actual net expenditure on NZ Super will be less once income tax is paid (in practise 'clawed back' by MSD prior to payment).

The GDP percentage figure is also used to compare how much Aotearoa New Zealand is spending on its pension compared to other countries. However, caution should be applied when making such comparisons, as there are a number of considerations. First, the amount of expenditure on a single policy cannot be considered in isolation, as the broader welfare environment (such as whether there is a public health system and the extent to which it requires a co-payment from users, or whether there is also a tier 2 or tier 3 pension) will influence the relative importance of the pension. This is particularly relevant in Aotearoa New Zealand as we do not have a tier 2 pension (a mandatory savings scheme) - see our previous Policy Paper 2021/02 for more details (Te Ara Ahunga Ora, 2021). Second, pension policies in different countries rarely have the same settings (i.e., features such as eligibility or payment rate may vary significantly), so the pension expenditure being compared may not be alike. For these reasons, the value of such comparisons is questionable.

There are alternatives to GDP-based consideration of policy expenditure. One option is to adopt a 'life-course' approach and track contributions and receipts over a person's life. This approach will generally show periods of time when the state provides more to people (such as during childhood and retirement) and others when people provide more to the state (during adult years when in paid work). In fact, at this time, people are providing for others who are at a different phase in their life cycle. Figure 2 provides an illustrative example (without expenditure figures).

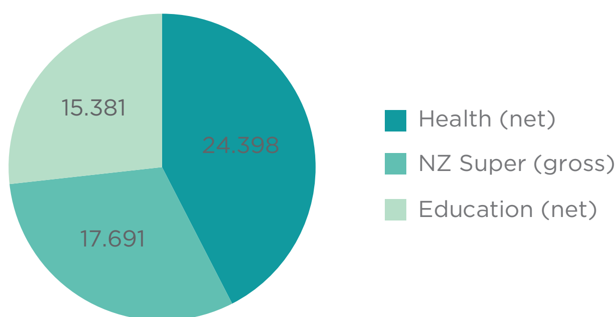
Figure 2 – Transfers over the Life Course



Another approach is to consider expenditure on a particular policy against other policies (within the same country), for example, considering pension expenditure against other core welfare state expenditure. Figure 3 provides a snapshot from the current year 2021/22.

