NEW ZEALAND COUNCIL OF TRADE UNIONS
Te Kauae Kaimahi

Submission of the

New Zealand Council of Trade Unions

Te Kauae Kaimahi

to the

2013 Review of Retirement Income Policy

P O Box 6645

Wellington

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1. Summary

1.1 The CTU welcomes this review and seeks strong recommendations which will maintain and improve retirement incomes and address the issues which affect those who are disadvantaged in relation to their ability to save.

1.2 We are seeking a strengthening of KiwiSaver.

1.3 We support on-going universal NZ Superannuation (NZS) entitlement at age 65 years and note that affordable universality is enhanced by a progressive tax system.

1.4 We oppose a diminution in the formula for indexation of NZS to the average wage.

1.5 We consider save as you go ('SAYGO') options in respect of the NZ Superannuation Fund.

1.6 We support greater provision of annuity options.

1.7 We note the huge impact of housing affordability on future retirement incomes and argue for significant interventions to address this issue.

1.8 We support greater opportunities for financial education and financial literacy but note that if someone is on a low income and has little opportunity to forgo consumption and save, greater financial literacy will help, but what would really assist is higher income.

2. Introduction

2.1 This submission is made on behalf of the 37 unions affiliated to the New Zealand Council of Trade Unions Te Kauae Kaimahi (CTU). With 340,000 members, the CTU is one of the largest democratic organisations in New Zealand.

2.2 The CTU acknowledges Te Tiriti o Waitangi as the founding document of Aotearoa New Zealand and formally acknowledges this through Te Rūnanga o Ngā Kaimahi Māori o Aotearoa (Te Rūnanga) the Māori arm of Te Kauae Kaimahi (CTU) which represents approximately 60,000 Māori workers.

2.3 The CTU recognises that retirement income policy is complex and at times controversial. Given high levels of child poverty, low wages, and widening inequality, these huge disparities not only test where the priorities should lie, but also create spillover effects into retirement income. For instance, low wages, insecure work, and periods of unemployment are not a good basis to accumulate savings for second-tier retirement income. A persistent gender pay gap exacerbates this problem for women. The growing unaffordability of housing also has profound implications.

2.4 In general terms, with some reservations, we support the broad policy framework for retirement income policy as expressed in the background documents for this review - income support, wellbeing in retirement, personal choice and control, longevity risk pooling, citizenship dividend, intergenerational equity, fiscal restraint and investment and overall sustainability.

3. CTU Policy

3.1 The CTU policy position on superannuation has been to support the continuation of NZ Superannuation based on 66 percent of the average wage for a couple with entitlement at age 65 years on a universal basis.

3.2 We have supported the establishment of the NZ Superannuation Fund as an additional source of funding to cope with the impending peak in cost in universal public provision.

3.3 We support KiwiSaver being expanded to a 6+2+2 scheme where workers are required to contribute a maximum of 2 percent when compulsory employer contributions reach 6 percent; the Government contribution remains at 2 percent; the minimum wage is increased by an additional amount at the time the compulsory worker contribution of 2 percent applies; and that the Government contribution of 2 percent (of minimum wage or benefit level or another amount) applies to all those of working age that are not earning for a period. This is also on the basis that New Zealand Superannuation remains as it is currently structured; additional welfare payments are available to low income superannuitants and that there is a review of retirement income adequacy every 5 years.

3.4 We are aware of course that the employer and employee minimum contribution levels are now 3 percent. The principle of our approach still applies which is that the employer contribution should be the most significant. The scheme could be recalibrated to reflect our proposal.

3.5 We are not strong advocates for compulsion but under the above policy mix we are prepared to support it.

3.6 We have also consistently pointed out that because wages are so low, many people would also struggle to make ends meet when they retire as they will not have been able to build up significant savings.

4. Incomes

4.1 Around 40 percent of those aged over 65 years rely almost entirely on their NZ Superannuation income and the next 20% receive 85% of their income from NZS. For a married person that income is currently $14,296.88 after tax and for a single person living alone it is $18,585.84. This is not a lot to live on.

4.2 We note also recommendations in the 2010 Review on the differential treatment of partnered and non-partnered superannuitants and agree that these anomalies should be addressed.

4.3 It is clear that income status in retirement is hugely affected by the extent to which there is home ownership and then to what extent it is mortgage free at that stage.

4.4 Trends such as declining rates of home ownership, high levels of household debt, and extended periods of student debt at historically high levels are all creating a risk that significant reliance on NZ Superannuation will remain. To the extent KiwiSaver savings add a second tier there will be some relief, but if saving rates are low for some, then the problem remains.

4.5 New Zealanders on at least a living wage (currently $18.40 an hour, and designed to allow for some saving) and with reasonable employment security are in a better position to save.

4.6 This means that current attacks on collective bargaining by the Government, the small increases in the minimum wage, and the continuing problems of low pay undermine the ability of people to save.

