Crown Financial Ministries New Zealand

462B College Street
Hokowhitu
Palmerston North 4410

Retirement Commissioner's 2013 Review of Retirement Income Policy

Introduction

Crown Financial Ministries New Zealand was formally established as a charitable trust in 2002 but began running biblically based financial courses at the beginning of 2001. Since 2001 over 1,500 course workbooks have been sold (children's, teenage, university and adult), a further 700 books sold and 400 given away free of charge. There have been more than 15,000 visits to the Crown website and between April 2009 and May 2013 and over 15,000 articles and guides have been downloaded from the website.

Raising the Eligibility Age for New Zealand Superannuation

Investment industry analysis has often raised alarm over the affordability of New Zealand superannuation but some of this research has been based on the premise that people stop working once they reach the age of entitlement for superannuation. However, there is ample evidence that people are choosing to work longer, both on a full-time or part-time basis. Census 2006 data shows a significant change in workforce participation for the 65 and over population between 2001 and 2006. Census 2013 data will show the extent to which this trends has continued, although the 2009 global recession and subsequent weak economic growth may have slowed this trend due to the difficulty older people have finding work after redundancy.

While participation in employment after age 65 is increasing significantly, care needs to be taken in using this as a basis for raising the age of entitlement for superannuation. Those in the workforce who are more likely to find working beyond age 65 are those with little formal education skills, engaged in heavy manual work and left school at 15 or 16. They have therefore been in the workplace for 50 years before reaching the eligibility age for superannuation and most have not accessed tertiary education funding since leaving school.

While there is an inevitability over the need to raise the eligibility age, additional measures are required to allow that transition to occur without causing hardship for part of the existing workforce. Key recommendations for supporting this transition are:

a. making Kiwisaver compulsory at current minimum contribution levels,

Phone: 06 358 0611
Fax: 06 358 0992
Email: crown@crown.org.nz
Internet: www.crown.org.nz

b. ending Government financial subsidies for Kiwisaver contributors,using the Government funding currently provided for Kiwisaver to increase contributions to the New Zealand Superannuation Fund,

c. indexing New Zealand superannuation only by the CPI and removing the link to average wages,

d. maintain the ability to access Kiwisaver funds at age 65, and

e. delaying the rise in the retirement age to allow all full-time workers the opportunity to save sufficient funds to receive the equivalent of New Zealand superannuation from their Kiwisaver account between age 65 and the raised entitlement age.

Proposed Changes

1. Making Kiwisaver Compulsory

The Government has already legislated for automatic enrolment in Kiwisaver when employees start a new job, with the employee having to choose to opt out. However, I have been aware of two situations over the last six months where an employee believed they were a member of Kiwisaver but their employer has not made deductions for Kiwisaver, and another where the employee belonged to Kiwisaver but deductions were not made. In the first case, the employee, who had been in the job for around nine months, was not aware of signing a form to opt out of Kiwisaver and genuinely believed that contributions were being deducted from her pay. She did not know which Kiwisaver provider she was enrolled with so I encouraged her to contact IRD, which advised her that she was not a member. She was reluctant to challenge the employer once she discovered deductions were not being made because she was concerned she would lose her job if she challenged her employer on this. The other case involved a worker whose job was terminated abruptly after two weeks in the job. A payslip was provided showing a combined PAYE and Kiwisaver deduction from her pay but the annual statement received from her Kiwisaver provider seven months later showed no contributions had been made to her Kiwisaver account. She did not sign a form to opt out of Kiwisaver.

Both of these examples occurred when the employer contribution rate was 2% so there is a concern that the recent increase in the employer contribution rate increases the risk that vulnerable employees will not be enrolled by employers who are reluctant to make the 3% contribution to Kiwisaver. Unless there is active auditing of Kiwisaver by IRD it is possible that a significant number of employees are missing the opportunity to add to their Kiwisaver account and also missing out on the employer contribution. Moving to a compulsory scheme would make this much easier to enforce and would provide much greater security for vulnerable employees. It is difficult to establish how widespread this is but I am sure these two examples are not uncommon experiences for minimum wage employees in small businesses.

Providing for payment holidays for Kiwisaver members is still appropriate but there should be a limit to the duration of these, possibly to a maximum of 10 years over a person's working life.

2. Ending Government financial subsidies for Kiwisaver contributors

If it is agreed to make Kiwisaver compulsory there is no need for any Government financial incentives to encourage greater levels of participation. In addition, the 1 April 2013 increase in the employer contribution provides a significant financial incentive for salary and wage earners and the current government contributions are unnecessary.

3. Using the Government funding currently provided for Kiwisaver to increase contributions to the New Zealand Superannuation Fund

Currently the Government is indicating contributions to the New Zealand Superannuation Fund are not expected to resume until 2020/21. If government subsidies for Kiwisaver are ended, this offers the opportunity to recommence contributions to the New Zealand Superannuation Fund much earlier, helping to smooth future costs of superannuation for future tax payers.

4. Indexing New Zealand superannuation only by the CPI and removing the link to average wages

The annual increase for New Zealand Superannuation was higher this year than the annual increase in the CPI due to the need to maintain parity with average wages. However, if Kiwisaver becomes compulsory it is possible to gradually reduce reliance on New Zealand Superannuation by only adjusting it for the annual CPI increase. Research will be required on how many people might not be contributors to Kiwisaver during most or all of the period between leaving school and reaching 65 years, to determine whether some degree of supplementary assistance for these people will be necessary to still provide an adequate standard of living.

5. Maintain the ability to access Kiwisaver funds at age 65

As noted earlier, maintaining access to Kiwisaver funds at age 65 will offer flexibility to people who would struggle to continue to work past 65. Consideration should also be given to whether withdrawals might be able to be made at age 60, or age 65, specifically to allow contributors to pay off a mortgage on their house. There is anecdotal evidence that declining housing affordability, student loans and relationship break ups are among factors which have contributed to an increasing proportion of people reaching retirement age who are still making mortgage payments on their house. Longer terms for mortgages appear to be becoming more common and an increasing number of people going through our course would not pay off their mortgage before turning 65 if they retained the original term of their mortgage. The course encourages participants to take steps toward getting out of debt by reducing high interest loans first and then taking steps to pay their mortgage off more quickly. Debt repayment calculators are often a useful tool for convincing people of the benefits of earlier repayment, because, in some situations, bank staff have convinced clients there were benefits from paying off their mortgage over a longer period of time. Allowing the use for Kiwisaver funds for homeowners to pay off the mortgage for the house they occupy will help them to achieve a stronger financial position before retiring.

Peter Crawford
National Director
26 May 2013