Figure 3 – 2021/22 Expenditure on selected government policies

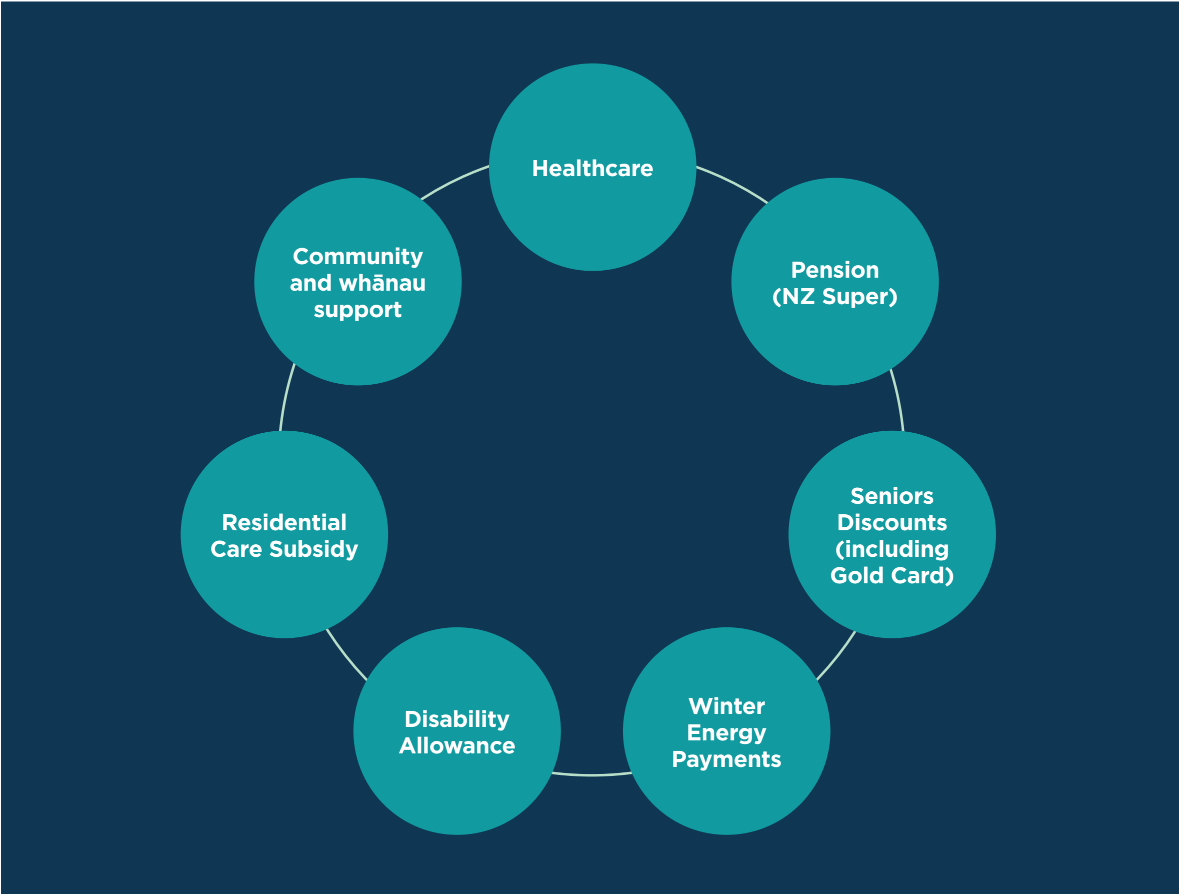
Total annual expenditure 57.470bn



Source: Vote Social Development (Treasury, 2021a:167), Vote Education (Treasury, 2021d:7), Vote Health (Treasury, 2021e:9)

Finally, it is also important to recognise that the pension is only part of the environment, and other transfers and services are also provided to older people in Aotearoa New Zealand (as well as others). Some of these are identified in Figure 4.

Figure 4 – Broader Environment



Both the alternatives and the GDP-based approach are limited by their calculation in dollar terms, which does not capture the ability to support mana tuku iho (identity and belonging), or mana tautuutu (participation and connectedness) in the recipients.

Part Two – Policy framework

NZ SUPER CLASSIFICATION

Retirement income schemes are classified by the OECD as either a tier 1, 2, or 3 scheme based on the objectives they aim to achieve. Tier 1 aims to protect from poverty in old age, tier 2 aims to ensure the adequacy of retirement income, and tier 3 aims to raise the individual income replacement rate. NZ Super is classified as tier 1 and KiwiSaver as tier 3. Tier 2 schemes are mandatory and there is no tier 2 pension in Aotearoa New Zealand. A full explanation of pension classification, including consideration of how our retirement income policies compare against other pensions within the OECD, is provided in an earlier Retirement Commission Policy Paper 2021/02 (Te Ara Ahunga Ora, 2021).

NZ Super is sometimes referred to as a benefit and sometimes as an entitlement. Benefit does not have an agreed definition, but it generally refers to transfers made by the State to those in need, which are often means-tested. Need can relate to disability or ill-health or unemployment. The OECD's Pensions Glossary defines benefit as 'Payment made to a pension fund member (or dependants) after retirement' (OECD, 2005) but NZ Super is not a 'pension fund' as defined in the same document.

Entitlement similarly lacks definition but in the OECD's guidance on the System of National Accounts (used by governments to report their income and expenditure) it refers to the payments made by employees or employers to secure entitlement to current or future social insurance benefits (OECD, n.d.). There is no equivalent within the retirement income system in Aotearoa New Zealand. Although it is sometimes considered that payment of taxes over one's life provides an entitlement to a pension in old age, there is no direct relationship between the two, as NZ Super does not have any eligibility requirement to have paid taxes in any form and taxes are not 'ring-fenced' to provide benefits.

