Grey Power
NEW ZEALAND FEDERATION INCORPORATED

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Submission

To: Commission for Financial Literacy and Retirement Income

From: Superannuation and Taxation, National Advisory Group
Grey Power New Zealand Federation Incorporated

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2013 Review of Retirement Income Policy

Our interest in the review process.

As the foremost organisation representing existing and future stake- holders in New Zealand's, state provision of retirement incomes, we recognise in the Terms of Reference for the forthcoming review, a welcome opportunity to identify the recommendations we hope will emerge from the current review.

The concerns we will identify in this submission together with our recommended solutions, relate to the following sections in the Terms of Reference:

> **1. …..** developments and emerging trends in the retirement income provision area since the 2010 review.
>
> **2.** ….. inter-generational impacts of New Zealand's retirement income policy.
>
> **3a.** ….. trends in KiwiSaver, particularly withdrawal patterns of those retiring and the issues that these may raise.
>
> **4.** ….. contributions made by other policies and programmes, such as in housing and health.
>
> **5. …..w**omen's future retirement income prospects.

In its briefest form our interest focusses on the inadequacy of New Zealand Superannuation (NZS) to fund the living costs of existing and future retirees at a level commensurate with the stated goals of the New Zealand Positive Ageing Strategy (NZPAS), particularly as this concerns single persons living alone.

Where we agree with existing 'policy direction'

The combined impact of a worsening dependency ratio and increased longevity, on the fiscal costs of retirement income provision and public health services, clearly should not be diminished by underfunding retirement incomes. To do so might indeed have exponential impact on the 'health costs' side of the equation.

We, therefore, acknowledge the importance of the continuing efforts of the Commission to promote increased participation in KiwiSaver and wider use of private, retirement savings schemes. This work confirms our assertion that New Zealand Superannuation in the absence of supplementary retirement income does not adequately fund retirement living of even a basic standard presently and, in future, certainly will not be sufficient to do so.

Where we disagree with existing policy direction

While oncoming generations will benefit from participation in KiwiSaver and should be grateful for the significant element of government and employer subsidisation therein, the inability of persons born before 1st July 1942 to share such benefits creates serious income disparity between retirees of similar work and savings habit

The successful establishment of KiwiSaver in the absence of commensurate government support for older people aged beyond the criteria for participation has created a cohort of no less than 381,000 potentially disadvantaged people.[1]

On 1st July 2012 a significant element of discriminatory privilege was delivered by government and employers to every participating resident who reached 65 years of age on or after that date. The scheme delivered to each participant, the matured value of their individual KiwiSaver plan, reported by the combined fund providers as an average of $15,000.

KIwiSaver, heavily subsidised by government and employers, thereby introduced to the so-called 'level playing field' of retirement income provision, a distinct and rapidly escalating household income gap for retired working people of similar savings discipline.

In effect New Zealand residents born before 1st July 1942, the very generations who were subjected to the privations of World War II, were dispossessed of an individual contribution based retirement plan in 1977, were denied their progression to higher pre-retirement income by corporate elimination of middle-management during the 80's and, in many cases, also lost their savings in the share market collapse of the 1980's: have been placed in jeopardy by serious oversight of government and the 'economic planners.'

Yet these are the very generations who through their relative frugality and unstinting contributions to taxation, actually built the infrastructure our nation depends upon today.

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[1] Superannuation National Advisory Group, Grey Power New Zealand Federation Incorporated. October 2012. Discussion Document ***'Future-Proofing New Zealand's Retirement Income Policy Creates 381,000 Misfits.'***

Grey Power is generally supportive of the KiwiSaver scheme. Its very nature as a second tier provision, complements the on-going existence of New Zealand Superannuation as the first tier entitlement and thereby supports our contention that New Zealand Superannuation without private income supplementation is insufficient to enable older people to participate in their communities once they lose their ability to participate in the labour market.

But, five years after the introduction of KIwiSaver, older New Zealanders aged 70 years plus, are still waiting to hear how government, the planners and the centres of higher learning intend to insulate households with low decile to middle decile income, included among the recipients of New Zealand Superannuation, from significant impoverishment over the next fifteen to twenty-five years before their demise.

In making this observation Grey Power is not opposed to the introduction of KiwiSaver. It clearly is needed to provide for the ultimate retirement of future generations.

But a grand-parenting arrangement needs to be devised to protect people already retired who were explicitly excluded from participation in KiwiSaver.

During the next 15 to 20 years each surviving older person born before 1st July 1942 will suffer 'planned impoverishment' amounting to approximately $1,000 in the current year, rapidly rising to $11,400 per year over the longer term because they have been denied the state subsidisation and compulsory employer contribution to the KiwiSaver scheme. The seriousness of this matter is emphasized in the data table appended to this report.[2]

The statistical report of the Work and Income division of the Ministry of Social Development for the current year indicates there are approximately three hundred and eighty one thousand (381,000) recipients of New Zealand Superannuation who were excluded from participation in KiwiSaver. Three years ago Grey Power requested the Retirement Commissioner to bring this problem to the attention of the Minister but our request was declined. Hopefully, our concerns might be included in the report of the 2013 Review.

