# 2013 Review of Retirement Income Policy

A submission from the NZ Union of Students' Associations to the
Commission for Financial Literacy and Retirement Income

---

The New Zealand Union of Students' Associations (NZUSA) welcomes the opportunity to comment on this review of retirement income policy, the third to be conducted by the Commission, following on from reviews in 2007 and 2010.

NZUSA and its cross-section of members at Universities and ITPs (Institutes of Technology and Polytechnics) have always maintained a strong focus on policy settings that impact on tertiary students at all levels of the tertiary education system.

In terms of the current review cycle we were extremely appreciative of support provided by the CFLRI project team for our Big Questions Tour over the period 25 February to 8 March.

This provided what we believe to be the first – and possibly first ever – significant opportunity to expose tertiary students to questions about retirement income policy through small face-to-face forums. These forums generated useful feedback, as per the Appendix to this submission. (*NZUSA would also like to add that, for its part, it will be continuing to commit time and resource to furthering the communication and consultation that arose from this opportunity; allied to another Big Questions Tour planned for July/August in conjunction with Treasury presentations on the Long-term Fiscal Model*).

**Our Position**

In brief, NZUSA holds the view that the financial implications alone of studying (i.e. being a tertiary student) as a major "Life Event" – as prominently listed on the CFLRI's public facing Sorted website at www.sorted.org.nz – should mean it receives much higher regard in the thinking and planning about the journey to retirement.

Our primary concern is that the processes surrounding retirement income policy be as inclusive of the views of 'younger cohorts' as possible. As demonstrated by the Big Questions Tour there is a genuine hunger for more information about current policies from under 25s we spoke with. As a largely untapped resource, students are at an ideal point in their life to act as a source of inquisitive and informed questions (often related to their areas of study) to feed into the policy forming process.

In many ways our organisation's experience of the size and shape of the Loans and Allowances schemes offers some parallel perspectives and is instructive of factors brought to bear on similar policy issues.  As an organisation with a close interest in future stakeholders in New Zealand's state provision of pensions, we are also already highly familiar with the downsides of inadequate support for non-discretional living costs (with, for example, a single student under 24 years living away from home who meets the criteria for a Student Allowance currently eligible for a weekly sum of $171 after tax, compared to a single superannuitant on the same tax code receiving $357 per week – as publicised in the June 2013 edition of *North & South* magazine).

## The seriousness of retirement income policy

As evident from the Appendix of summarized Big Questions Tour feedback on the question of retirement income policy, this is an issue that can be taken seriously if it is well explained and well framed, preferably without blinding people with intricacies more suited to 'policy wonks' than newcomers to the issue.

If 40% of older New Zealanders rely entirely on NZ Superannuation then that is one of the facts that needs to be more widely known. Along those lines, if the KiwiSaver scheme is now seen to form an integral part of New Zealand's retirement income framework (secondary to a universal, non-means tested pension payable for the rest-of-life to those older than 65) that needs to be more widely promulgated as it would come as a surprise to the predominant segment of the 'younger cohort' we deal with.

In the body of this submission we have done our best to address different facets of the policy process in a measured way and with due regard to the position papers published by CFLRI.

## Background papers

NZUSA appreciated the substantive (if occasionally repetitive) nature of the background papers associated with this review process. Our first point is that from our reading it was disappointing that none of these papers spoke at any length to the diverse and varied points of view of 'younger cohorts' which were also poorly defined.

We took special note of papers on the influence of the ongoing Global Financial Crisis (GFC) and associated trends. It was disturbing that neither f the two papers authored by Bruce D White Consulting related to the impact of and issues arising from the GFC, make any reference to the very real phenomenon of rising youth unemployment and the implications of that on lifetime earnings (itself a concept that needs more promotion).

As noted in the Stakeholder Strategies paper authored by Rick Boven and Lilian Grace, inequality in New Zealand has increased during the last few decades and many youth are finding it difficult to successfully transition from school to work. An associated point deserves emphasis:

> *The social and economic effects of disadvantage can be durable and be passed from generation to generation meaning there is a portion of the adult population who will be less well prepared, financially and socially, for their retirement years.* ***Today's retirees are less affected by these risks.***

We were equally disappointed to see a lack of explicit references to the circumstances that might apply to cohorts of the population who undertake time out of the paid workforce for the purposes of tertiary study – a point we pick up in our recommendations.