NZ SUPER PURPOSE

It is unclear whether NZ Super is a benefit or an entitlement in part because the purpose of NZ Super is not clear in the legislation. The purpose statement of New Zealand Superannuation and Retirement Income Act 2001 includes 'to continue current entitlements to New Zealand superannuation', the establishment of the NZ Super Fund, and confirming the administration of the Venture Capital Act Fund by the Guardians of New Zealand Superannuation (PCO, n.d.). Meanwhile the Social Security Act 2018 refers to NZ Super as a 'benefit' (PCO, n.d).

Further detail is provided by the documentation that provides MSD with the money to make NZ Super payments to recipients (the Estimates of Appropriations published by Treasury as part of the budget process). The appropriation is 'intended to achieve social participation and independence for superannuitants by providing financial support' (Treasury, 2021a:256).

Another reason for having a clear purpose for NZ Super is that it enables evaluation to occur. One way of evaluating it might be asking the question whether it represents adequate income? Without an agreed purpose it is difficult to ascertain whether it represents adequate income because it is unclear what it is expected to cover. If we return to the classification of NZ Super as a tier 1 pension, which aims to protect from poverty in old age, then the likelihood of any large or increasing expenses would likely need to be considered to decide whether the payment rates of NZ Super are adequate. In the current environment, that is likely to include housing costs, and maybe healthcare.

Historically, most people have owned their own home without a mortgage by the time they reach the age of eligibility for NZ Super - although home ownership rates have varied by social class and ethnicity and remain lower for Māori and Pacific Peoples than other ethnicities. Until recent decades it had been the experience that lower income non-homeowners could relatively easily access public housing through central or local government (McKinley Douglas, 2004). However, home ownership rates have fallen to historically low levels, with 32% of households now renting (Stats NZ, 2020), and nearly one in five people are reaching age 65 with mortgages (Centrix, 2020). The rise in house prices over recent years has been well recorded elsewhere (RBNZ, 2021).

The calculation to set the payment rate for NZ Super is based on average wages (as outlined above). However, wages have not increased in line with rent or house prices (Massey, 2021), which means that NZ Super may no longer provide some people with an adequate income. In June 2021, 5.6% of NZ Super recipients were also receiving the Accommodation Supplement, an increase from 5.2% in 2016, and a further 1.1% were receiving Temporary Additional Support or a Special Benefit (MSD, d).

To enable assessment of retirement income policy, the Retirement Commissioner developed and released a purpose statement last year, which can be found our website here and is provided below:

> A stable retirement income framework enables trust and confidence that older New Zealand residents can live with dignity and mana, participate in and contribute to society, and enjoy a high level of belonging and connection to their whānau, community and country.
>
> To help current and future retirees to achieve this, a sustainable retirement income framework's purpose is twofold:
>
> 1. To provide NZ Superannuation to ensure an adequate standard of living for New Zealanders of eligible age. NZ Super is the Government's primary contribution to financial security for the remainder of a person's life.
>
> 2. To actively support New Zealanders to build and manage independent savings that contribute to their ability to maintain their own relative standard of living.
>
> The retirement income system sits within the broader government provision of infrastructure also needed to enable older New Zealanders to live well, such as health care, housing, and transport.

The purpose statement states that NZ Super should ensure an adequate standard of living, meeting but also exceeding the poverty alleviation objective of tier 1 pensions, and supporting the need to consider any large or increasing expenses faced by superannuitants, including housing.

NZ SUPER RECIPIENTS – DISTRIBUTIONAL DETAILS

MSD publishes benefit fact sheets on a quarterly basis showing demographic details of NZ Super recipients. Figures from June 2021 show that of the current 837,549 superannuitants are 53.5% female and 46.5% male. The majority are aged between 65-74 (56.4%) but 23% are over 80 and 3.8% are over 90 years of age. In terms of ethnicity, 62.4% are NZ European, only 5.9% are Māori and 2.6% are Pacific Peoples. 16.5% are other ethnicities and 12.5% were unspecified (MSD, d).