Before leaving this subject we must also observe that inevitably there will be a number of people born subsequent to 1st July 1942 who for reasons of 'home-making,' ill health, disablement and other impediments to continuous paid employment, reach the point of final exclusion from the job market, reliant solely on basic New Zealand Superannuation without supplementary 'second tier' or 'third tier' retirement income resources. Indeed, unless we see a significant reversal of the present trends of income disparity and incremental impoverishment of workers whose skills are made redundant, the object of comprehensive participation in KIwiSaver will not be realised.

Our concerns though presently impacting selectively on older retirees will, in the course of time, become the social concern of the entire population.

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[2] See appendix No. 1 **'Relative Impoverishment arising from KiwiSaver.'**

As mentioned earlier in this submission our interest focusses on the perceived inadequacy of New Zealand Superannuation (NZS) to fund the living costs of existing and future retirees at a level equivalent to the stated goals of the New Zealand Positive Ageing Strategy (NZPAS), particularly as this concerns single persons living alone.

Ministry of Social Development studies acknowledge that as many as twelve per cent (12%) of single persons living alone are presently 'living in poverty.' This revelation is based on the least critical measurement, stated as being 'income after deduction of housing costs.'

This alarming percentage will rapidly get worse as up to sixty per cent (60%) of these people are already exhausting their meagre savings or reducing their ability to borrow through home equity schemes and the like, to supplement their modest standard of living.

There is the certainty that each of the three hundred and eighty one thousand (381,000) people aged 70 years or more, presently receiving New Zealand Superannuation will lose their partner at some point during the next twenty years and will be reduced to relying on a single, living alone superannuation payment, with their living standard compromised by the introduction of KiwiSaver without provision for a 'grand-parenting' arrangement recognising their exclusion from the scheme.

The New Zealand Positive Ageing Strategy with its ten stated goals for 'positive ageing' is the only prescription for 'living standards in retirement' promulgated by successive governments.

In respect of **Goal 2 of the Positive Ageing Strategy** *"Equitable, timely, affordable and accessible health"*, the recent publication of the research paper **"A minimum income for healthy living (MIHL) – older New Zealanders"**[3] has revealed that a single person living alone in a mortgage free home requires a 'minimum income for healthy living' greater by 34% than the prevailing level of New Zealand Superannuation. This does not surprise us. For some considerable time we have heard anecdotal evidence that the inroads of non-discretional household expenses like council rates, insurance, energy and telecommunications have left retirees with little option but to compromise expenditure on health care.

The increasing inadequacy of New Zealand Superannuation is not a new phenomenon. Since Census2006 there has been evidence of emerging impoverishment of older people and we anticipate Census 2013 will confirm the trend.

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The institutions for higher learning and most recognised economic commentators have enjoyed massive media support in the past few years for 'increasing the qualifying age for superannuation,' equalising the 'couples' and 'single sharing' rates of weekly payments and removal of the direct 'relationship of superannuation to average earnings. These proposals follow the lead of the Retirement Commissioner, who in

[3] JESSICA O'SULLIVAN and TONI ASHTON A minimum income for healthy living (MIHL) – older New Zealanders. Ageing and Society, Available on CJO 2011 doi:10.1017/S0144686X11000559

her '2010 Review of Retirement Income Provision' proposed a bevy of measures to contain the growing cost of state funded retirement income.

Grey Power has reservations related to increasing the qualifying age for New Zealand Superannuation. Many labour intensive occupations will render workers unsuitable for further employment even before the existing threshold of 65 years.

Equalising the 'couples' and 'single sharing' rates is acceptable if implemented by increasing the 'couples' rate to twice that of the 'single sharing' rate. The alternative is simply unacceptable.

Grey Power will strenuously oppose the suggested removal of the direct relationship of New Zealand Superannuation to average weekly earnings as required under section 16 of 'the Act.'[4] Without this legislated provision, the 'purchasing power' of NZS will be seriously compromised. It is a not a negotiable item!

Grey Power Policy on Superannuation

Grey Power's existing policy was formulated several years ago and essentially reflects the principles espoused in the 1993 Multi Party Accord on Retirement Incomes.

In brief it sets out the following minimum standards:

> **"Superannuation to be a state tax funded scheme payable at the age of 65 years that allows the retired person an adequate income to live in reasonable comfort and dignity, and be able to participate fully in the community. That superannuation be accepted as an entitlement and non-means tested. This income should include a special provision to provide for the needs of the person living alone. A multi-party Superannuation Accord should secure the scheme."**

The significant addition to the mix of state and employer subsidised retirement income of the KiwiSaver scheme has necessitated a review of Grey Power's policy related to superannuation. While we appreciate the need to encourage greater private saving it is our unshakeable belief that New Zealand Superannuation must continue as a universal entitlement supplemented by the additional retirement income maturing within individual KiwiSaver accounts.

However, there is an urgent need for additional 'retirement living support' on a selective and transitional basis for the many thousands of existing retirees excluded from KiwiSaver. Additionally, KiwiSaver participants with limited-period contributions whose individual accounts mature at less than optimal monetary value, will require lesser but nevertheless significant similar support. This transitional period could well extend twenty five years or more.