While the student tertiary population at any one time isn't treated as a moving 'cohort' in its own right, estimates that there will be more than 480,000 domestic students by 2016 is an indication that it could and/or should be for the purposes of identifying trends relevant to retirement income policy.

To that end NZUSA is currently seeking renewed support for maintaining the database of Income & Expenditure Surveys it had successfully run in recent times, as well as working on a related project with the Fin-Ed Centre. We also commend Otago University's Graduate Longitudinal Study New Zealand (GLSNZ) – incorporating more than 8,600 final-year students – for the information on lifestyle, financial status, employment goals, health and well-being that it will give rise to.

One of the few differentiating factors currently applied to cohorts is the housing factor and housing affordability. The typical analysis would indicate that:

- Older cohorts will benefit disproportionately from the sustained increase in the real value of houses and high levels of home ownership.
- Middle-aged cohorts will also benefit, but will be carrying more debt
- Younger cohorts aspiring to home ownership will face larger borrowing requirements and uncertain prospects for house values. (Conversely we noted that one of the few upsides to being in a younger cohort would seem to be a lower exposure to "wealth-destroying events").

In this light we were encouraged to read the submission of Peter Crawford of Crown Financial Ministries New Zealand (as posted in advance on the CFLRI website) and his reference to repayment of student loans as being one of a set of likely factors that have contributed to an increasing proportion of people reaching retirement age who are still making mortgage payments on their house (or opting to rent). We believe that is a common scenario and can be supported with evidence.

In its position paper on Encouraging Personal Responsibility, Individual Choice and Control the CFLRI again fails to 'speak to' the student population by the narrow selectiveness of the example given as a barrier to getting into "serious saving", limiting this to young New Zealanders who may start families (fair enough) or go into business at a young age (a distinct miniority?). Including an example relevant to tertiary students would go some way towards making the information more tangible.

**The citizenship dividend – a divide or rule tactic?**

Reading your position paper on this topic, there seems almost to be an invitation/ expectation for there to be potential breakdowns in the consensus surrounding the concept of citizenship dividend, by pitching NZ Superannuation against KiwiSaver?

We would contend that the citizenship dividend should be, to good effect, one of the easier of the eight objectives for retirement income policy to promote and should indeed be its starting point. The CFLRI's readiness to characterize it as the most difficult is a strange form of defeatism, and seems to speak to a lack of qualitative understanding.

If the base reason for talking about a citizenship dividend is that it arises from 'shared values', coupled with the trust and other elements of social capital that make an acknowledged and fundamental contribution to society and our calibration of concepts of growth and wealth, this should surely be a reason for celebration, and needn't be as abstract or woolly as presented. As rightly pointed out, the SuperGold card, introduced in 2007, can easily be seen as an example of a citizenship dividend on a smaller scale.

From our experience we would also challenge the suggestion that younger generations' adherence to the assumed social contract is becoming progressively weaker (a point that is left hanging in your paper on Intergenerational Equity).

Simultaneously we do see merit in Roger Hurnard's position that social investment in families' capabilities, networks and opportunities to earn and save prior to retirement age would help reduce the prevalence of vulnerability in old age.

On another point also relating to the concept of a citizenship dividend we have been appalled at a succession of Budget decisions in recent years that have stripped access to higher education from older New Zealanders. In regard to Student Allowances these decisions have included removing access from all people aged over 65 and reducing access to all people aged 40-64. This follows on from excluding course-related cost and living costs components from Student Loans taken out by people aged over 55. As always, complacency leads to blind-spots and lost entitlements.

**Do not pass GO, do not collect entitlement?**

We are aware of the well-trodden debate of SAYGO versus PAYGO (noting also that if there was an acronym for the obligated reality faced by hundreds of thousands of tertiary students in the last two decades it might be BORAYGO, or Borrow As You Go!).

On this topic we tend to heed the caution made by Michael Littlewood (a co-director of the Retirement Policy and Research Centre at the University of Auckland's Business School) that the case for a SAYGO public pension on the grounds of intergenerational equity poses a question that need not be asked and provides a 'solution' for a misdiagnosed problem.