Figure 5: NZ Super recipients by gender

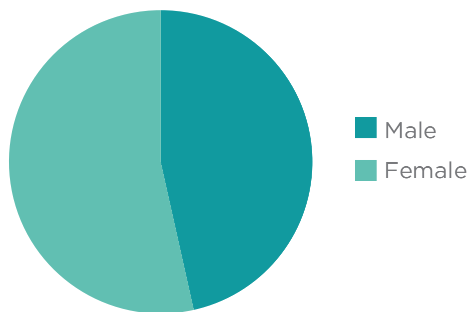


Figure 6: NZ Super recipients by age

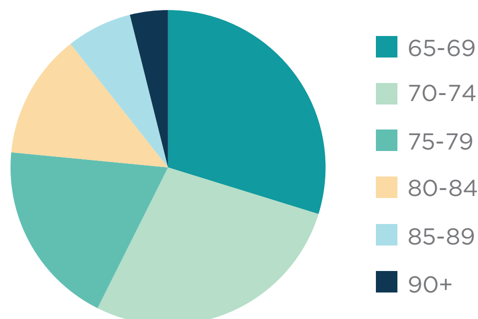
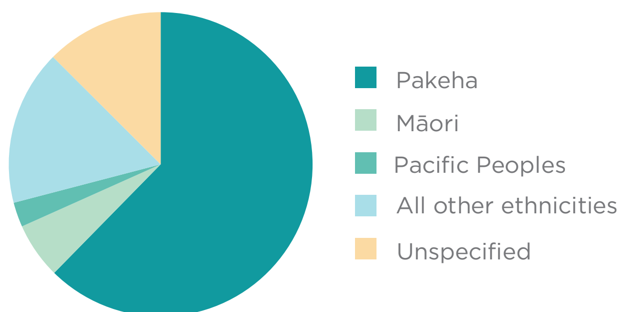


Figure 7: NZ Super recipients by ethnicity



These figures reflect a number of factors. There is a difference in life expectancy between the sexes.

There is a difference in population sizes between these ethnic groups and health inequities exist between them that partially explain differences in average life expectancy. These figures also highlight how any change to the age of eligibility would have a higher proportionate impact on Pacific Peoples and Māori. Although everyone would benefit if the age was lowered, Pacific Peoples and Māori would experience a higher proportionate advantage because, on average, they die younger than other ethnic groups. For the same reason, if the age was raised, they would be the most disadvantaged.

NZ SUPER ABATES AGAINST SOME OVERSEAS PENSIONS

The way in which NZ Super interacts with overseas pensions depends on the nature of the pension. If you wish to receive NZ Super, and you are entitled to an overseas pension, you must take reasonable steps to obtain the overseas pension.[5] For these purposes, an overseas pension means a pension that is administered by or on behalf of an overseas government, from mandatory contributions.[6] The overseas pension must form part of an overseas social security programme providing benefits and pensions for any of the contingencies (e.g. old age, illness) for which New Zealand benefits or pensions would be paid.

The requirement to obtain the overseas pension arises because the amount of NZ Super payable is reduced by the amount of the overseas pension – known as a 'direct deduction'.[7]

MSD states that the direct deduction policy is underpinned by the 'one pension principle', which means that a person should not be able to get two forms of state financial assistance for the same or similar circumstances. In many other countries, eligibility for the state pension is either through years of residence, or years of residence and contributions. If a person has spent time outside the country their government pension is reduced proportionally. It is then 'topped up', by a pension from the other country in which the person has spent time, to become equivalent to one full pension (hence the "one pension principle"). MSD explains the direct deduction policy as a mechanism to ensure those who have lived both overseas and in New Zealand get an amount equivalent to one pension, and no more.

By way of example using the current rate of payment, if a single person, who is eligible for NZ Super receives an overseas pension equivalent to NZD $1,500 per fortnight they will not receive any NZ Super because the overseas pension exceeds NZD $1,013.28 (per Table A). If the overseas pension was instead equivalent to NZD $500, the person would receive that amount, and also a top up from MSD of $513.28 to provide a total of NZD $1,013.28. The standard NZ Super amount has had a 'direct deduction' of the amount of the overseas pension. This could also be expressed as the overseas pension being offset against NZ Super.