4.7 The CTU recommends that the Review also focuses on the problem of low and intermittent income, high levels of income inequality, the lack of widespread industry agreements on wages and conditions, the impacts this has on income in general and spillover effects into saving and retirement income.

5. Sustainability

5.1 We recognise that there are projections that the cost of NZ Superannuation will rise to 8 percent of GDP by 2050. However most European countries are spending more than New Zealand on pensions as a percentage of GDP, and several are already around the 8 percent level. We therefore not only have more time to make relevant decisions and changes, but also should not be dismissive of the government spending a higher proportion of GDP for this purpose. To do so is a perfectly valid policy option, and may in fact be more efficient and equitable than other options if properly designed.

5.2 The problems of an ageing population should not be seen primarily as a fiscal problem: the provision of decent living standards for people as they age is a fundamental requirement of a decent society; the way it is funded (privately or through taxation) is a secondary question that revolves around fairness and efficiency. We do agree however that New Zealand should not continue to procrastinate indefinitely on this important issue.

5.3 It is extremely important that the fundamental basis of retirement income remains in place.

5.4 We do not therefore support proposals to index NZ Superannuation at a lower rate (e.g. mixed average wage and inflation index).

5.5 One of the reasons New Zealand has a low poverty rate among superannuitants is because of the ratio that requires NZS to be at 66 percent of the average wage for a married couple and for the single living alone rate to be 65 percent of the married rate. While it can be demonstrated that the cost to the Government for NZS would significantly reduce if this indexation formula was replaced by a lower ratio (and based on inflation for instance), these savings are in direct proportion to the reduced income of superannuitants and cannot be justified. The risk of a change to the indexation that applies now is that those reliant on NZS could be pushed into poverty.

5.6 The debate on sustainability appears lopsided. For instance demographic changes might also mean there could there be relatively less spending in some areas as the population ages (e.g. compulsory education). While it could be argued that underfunding of education exists at present we note that previous modelling by Treasury[1] showed education expenditure reducing from 6.4 percent of GDP in 2009 to 5.4 percent of GDP by 2050.

5.7 Affordability also depends on long-term economic performance and needs to be considered in the context of broader equity issues. Affordability is, to a large extent, about priorities. Modelling carried out for the Treasury's long-term fiscal projections indicates the increasing costs of current NZS entitlements plus the effects of ageing on health costs are affordable as long as taxes rates are allowed to rise to fund the increase.

5.8 The reason for the NZ Superannuation Fund was to address some of the financial pressures and this should continue to be supported rather than increase the age of eligibility. The public pension (NZ Superannuation) is still far less expensive in New Zealand (less than 5 per cent of GDP) which is about half the average of the 34 OECD countries.

5.9 It is unfortunate that the policy mix of universal entitlement alongside more steeply progressive tax rates has been undermined by a relatively low top marginal tax rate. We would therefore support a new higher tax rate for incomes above $100,000. Other forms of taxation that have other advantages – such as a capital gains tax – provide other feasible alternatives or additions.

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[1] *Challenges and Choices: Modelling New Zealand's Long-term Fiscal Position*, Matthew Bell, Gary Blick, Oscar Parkyn, Paul Rodway and Polly Vowles, NEW ZEALAND TREASURY WORKING PAPER 10/01

6. Age of Entitlement

6.1 As can be seen from our comments above on sustainability, we do not support increasing the age of entitlement to NZ Superannuation.

6.2 We are aware that some of the proponents of such an increase (to say 67 years) moderate the proposal by suggesting some form of limited entitlement for those who will find it difficult to work after the age of 65 years. The 2010 Review proposed a transitional, means-tested benefit for people aged 65 and over who would be affected if there was a higher age of eligibility to NZS.

6.3 There are also major assumptions being made by those advocating for a lift in age of entitlement about the health, well-being and capacity of people to work as they age. People are living longer but that does not necessarily mean their capacity to work is increasing at the same rate. And some are exhausted from intensive labour that may not have been heavy manual work. While there are some occupations where working past the age of 65 years is feasible there are many people who would be considerably disadvantaged. It is not a simple matter of saying that those who have (say) engaged in heavy manual work for a number of years would continue to qualify.

6.4 It will also mean that the universal approach will disappear as there will only be some at age 65 years who manage to qualify for NZ Superannuation. There will need to be policy settings, and judgement calls, and appeal processes around this. It will change the system hugely.

6.5 We also know that Māori and Pasefika have shorter lifespans compared to the rest of the population. Māori life expectancy for men aged 65 years is 4.4 years less than non- Māori. For Māori women the gap is 4.8 years. In the absence of other measures, any increase in the age of entitlement to NZS reduces the proportion of time spent by Māori and Pasifika peoples on NZS and worsens disparate outcomes.