As stated by Mr Littlewood it isn't possible to fix boundaries around particular generations and even if it was his statement that "the justification for 'sharing' risks of any kind within those boundaries, including NZS, is less than obvious" is valid. He makes a compelling argument that decisions about the share of economic output that should be devoted to supporting older non-producers should be made at the time by each generation of taxpayers, not generations ahead of time.

**It's KiwiSaver, not KiwiSaviour!**

The point made in the 2007 review (the first of the current series) that younger people have always had lower net worth and have saved less than older people remains a truism as much as anything else.

We also note the point in one of your position papers that private saving is made more difficult by increasing costs, tax policies and suppressed growth in the incomes of younger cohorts (including males) over recent decades.

Also, as observed six years ago, younger New Zealanders have been leaving the education system later, are likely to have student debts to pay off (now at a higher rate of repayment) and are also later in starting employment, forming partnerships, having children and becoming homeowners – let alone mortgage free homeowners. All factors that delay the start of saving for retirement.

As per the CFLRI's position paper on Fiscal Restraint and Investment, we concur with strong arguments in favour of encouraging more collective saving behavior. At the same time we agree that any temptation to regard KiwiSaver as a magic substitute for the finely balanced and highly interconnected NZ Superannuation scheme, should be resisted.

While it is highly creditable that KiwiSaver has experienced much higher levels of uptake than initially projected, it would be wrong to suggest that the great SAYGO hope that is KiwiSaver is also the great KiwiEqualiser or KiwiSaviour when it comes to retirement income.

We are empathetic with to Grey Power's position on the 381,000 senior citizens it estimates to be adversely excluded from participation in what is now seen to be a successful scheme for 'topping up' NZ Superannuation. Within the tertiary education sector it is enlightening at least to see that AUT has elected to make employer contributions to those employees who have been in KiwiSaver for more than five years and are over 65 even though they are not required to. More employers should show such conviction.

The statement in the CFLRI's position paper on Longevity Risk Pooling, that "an excessive reliance on KiwiSaver within the retirement income framework could be to the detriment of women, who tend to have lower lifetime earnings" is already highly evident in sources such as an Infometrics table showing the emergence of large discrepancies in KiwiSaver balances between males and females. Accordingly, and in consultation with our National Women's Rights Officer, we would strengthen your statement by replacing "could be" with "is directly".

KiwiSaver scheme providers have proven to be patchy. As a related aside NZUSA has been concerned at news reports about the uneven promotion of KiwiSaver by employers to employees, and has found columns by financial writers such as Mary Holm a useful source of information for our members.

We have noted an estimate that over the next 15 years, 525,000 KiwiSavers will have reached 65 and will then draw down their KiwiSaver balances. If you're a high earner it follows that the draw down will be greater, and that the same goes if you're in full-time and continuous employment. Will this be another case of the familiar line that the rich will get richer, and the poor will get poorer?

**Overall sustainability and other points**

The multiple challenges tied to New Zealand's ageing population, as acknowledged by Diana Crossan in 2010, are not about a society that exists in isolated segments. Tomorrow's 'pensioners' are the parents and grandparents of today's students – that is the true meaning of intergenerational.

In preparing this submission we also began to digest earlier reviews and task force reports dating back to 1991. Of course many things that might have been the prevailing norms or politically driven circumstances two decades ago may be more or less the same, or have entered a state of flux, or have well and truly passed.

In New Zealand and across the world, it appears widely accepted that pensions policy has tended to favour present over future generations. There is an implicit warning bell in previous reviews that a poorly calibrated approach to retirement policy and the defence/ preservation of an entitlement to NZ Superannuation will eventually become a crisis.

Given that backdrop it is heartening to consider a point made 22 years ago still holds true, namely that "New Zealanders tend to support some redistributive role for the government in its public pension policy".

## Conclusions and Recommendations

Because of the compounding effect of student loan debt, rising costs of living, a stagnant labour market, coupled with the spectre of a property market crash due to an expanding aging population bubble, the anticipated gradual cuts to NZ Superannuation and possible/probable compulsion of KiwiSaver in the foreseeable future, students are not only currently in a position of disempowerment to debate the issues on an even footing, they are also going to be forced to live with the outcomes which for many is creating a climate of concern and uncertainty.