MSD figures from June 2021 show that around 100,000 overseas pensions are currently subject to a direct deduction from NZ Super, representing around NZD $484 million. 61% of the pensions are from the United Kingdom and 23% are from Australia (MSD, d). The superannuitants who are impacted by this policy setting includes both migrants to Aotearoa New Zealand and Kiwis that have spent time working overseas.

There are some challenges with overseas pension direct deductions. Although it has been a feature of the NZ Super policy since it was first introduced in 1938 (Carpinter, 2012:3) it is not necessarily well-known and the offset may come as a surprise. Details are provided on both the MSD website and Immigration's 'New Zealand Now' website, and while it may be possible to advise new migrants of this resource, there is no natural point of interaction for the government to advise Kiwis who leave home temporarily of this policy feature.

Other challenges relate to the terminology of 'administered by or on behalf of an overseas government'. People who made mandatory contributions (and/or whose employer made mandatory contributions) into a government-administered scheme often think of the resulting pension as a private pension, particularly in cases where their government does not directly contribute financially to the scheme or contributes minimally. However, if the scheme is government-administered, then the person's NZ Super will be offset by the amount of the overseas pension.

MSD explains the direct deduction policy on its website (Work and Income, b). It states that the aim of the policy is to ensure that all qualifying New Zealand residents get an equitable level of state pension, whether the amount of that pension is fully funded by New Zealand, partially funded by New Zealand and another country, or fully funded by another country. 'Equitable' here means having due regard for the interests of both pensioners and taxpayers. It means that those New Zealanders who have lived in New Zealand all their lives are not disadvantaged compared with others who have worked overseas or with immigrants to New Zealand who have entitlement to overseas state pensions.

5 Section 173 Social Security Act 2018 refers (PCO, n.d.)

6 Section 187 Social Security Act 2018 refers (PCO, n.d.)

7 Section 189 Social Security Act 2018 refers (PCO, n.d.)

The one pension principle is clearly applicable to pensions paid by a government. However, direct deduction can come as a surprise to some people with overseas work history, who did not anticipate that the pension resulting from their contribution to a pension scheme would be deducted.

To analyse the direct deduction (or offset) of overseas pensions as a policy setting, reference would generally be made to the purpose of the policy, but as stated previously, there is no purpose statement in the NZ Super legislation. However, as noted above, the appropriation is 'intended to achieve social participation and independence for superannuitants by providing financial support'.

On one hand, the pension offset does not detract from this intention, because the superannuitant is still receiving financial support. On the other hand, the person could receive a greater amount of financial support if the offset was not applied and they received payments from both sources. In addition, the direct deduction is applied against mandatory government administered schemes intended to ensure the adequacy of retirement income, not just tier 1 pensions (taxpayer funded for poverty alleviation).

NZ SUPER ABATES AGAINST SOME NZ TRANSFERS

NZ Super abates against some domestic transfers such as the Veteran's Pension, ACC, and the Residential Care Subsidy. The Veteran's Pension is paid to people who have served in the New Zealand Armed Forces on Qualifying Operational Service but the eligibility criteria are otherwise the same as NZ Super. It is paid instead of NZ Super, at the same rate, but with the additional benefits of a Community Services Card and no reduction if long-term hospital care is required. Surviving Spouse or Partner Pension may also be available to family members after the death of a Veteran's Pensioner (NZ Government, 2021). As of June 2021, there were 6030 people receiving the Veteran's Pension (MSD, d).

ACC provides support to people who have been injured. Some people receive weekly payments but these cease either when they reach age 65, if the injury was incurred before the age of 63, or two years after they started if the injury was incurred after the age of 63 (NZ Government, 2020). If someone who is in paid employment after age 65 incurs an injury that is covered by ACC, they would receive both NZ Super and ACC for a two-year period, after which ACC payments would cease and NZ Super payments would continue.

The residential care subsidy is for those people who require long-term residential care in a hospital or rest home. NZ Super is considered income for the purposes of means-testing the residential care subsidy, along with any benefit, and other sources of income. If a superannuitant becomes eligible for the residential care subsidy, the majority of their NZ Super is then paid directly to the care provider. The superannuitant only receives a personal allowance of $46.56 a week and a clothing allowance of $292.02 a year (Work and Income, c).

