



1 November 2013

## **Supplementary 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**

**(preliminary recommendations in the 'Focusing on the Future' discussion document)**

We are dismayed by the preliminary recommendations in the 'Focusing on the Future' discussion document related to keeping New Zealand Superannuation 'fair and affordable'.

Such action as embodied in the recommendations might well reduce the future fiscal cost of 'first tier' superannuation but it remains decidedly arguable whether an affordability crisis will actually emerge and, the recommended manner in which this debateable eventuality might be addressed, is distinctly contrary to the tenets of a 'fair' society.

Recommendation No. 3, whereby the existing requirement to maintain the relativity of New Zealand Superannuation to 'average earnings' will be withdrawn in 2023, amounts to effective dishonour of the 'social contract' under which New Zealand born retirees were educated, became contributing taxpayers, engaged in family formation and, ultimately, recognised their displacement from the work force. In our opinion the rider expressed in sub-section (b) of this recommendation, related to "maintaining the real standard of less well-off older New Zealanders at the same levels as provided by the current system of indexation," simply will not be delivered.

There seems to be a misconception in the minds of younger New Zealanders of the age where they are now emerging from education into their various career paths, extending through to those 'a little older' beginning to form their own families. These generations seem to believe that older people, now in retirement, have 'enjoyed the benefits of the nation's 'golden years' and are selfishly ignoring the principle of 'inter-generational equity. In fact today's retirees faithfully followed the role model provided by their parents who instilled in their offspring an unshakeable belief in the importance of collective well-being over individual aggrandisement.

This is not to suggest today's retirees are oblivious to the economic benefits arising from individual advancement but such existing retirees believe increasing prosperity must be seen to also benefit the lower levels of society.

There is no inequity in the present system of 'paygo' funding of New Zealand Superannuation. Young people and their parents pay their taxes to deliver an 'adequate' retirement income provision for their grandparents. Each cohort, in turn, is similarly delivered retirement income and in the interim, working age contributors also enjoy other citizenship entitlements. This is the 'social contract' in so far as it concerns retirement incomes.

Inter-generational equity is preserved by maintaining the existing system of New Zealand Superannuation. It is clearly the 'fairest' and most efficient 'first tier' state-funded scheme in the OECD and indexation to average earnings (in combination with CPI indexation) must remain an integral, inviolable feature of its annual adjustment procedure.

While the immediate concerns of people already retired might well be mollified by the introduction of as yet undefined transitional or 'grand-parenting' arrangements we elders cannot abandon the cause of protecting the 'social contract' for the disadvantaged individuals among future generations. Enhancements so far envisaged for KiwiSaver, the second-tier, retirement savings scheme, will not adequately provide for younger people bedevilled by discontinuous paid work, disability or conscientious commitment to homemaking and family upbringing. Indeed, if in the interest of community well-being, the worsening income-gap is to be reversed then New Zealand Superannuation, the first-tier scheme, will itself require future enhancement.

In fact, people now retired entered the work force believing taxation on incomes to be an important ethic. We can only hope that contributing through taxation to the 'social contract' is not anathema to younger generations!

We commenced our participation as a submitter to this 2013 review with the positive expectation the working party would draw attention to the insufficiency of New Zealand Superannuation for single retirees living alone in rented accommodation and, the added disadvantage to those born before 1<sup>st</sup> July 1942, now facing income-disparity from the maturity of KiwiSaver accounts. We had hoped that given recognition of the need to avoid impoverishment of existing retirees, we would be able to devote our remaining energy to positive collaboration and promotion of agreed solutions. It is disappointing to find these considerations consigned to the margins.

To now note the prominence accorded to the anti-social approach of lowering the quantum of first-tier retirement income when all other indications are that it needs to be increased, forces our organisation to adopt, as a first imperative, a rear-guard position to protect the 'status quo.' Events seem to be steering us toward alignment with other apolitical organisations who see any proven necessity to address future sustainability, best achieved through economic settings built around increasing low-income pay rates, 'more progressive' taxation and 'claw-back' from the repositories of wealth.

We also consider the approach of redefining eligibility criteria directly proportionate to residency is at least worthy of serious 'modelling' to determine its potential for net savings and the retention of New Zealand born, skilled and educated workers, within the national economy.

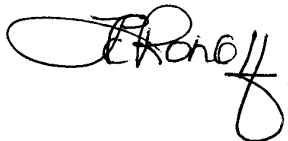
### **Recommendation(s)**

We must make it clear that continuing New Zealand Superannuation's indexation to an efficient index of living costs and maintaining its relativity to 'average earnings' is an imperative in the need to honour the 'social contract' throughout the declining years of today's retirees. In our firm opinion it should also remain an inviolable provision for the 'retirement' of oncoming generations.

Given assurances on this principle we, along with other age cohorts, are willing to consider other measures to create an environment capable of sustaining 'paygo' superannuation at the 'first tier' of provision.

The additional need to address New Zealand Superannuation's insufficiency for household's where 'working age' participation is not rewarded by accumulated savings remains a background concern, to be pursued through other avenues, hopefully in concert with other representative organisations.

Thank you for the opportunity to express our aspirations.

A handwritten signature in black ink, appearing to read 'Lew Rohloff', with a stylized flourish at the end.

**Lew Rohloff**

Chair

Superannuation and Taxation Advisory Group

Grey Power New Zealand Federation Incorporated.