In line with the above there is likely to be a steady climb in the number of young people who feel disenfranchised and disregarded by a Government that seems to be acting from a greater and greater distance from those who are affected by the decisions they make.

For all New Zealanders, of all ages, to fully appreciate a system that preserves universal access to equitable retirement payments something has to change to give reviews such as the current one a much higher profile.

We agree with other submitters that there appears to be an inevitability about moving to raise the eligibility age for entitlement to draw on NZ Superannuation within our lifetimes. If this does occur it will require forward thinking measures to communicate that transition (e.g. an increase from 65 to 67) without causing undue confusion or perverse discrimination.

In part we support the view held by the University of Auckland's Retirement Policy and Research Centre that a lack of response from the Government to 11 of the 2010 recommendations is of grave concern (any reasonable response being better than no response). It just serves to increase concern and uncertainty.

We agree that investing in the wellbeing of younger adults to make sure they are healthy – and reduce costs – in later life is sensible. We also tautoko the points made about wellbeing in retirement in the submission by the NZ Nurses Organisation (NZNO) and echo the imperative that interventions are required now, not in ten years' time!

We also query the wisdom of suspending Government contributions to the New Zealand Superannuation Fund.

We believe principles of 'pre-funding' and/or progressive taxation are not being examined on a broad enough basis – against such things as the known trajectory of health care costs (very similar to NZ Superannuation), as well as future education costs. The work of independent economist Keith Rankin on such matters also warrants attention.

We are concerned that the CFLRI is suffering from a split identity. In large measure we agree that financial education and financial literacy occupy a separate space to retirement income policy.

We also support availability of more research on:

- which sections of the population are least likely to be contributors to KiwiSaver or to have their period of contributions markedly delayed or interrupted

- a more detailed and publicly available analysis of the performance of KiwiSaver (as called for by Women In Super), including some analysis of the uptake by tertiary students who are also in paid employment.
- alternative policies for staged retirement where appropriate, allowing that the situation of women and low income groups remain the highest priority.
- alternative policies that could permit some people aged 65 and over (particularly those who remain in well-paid positions in the workforce) to defer receiving NZ Superannuation to a later date. On this we are less in support of it being prematurely drawn down before the age of 65, although we believe the stringency on KiwiSaver could be relaxed.
- the absolute cost of different lifestyles and living standards in retirement, the expectations that New Zealanders have and the degree of planning they are undertaking.
- why shorter lifespans experienced by some groups is considered to be outside the brief of retirement income policy.

In any planning for the next review, we would like the CFLRI to consider:

- introducing / commissioning background papers that are far more specific to cohorts as 'age bands' (rather than the vaguer use of generation/ generational)
- including a NZUSA representative on the Non-Government Organisations Reference Group to help address a perceived 'age imbalance' if not 'age bias' (put simply not enough people being represented in the 20 to 30 and 30 to 40 age groups).
- increasing representation of iwi. (We were fortunate during the Big Questions Tour to have input from Ivy Harper, the Tumuaki of Te Mana Akonga/ the Māori students' association)
- the place and role of terms like 'studying life' and 'studying age' vis-à-vis terms like 'working life' and 'working age' (*this is one of several points that could be made about the limiting nature of the language being used*).

In closing, we are also happy to offer to be a sounding board from a younger cohort for the review report as it proceeds to its drafting stage, should that be of benefit to the CFLRI project team.