Our Recommendatrions

The increasing 'living costs' with their threat to 'retirement income adequacy' created by the government's unequal introduction of a state and employer subsidised, retirement income supplement have lead Grey Power New Zealand Federation Incorporated to extend its superannuation policy to address the emerging challenges.

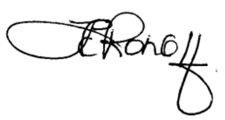
[4] New Zealand Superannuation and Retirement Income Act 2001

We, therefore, invite the 2013 Retirement Income Review Project Team to incorporate the following policy recommendations in its report to the Minister:

1. **"New Zealand Superannuation, as the primary provision for retirement incomes, shall continue as a state tax funded scheme payable at the age of 65 years that allows the retired person an adequate income to live in reasonable comfort and dignity, and be able to participate fully in the community. That superannuation be accepted as an entitlement and non-means tested. This income should include a special provision to provide for the needs of the person living alone. A multi-party Superannuation Accord should secure the scheme,"**
2. **that the significance of the birth date 'before 1st July 1942' being the criterion for disbarment from individual participation in the 'KiwiSaver' programme of 'second tier' provision for income in retirement, identifies the cohort of New Zealanders exposed to rapid 'relative impoverishment' over the next fifteen to twenty-five years until their demise,**
3. **that in providing transitional assistance, supplementary to basic New Zealand Superannuation, priority is allocated to single people living alone and those other 'older people' born before 1st July 1942, who are entitled to carry a Commmunity Services Card, and**
4. **that 'multi-party' political undertakings are obtained whereby the particular living costs and retirement income resources of New Zealanders born before 1st July 1942 and a limited transitional period beyond that date, are determined and quantified, for the purpose of forming a multi-party accord to meet such needs through access to dignified, targeted income assistance and/or services subsidisation in addition to their entitlement to universal New Zealand Superannuation.**
5. **That recognising the need for current and inter-generational 'fairness' the objectives identified in paragraphs 1 to 4 of this section be subject to the rider that similar consideration be extended to New Zealand citizens born after 1st July 1942 who qualify for receipt of New Zealand Superannuation but whom, for reasons of 'home-making,' ill health, disablement and other impediments to continuous paid employment, reach the point of exclusion from the job market with sub-optimal 'second tier' or 'third tier' retirement income resources.**

Thank you for the opportunity to participate in the consultation surrounding this Review.

Yours sincerely.



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Appendix
(to Grey Power New Zealand Federation Incorporated, Submission to 2013 RRIP)

Relative Impoverishment arising from KiwiSaver

KiwiSaver Participant					**N Z Super Single Living alone per week[5] 2012/13 $**	**N Z S Recipient born before 1st July 1942 Impoverishment factor**
Birth Date	Maturity Date	Maturity Value[6] $	Weekly Annuity $	Weekly Total $		
1-Jul-47	1-Jul-12	15,000	18.00	366.92	348.92	95.09%
1-Jul-48	1-Jul-13	17,587	21.00	378.29	357.29	94.45%
1-Jul-49	1-Jul-14	21,996	26.00	391.87	365.87	93.37%
1-Jul-50	1-Jul-15	26,737	32.00	406.65	374.65	92.13%
1-Jul-51	1-Jul-16	31,825	38.00	421.64	383.64	90.99%
1-Jul-52	1-Jul-17	37,286	45.00	437.85	392.85	89.72%
1-Jul-53	1-Jul-18	43,141	52.00	454.28	402.28	88.55%
1-Jul-54	1-Jul-19	49,416	59.00	470.93	411.93	87.47%
1-Jul-55	1-Jul-20	56,134	67.00	488.82	421.82	86.29%
1-Jul-56	1-Jul-21	63,324	76.00	507.94	431.94	85.04%
1-Jul-57	1-Jul-22	71,014	85.00	527.31	442.31	83.88%
1-Jul-58	1-Jul-23	79,235	95.00	547.92	452.92	82.66%
1-Jul-59	1-Jul-24	88,017	106.00	569.79	463.79	81.40%
1-Jul-60	1-Jul-25	97,394	117.00	591.93	474.93	80.23%
1-Jul-61	1-Jul-26	107,403	129.00	615.32	486.32	79.04%
1-Jul-62	1-Jul-27	118,080	142.00	640.00	498.00	77.81%
1-Jul-63	1-Jul-28	129,466	155.00	664.95	509.95	76.69%
1-Jul-64	1-Jul-29	141,602	170.00	692.19	522.19	75.44%
1-Jul-65	1-Jul-30	154,532	186.00	720.72	534.72	74.19%
1-Jul-66	1-Jul-31	168,303	202.00	749.55	547.55	73.05%
1-Jul-67	1-Jul-32	182,965	220.00	780.69	560.69	71.82%

[5] Work and Income published rate for single person living alone (1 April 2012) projected forward at N Z Treasury, mid-term CPI forecast of 2.4% per annum.

[6] Based on ***www.retirement.org.nz*** KiwiSaver calculator where annual salary (2012 values) is $52,000 with contribution rates of 2%.