NZ Super myth-busting

The Super Fund pays for NZ Super	**MYTH**	NZ Super is paid for from tax revenue.
The Super Fund will pay for NZ Super in the future	**MYTH**	The Super Fund will reduce the tax revenue required to pay for NZ Super payments (but was never designed to pay for all of them – it provides 'tax-smoothing').
Anyone can get NZ Super	**MYTH**	There are eligibility criteria (age, residency status, number of years spent in NZ).
NZ Super is expensive	**WHAT DO YOU MEAN BY EXPENSIVE?**	NZ Super provides older people with a guaranteed income that alleviates poverty, reduces insecurity and enables ongoing participation in society.
NZ Super is unaffordable	**MYTH**	Affordability depends on how much money you have to spend – we could raise more tax revenue (or borrow more) – or GDP might rise more than forecast. Can we afford not to have NZ Super? How would older people pay for their retirement (especially those with limited labour market participation or low remuneration)? The state would still have to provide support.
The age of eligibility for NZ Super needs to rise	**MYTH**	There is no definitive reason why the age of eligibility for NZ Super has to rise. Questions of equity would arise for those who die earlier than others - who we know are disproportionately Pacific Peoples and Māori. For questions of affordability – see above.
NZ Super won't be there in the future	**MYTH**	There is no reason why NZ Super should not be available in future. NZ Super has been around in more or less its present form since 1938 and no political party is suggesting removing it.
NZ Super isn't enough to live on today	**IT DEPENDS ON YOUR SITUATION**	The income adequacy of NZ Super depends on many factors including where you live, whether you own your home or rent, your health needs, and your lifestyle.
A lot of people don't need NZ Super	**MYTH**	For many older people, NZ Super is their only, or most significant form of income. There are some people with wealth but means-testing them would add layers of complication to an administratively simple transfer.

Conclusion

How a country treats its older citizens is a mark of its own economic and social maturity. How a country equips its people to approach their later years with positivity and confidence is another marker and how a country assists its people in hardship yet another.

NZ Super is a foundational part of the retirement income framework in Aotearoa New Zealand. It has served well to prevent pension poverty (Perry, 2019:9). However, the implicit assumption underlying the policy, of owning a home outright in retirement is ceasing to be the case. Future generations of older people will include higher numbers of renters and those with mortgages. Whether NZ Super will continue to provide poverty alleviation for those people is uncertain but appears to be at risk. The role of the Accommodation Supplement in retirement incomes is likely to increase.

Beyond pension poverty, questions regarding the right to receive NZ Super sometimes arise, as seen in the recent increase to the residence eligibility requirement. In line with the Retirement Commissioner's purpose statement for the retirement income system, any changes to pension policy should be based on a principled approach, be widely discussed, and signalled well in advance, so that people have time to plan.

Importantly, there is a significant longevity difference for our people. Māori and Pacific People represent very few recipients of NZ Super – significantly below their percentage of the overall population – due to their shorter life expectancy arising from health inequities and other factors. On this basis, any increase in the age of eligibility would disproportionally impact Māori and Pacific People, and this may need to be viewed in terms of the Crown's obligations to Māori under Te Tiriti o Waitangi.

Finally, there is the question of sustainability, and whether we can 'afford' NZ Super at the current policy settings, particularly the age of eligibility. An immediate second question should be asked – can we afford not to? NZ Super provides certainty for people for their whole life. It aims to facilitate social participation and independence, which provides wellbeing for older people. It operates simply as a universal pension that does not distort labour market incentives or result in tax planning to satisfy means-testing. Reduced access to NZ Super could simply result in government expenditure in other areas. Instead of NZ Super, a person may require Jobseeker Support, or emergency benefits. Any fiscal 'saving' would not be straightforward.

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MSD overseas pensions	0800 777 227 (From Aus 1800 150 479, other +64 4 978 1180)
Senior Services (MSD)	0800 552 002
Work and Income	0800 559 009

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