**Pete Hodkinson**
President, NZUSA
PO Box 101-91
Wellington 6011

## *Appendix*

### "Will this generation save enough to cover its own costs and an ageing population: What's Fair?"

*The following is a cumulative summation of information contained on forms collected from the sample group of participants at a 'Big Questions' event co-hosted with Otago University Students' Association, Lincoln University Students' Association, Auckland University Students' Association and Victoria University of Wellington Students' Association.*

**Had you heard of the Commission for Financial Literacy and Retirement Income before?**

| | |
|---|---|
| Yes | 4 |
| No | 13 |
| Not really | 5 |

**From what you've heard and discussed today, how would you rate the question of planning for retirement income as a personal issue for you?**

| | | | |
|---|---|---|---|
| Big issue | 19 | Small issue | 4 |

**From what you've heard and discussed today, how would you rate the question of planning for retirement income as a public policy issue?**

| | | | | |
|---|---|---|---|---|
| Big issue | 21 | Small issue | 1 | (1 in between) |

**What new thing/s have you learnt from attending the session today?**
*(some comments may be slightly paraphrased)*

Otago

- That we have something called Retirement Income policy at all.
- A new broader perspective of the range of tensions associated with an ageing population.
- More awareness of the costs I and my gen will be subjected to.
- The complexity of the issues and out future looks pretty grim – indeed our expectations need to be reduced and managed.
- The impact of the intergenerational gap on national economy.
- Different views on looking after (our) elderly, physically or financially.
- Women aren't having as many children, so how are they to be looked after?

Lincoln

- A basic understanding of the current system of retirement income
- A greater appreciation of how student debt impacts upon our "future selves"
- A greater awareness of questions regarding systemic issues in our retirement income framework

Auckland

- Having a greater understanding of (the meaning of) 'Lifetime Consumption Smoothing'.
- Systems and eligibility of NZS, and what may happen in the future.
- I'm 21 and have never been interested in thinking about retirement (the view of 'that's for old people'). However I've learnt a lot about the current system and have a lot of questions I'd like to think about relating to retirement and these policies. I also think it's beneficial to have a huge push on these workshops and topics among the younger generation (people/ students like me).
- Nothing new, but it has made me think about what I need to do and where I want to be. Opens my mind now. Thanks.

Wellington

- Some very interesting discussion. It was great to hear the discussion, and it helped change my opinion on the reasons of the KiwiSaver scheme. It is an area of interest of mine and I will stay in connection.
- Hadn't really thought about planning for retirement income before so hearing different views about it was very interesting. Certainly learn that it's an important public issue.
- There are pros and cons to each retirement scheme (had not considered since Year 10 social studies)
- The growing pressure of affording to live once we have hit the retirement age, and whether it should become a private issue.
- A lot: At my age (22), there is very little discussion about retirement and long-term savings. It brought up important issues about what's fair and has got me thinking about what can be done now for our generation to reduce concern at retirement age.
- I have to pay for my parents' retirement fund. Well… At least I feel I do.
- The proposal that there could be a universal income for everyone at age 18; (the fact) there is no retirement age in NZ.
- Had it explained that we effectively have to pay twice which hadn't dawned on me before.

**The theme of this session has been to identify and talk about BIG QUESTIONS that will impact on future generations. There's a theory that goes like this: We can't get better answers, if we don't ask better questions, so… What (unanswered) questions has this session created for you?**

Otago

- How will we pay for people?
- What should the age of retirement be?
- What is the impact of student loans and allowances on policy?
- How will increasing automation/ less physical labour jobs affect the six pillars?
- How do we put a real, human face on the figures associated with massive economic shifts and gaps?
- How do we engage better with the jobs being wiped out by tech advances etc?
- What about other cultural perspectives?
- How can basic financial literacy be encouraged more? And a more sustainable, community-based way of living?
- How can we readdress the issue of a consumption culture wanting more, and the associated unhealthy lifestyles that come with that?
- How can issues around women be supported?
- Should we think about saving workshops in high school? An early start?
- Why does age determine when you retire? Some people at 65 want to continue to work, and some people have diminished life expectancy.
- How can I save for my retirement when I have a student debt and see that as the immediate issue?
- Where are Maori within these discussions?
- Should the retirement age be reduced to allow for more jobs for the younger generation?

Lincoln

- The PAYGO/SAYGO tension is significant, how do we strike a good balance between the extremes?
- How do we awaken students to the seriousness of their student debt?
- Is our generation right to be jealous of the baby-boomers?
- How do we better equip people to appreciate the nature of changing times and conditions?
- How do we develop a common language around the issue of fairness/equity/equality?