6.6 There are employment effects (for instance on younger people) if more and more people over the age of 65 years are in paid work. While this is not insurmountable in the long run, it requires active labour market and economic development policies to ensure it does not become a major social problem. And older workers continue to be disadvantaged in the labour market.

7. NZ Superannuation Fund

7.1 Given the relative cost of borrowing and rate of return on NZ Superannuation investments it makes sense for the Government to resume NZ Superannuation Fund contributions.

7.2 There are also policy options such as an expanded collective SAYGO approach that could build on the NZ Superannuation Fund.

8. KiwiSaver

8.1 With over 2 million members. KiwiSaver is a considerable success to date.

8.2 But there are problems. The extent of Government support has reduced. Some employers are engineering 'total remuneration' arrangements to effectively remove the employer contribution.

8.3 The introduction of the Employer Superannuation Contribution Tax has had a dramatic effect. Employer contributions fell from $83.4 million in March 2013 to $58.4 million in April 2013. For many – probably most – workers, this represents a net loss of savings since it is unlikely to have been saving that they would have made otherwise.

8.4 We are seeking support from this Review for an expansion of KiwiSaver with a three-year programme to lift employer contributions to 6 percent, and for the Government to increase the member tax credit to $20 a week and then adjusted to a flat figure representing 2 percent of the average wage (and also payable to non-wage earners). At that time the minimum employee contribution should be 2 percent of their gross wage.

8.5 The CTU also seeks legislative changes to prevent total remuneration methods being used to disentitle workers to employer contributions.

9. Housing

9.1 Home ownership rates are declining. In Auckland it has declined from 73 percent in 1991 to 59 percent by 2006. Among those under 40 the rate has declined in that period from 61 percent to 48 percent.

9.2 Household debt as a proportion of disposable household income has risen from 58 percent in 1991 to around 142 percent today.

9.3 Housing affordability is also at crisis levels. The ratio of the median house cost to median income has gone from around 2 in 1980 to 3 by 1990 and 5.3 today and rising.

9.4 This means the Review has to consider how housing policy can address retirement income challenges.

9.5 This should include consideration of state housing, government building schemes, social housing, regulation, land supply, residential building sector competition, improved law to provide secure long-term tenancy, and boosting incomes.

10. Women's Retirement Income

10.1 Kiwi Saver has significantly changed the superannuation landscape to one that is more gender neutral but women's greater longevity means they face more financial risk in retirement, they earn at a lower pay rate on average, and face periods out of the paid workforce.

10.2 An annuity option at least for KiwiSaver savings would be helpful but the annuities market is notoriously difficult with adverse selection and other issues.

10.3 The Review should recommend Government assistance for a new annuity extension of KiwiSaver. It could be a conversion option for a significant part of the lump sum at age 65 years.

10.4 It is also possible to consider the use of part of the NZ Superannuation Fund as an annuity option.

10.5 There is evidence women are more risk averse and less informed on investment options and this supports the need to lift financial literacy.

11. SAYGO Options

11.1 In general terms the CTU does not support a switch in emphasis to SAYGO schemes beyond KiwiSaver if it means an increasingly individualised provision of retirement income.

11.2 However, even if it is accepted that returns to savings are on average higher than average growth rates, then that does not mean any SAYGO element should necessarily be on an individual basis. For instance, the NZ Superannuation Fund could be boosted to create a stronger SAYGO component to NZ Super.

11.3 It is also recognised that objectives relating to wellbeing and risk pooling can be undermined with an individual SAYGO approach. And the costs for the "transition generation" can be grossly unfair if they end up paying for the cost of two retirements. SAYGO also tends to disadvantage women as they are more likely to take breaks in employment. And the lower paid are – again – disadvantaged. A public pooled approach therefore has many attractions.

12. Financial Education and Financial Literacy

12.1 The CTU supports greater provision of financial education and literacy. We welcome initiatives by the private sector to support such initiatives but also consider that the Government in general and the education sector in particular has a major role.

12.2 However the CTU is concerned if too much emphasis is put on financial literacy as a solution. It needs to be seen in context. If someone is on a low income and has little opportunity to forgo consumption and save, greater financial literacy will help, but what would really assist is higher income.

12.3 We believe that strong action against loan sharks and other measures are required to ensure that people are not only well-informed of opportunities but also the major risks.

12.4 We are also concerned that there is little support in the finance sector for modest savers. This is an issue the finance sector needs to address but the government has a role to ensure this happens.

13. GSF Tax

13.1 The tax treatment of the Government Superannuation Fund is inequitable. In the case of GSF and NPF annuities, the decisions on taxation (or in the case of GSF and NPF annuities, a “reduction factor“ imposed in lieu of taxation) were made in 1990, but substantial reductions in taxation since then have benefitted the community widely, but have not been passed on to GSF members.

13.2 The Review should request that the Government assess the effect on GSF and NPF annuities of a recalculation of the annuity reduction factor using taxation applicable in 2011.