NEW ZEALAND
BANKERS ASSOCIATION

Submission

to the

Retirement Commissioner

on the

Review of Retirement Income Policy

7 June 2013

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Submission by the New Zealand Bankers' Association to the Retirement Commissioner on the Review of Retirement Income Policy

About NZBA

1. NZBA works on behalf of the New Zealand banking industry in conjunction with its member banks. NZBA develops and promotes policy outcomes which contribute to a strong and stable banking system that benefits New Zealanders and the New Zealand economy.

2. The following fourteen registered banks in New Zealand are members of NZBA:

   - ANZ Bank New Zealand Limited
   - ASB Bank Limited
   - Bank of New Zealand
   - Bank of Tokyo-Mitsubishi, UFJ
   - Citibank, N.A.
   - The Co-operative Bank Limited
   - Heartland Bank Limited
   - The Hongkong and Shanghai Banking Corporation Limited
   - JPMorgan Chase Bank, N.A.
   - Kiwibank Limited
   - Rabobank New Zealand Limited
   - SBS Bank
   - TSB Bank Limited, and
   - Westpac New Zealand Limited.

If you have any questions about this submission, or would like to discuss any aspect of it further, please contact:

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Summary

3. NZBA submits that developing an effective retirement income policy is one of the most pressing public policy challenges facing New Zealand. If we do not take substantial and real steps to address this challenge then there is little doubt that future generations will be significantly worse off financially.

4. It is important however, that we do not get distracted by a low level political debate around the age of eligibility. Rather, we must focus on moving towards a compulsory savings scheme, reassessing the universal nature of NZ Super, and reforming our tax system to incentivise savings.

General comment

5. NZBA appreciates this opportunity to submit on the Review of Retirement Income Policy. We actively support the need for greater debate on how we are providing for retirement income as a nation. This review is an important contribution towards that debate.

6. The stark reality is that New Zealand is faced with a difficult problem about how to meet our future retirement income needs in the context of an ageing population that is living much longer than previous generations. The cost of New Zealand Superannuation (NZ Super) as a proportion of GDP is projected to double from around 4 per cent now to 8 per cent in 2050. Budget 2013 also predicts that over just the next five years an additional 90,000 people are expected to become eligible for NZ Super at a cost to the taxpayer of approximately $2.5 billion.

7. As the Government's Savings Work Group identified in its final report in 2011, New Zealanders are not saving enough, and unless we make some rapid changes we risk a major economic disruption likely to leave practically all New Zealanders worse off.

8. Given the magnitude of the policy challenges concerning retirement income policy it is vital that this review is not dominated or distracted by a narrow focus on age of eligibility issues for NZ Super. Often, discussion in this area is caught up in low level political debate around issues such as eligibility age and the 'privatisation' of superannuation that simply reduces the quality of public discussion on how to meet our future retirement income needs.

9. It is also important when considering policy options for retirement income that the policy decisions taken are the right ones in a broader economic sense, rather than just from a pure retirement income policy perspective. Ultimately, policies that drive sustained, sound economic growth in New Zealand will create conditions that are conducive for a viable and equitable approach to retirement income provision into the future.

Key points

A return to compulsory savings

10. NZBA strongly believes that New Zealand should consider a return to a compulsory retirement saving scheme. Compulsory savings would help increase our pool of savings, reduce our public and private reliance on foreign sourced debt, and reduce our vulnerability to economic shocks occurring elsewhere in the world.

11. Briefly in 1975 we had a compulsory retirement savings scheme. Had it been left intact, today it would be worth more than $240 billion, roughly 170 per cent of GDP. Our net international investment position, currently a liability which is the equivalent of GDP, would be a lot stronger, and our current account deficit would either be a lot lower or not exist.

12. In the years since Australia has had compulsory retirement savings outward investment has increased 1100 per cent. During the same period New Zealand's outward investment increased by less than half that. Inward investment into Australia increased by 630 per cent, and by 840 per cent for New Zealand. The pool of funds invested in Australia is now over $1.3 trillion, or the equivalent of Australian GDP.

13. The reality is that without a move to compulsory savings the existing state provision of superannuation will not be able to cope. The government currently has to fund universal NZ Super for who all reach the age of eligibility, regardless of their need. The purpose of the NZ Super Fund was to assist with this, but it won't be enough. Debt funding by the government of the remainder contributes to our net external debt position. The government borrows to fund superannuation, and we have to pay that back. Largely this borrowing occurs in offshore markets. New Zealand's burgeoning retiring population means that, left alone, the costs of funding national superannuation will become an incredible burden on the state, limiting both policy choices and our ability to adapt to changes in economic circumstances. We simply do not generate enough earnings from investments elsewhere in the world to offset these costs, which impacts our current account deficit.

14. This untenable position underlies the need for New Zealand to return to a compulsory savings scheme if, as a country, we are going to be in any position to sustainably meet our future retirement income needs.

15. The debate around compulsory saving is often stifled and sidetracked by criticism of 'privatisation' of superannuation. Ultimately, it doesn't matter who the fund providers are. The most important thing is that funds under management grow fast in a well-governed and well-regulated environment. The charge also ignores the obvious in that we already have a mix of public and private provision of retirement income in New Zealand. Alongside the public provision of retirement income through NZ Super we have KiwiSaver, which is a private savings scheme. While there is some intervention from the government by way of incentives, the vast majority of contributions are provided by employers and employees.

A move away from a universal NZ Super Scheme

16. NZBA considers that a move towards a compulsory savings scheme needs to be accompanied by a reassessment of the universality of NZ Super. Is it necessary? Is it affordable? Most importantly, is it sustainable? By contrast the Australian equivalent of NZ Super is both means and asset tested, acting as a safety net for those without sufficient savings income.

17. The Treasury acknowledges in its 2010 paper, *Saving in New Zealand – Issues and Options*, that if we were to move to compulsory private provision of superannuation then also retaining a universal government funded national pension scheme without restriction would make us unique.

18. The provision of a state pension for everyone over a certain age, regardless of their need, assets and other income, was a great innovation in its time. It was a defining aspect of 20th century New Zealand. It had its place in a time when we had a strong economy, a large working population, and a relatively small retired population that did not on average live too long past the age of retirement. Much of that has changed. We now need to develop a sustainable solution to meet our needs for the 21st century. KiwiSaver was a good first step, and a move away from universal NZ Super in conjunction with a compulsory savings scheme is a vital follow-up step.

19. Other important factors in moving away from a universal NZ Super scheme are the levels of individual, employer, and government contribution levels to KiwiSaver or other private savings schemes. Australia is significantly advanced from New Zealand in this respect. They require a contribution of at least 9%, moving to 12% by the end of the decade. Long ago they decided to go the way of compulsory individual savings, with a state pension available for those in need, subject to eligibility criteria. If we were able to raise our individual contribution rates to similar levels over time, we too could dispense with the universality of our state provision of retirement income, which will otherwise grow to be an unsustainable burden on the state's resources.

Encourage savings through tax

20. NZBA also believes that it is essential that the Government considers the way that savings are taxed in New Zealand. Other countries with higher savings rates generally have tax regimes that encourage saving and investment. If New Zealand is going to have an effective retirement income policy we need to consider how to reform our tax system to drive better savings rates.

21. The current environment of historically low interest rates has highlighted the need for tax incentives to encourage savings. We are still able to get relatively good returns on term deposits compared to other developed economies, but the tax on those returns provides a disincentive and doesn't align with tax treatment on other investments (such as property). A reduction in the tax on income from savings would

go a long way to increase our national savings and reduce our reliance on overseas funding. This would benefit not only retired people, but all New Zealanders.