Auckland

- The big question for me which I might add is always playing on my mind is this: is the gap between rich and poor getting bigger?
- How can we all work together to work for the same thing regardless of money?
- (I have a series of questions..) Is this both sides of the story? What is fair? What is not fair? Who decides what is fair? Where to from here? (How can we) reach out to the younger generation?
- (I'd like) more information about KiwiSaver – I have never been interested in it or paid attention to it, and don't know if that is good or bad?
- How does the majority of 'my generation' feel or what is their view on the retirement policy – do they know or care?
- What is likely to happen in the future?
- How should younger generations prepare for any changes in systems?
- For people who (are likely to/ or do) pass away prior to 65 could they (their families) be given a proportion of the NZS they would have received to utilise for funerals etc. to increase equity?
- Is retirement important? How long will I live?
- How do we frame the 'fairness question so that we can understand it (more easily)?
- How do we get the notion of 'financial literacy and retirement' out to the wider community so that the younger generation can understand it and contribute more.

Wellington

- How much extra money is it going to take?
- Obviously the scope of the Commission is small, but I feel that this issue involves a lot more policy than just NZS and KiwiSaver. As I raised, this is an institutional issue, that needs to be addressed from birth i.e. should we be looking at a more collective government service (childcare etc) to increase wealth?
- Are we – NZ – tending towards a privatised, retirement income approach? Taking fairness as important and that there is a greater burden on the younger generation, what plans are there at the moment to ensure fairness is maintained?
- How to provide for my personal future.
- The best way to future proof New Zealand's economy.
- How am I going to afford to pay for my retirement, especially if the superannuation fund is not around when I hit that age?
- I see unfairness in retirement support as a direct result of inequality now/ throughout life – I think it's important to focus on giving people of all walks of life to have the means to save for retirement i.e. reducing income gap between Pakeha & Maori etc.
- How I am supposed to pay off my Student Loan, my parents retirement fund, my retirement fund and my OE?
- How do we create a superannuation/ retirement savings scheme that is the most fair??
- How am I going to save for retirement?

Media release: 7 March 2013

**Tertiary Students Voice Ideas For Retirement Policy**

A nationwide series of focus groups aimed at gathering a student point of view on fair ways to fund older citizens when they hit retirement age is giving the Commission for Financial Literacy and Retirement Income a raft of ideas to consider for this year's review of retirement income policy.

In the last fortnight three focus groups have been co-hosted with the Commission by the NZ Union of Students' Associations and respective local student associations at the universities of Otago, Lincoln and Auckland on the following topic: "Will this generation save enough to cover its own costs and an ageing population – What's Fair?".

Not surprisingly over 80% of participants indicated they had not given any thought to the implications of either personal retirement planning, or New Zealand's retirement income policy previously. One participant described the session as a "wake up call", adding the following comment on their feedback form: "The complexity of the issues and our future looks pretty grim".

Questions, challenges and ideas raised at the groups have included:

- How far should the government go in shifting the retirement income risk away from the public account and towards individuals?
- Is the primary function of a universal superannuation to keep people out of poverty?
- Is the NZ Superannuation scheme really fairer to women if their base income over a lifetime continues to be so much lower than men?
- If your life expectancy, say in the case of Māori, is lower (not catching up with non-Māori) should there be an entitlement to access superannuation earlier? (e.g. retaining it at 65 if the beginning age slowly rises to 67)
- Over future decades is it likely that NZ Superannuation will shift from being a citizen's entitlement to something more like a welfare benefit?
- Given that people are living longer what can be done to ensure they're also living healthier to lessen public health spending in the future?
- Now that a conversation about a Living Wage is on the table, would it be helpful to also encourage a focus on Lifetime Earnings?
- Could a concept such as imposing an earlier 'working life retirement' of age 60 be worth exploring – with people having the option of moving out of line management positions and into (lower paid) mentoring and social good roles but freeing up jobs for younger generations?

A theme emerging from the focus groups is a concern amongst students that they are not being exposed sufficiently to specific courses on financial literacy throughout their education, leading to an unnecessarily high level of naivety when they start tertiary education and an unknown level of complacency amongst their peers

One feedback form stated: "I want to know how the majority of 'my generation' feel or what is their view on the current retirement policy – do they know or care?".

ENDS