

2013review@cflri.org.nz. E-mail submission

**KASPANZ-KIWI SAVER, ANNUITIES AND SUPERANNUATION PROTECTION
ASSOCIATION NEW ZEALAND INCORPORATED**

Reference the 2013 CFLRI Review and the terms of reference.

INTRODUCTION

Kaspanz New Zealand is the abbreviated name for the above, and our website is www.kaspanz.wordpress.com.

Kaspanz is an incorporated society formed to represent and provide a voice for those receiving or contributing to New Zealand Superannuation, Kiwi Saver, annuitants etc.

A number of foundation principles apply to retirement income considerations and while fundamental to Kaspanz, have application for the 2013 review

- Kaspanz is concerned that a lot of the debate on retirement income issues and costs is not neutral, often inaccurate or represents the view of employer groups or industry representatives, or self-styled media commentators, which often camouflages or skews the assertions made by such groups or individuals.
- Kaspanz is very wary of policy projections and cost assumptions based on 2050 or longer time frames. The accuracy and usefulness of such assumptions is very questionable?
- Kaspanz supports evidence based research, and trends over reasonable time frames
- Kaspanz is concerned about political meddling. People want consistency, no U-turns and no surprises with retirement income policy, and Kaspanz supports across Parliament accords on issues like New Zealand superannuation.
- Kaspanz strongly recommends any future intentions to alter New Zealand Superannuation, Kiwi Saver rules or pension entitlements, need to be clearly signaled well in advance, so people can consider, understand and absorb the implications, and modify savings patterns etc.
- Kaspanz does not support means testing. Apart from the high administration costs involved, it brings into play attempts to camouflaging individual and couples incomes, raises the spectre of misleading trust and asset protection, and provides the impetus for “them and us” within societies collective public good

SUBMISSION COMMENT

***RETAIN NEW ZEALAND SUPERANNUATION IN ITS PRESENT FORM. IT IS SUSTAINABLE AND COSTS ARE REASONABLE AND JUSTIFIED**

Kaspanz is very supportive for the retention of New Zealand Superannuation in its present form, its simplicity, and low administration costs, proving beneficial over a long time period. Kaspanz suggests the current universal model is a world leader, probably the best public scheme in the world and continues to stand the test of time.

If any adjustments are required, it's probably only within the area of a review of residency rules, payment rates the same for all, and a minor tweaking of current rules, following such a review. The current suggestion of a graduated increase in the age criteria, is also worthy of discussion, but Kaspanz is wary of the impact of change on women and Low Income groups. Any change in this area requires a long lead in period.

The costs of New Zealand Superannuation over any reasonable length of time are sustainable.

Kaspanz notes the current pension is taxable and supports that retention, and fully supports New Zealand Superannuation as the best method of providing a base level of retirement income. Alternatives simply do not match up.

Kaspanz is concerned at the misleading figures often used in retirement income discussions, with critics often overstating the GDP costs, and comparing New Zealand's taxable pension with off shore tax free pensions.

For example the cost of NZ Super as a proportion of GDP is being exaggerated in the numbers being bandied around in the debate on whether to lift the age of entitlement to 67. The routinely stated projection (2050)* (too far out to be useful-2030 should be the maximum framework under discussion) is that NZ super will be 8% of GDP in 2050, but in reality that is an 8 per cent before tax. In contrast to most other countries New Zealand does not pay a tax free pension. When tax and GST is subtracted, the share of GDP would be about 6.5% in 2050, and the current cost 2013 is about 3.7%. These are low in comparative terms with most other countries, and very sustainable.

DOOMSDAY RHETORIC AND QUESTIONABLE LONG TERM PROJECTIONS

Kaspanz is very concerned at the *"doomsday rhetoric which characterizes New Zealand's media handling of retirement income policy"* and is concerned at the validity and accuracy of projections based on population assumptions and costing's years in the future e.g. 2050/2080. Such projections are highly questionable. Current measures adopted for future assumptions are often based on crude modeling, are

narrow in definition, and are often utilized in a biased manner. The generation blame game is also frequently played by commentators e.g. Bernard Hickey and Kaspanz see's such an approach as being nonproductive and leading no-where! The trend continues of various New Zealand media commentators, self-styled or print media economists frequently adopting the pessimistic viewpoint, with inflammatory headlines, and cautions against too much value being placed on such comments.

SUPERANNUATION POLICY HAS A WIDE DEFINITION

Superannuation policy is much more than just a monetary formula. It is linked to issues of physical security, mental health, economic productivity and social health, the distribution of all income and wealth, and sustainability. Specific Superannuation Policy Design is how best to combine private and public arrangements. Ideas should be judged against the criteria of how we want income distribution to look amongst older people, how we want the share between the older and younger generation to be allocated, and very importantly how simple and understandable the arrangements are. *Gender issues like income for women and low income groups, cannot be ignored, those components are an important part of the equation.

The underlying issue is whether New Zealand's economic output grows sufficiently to support the claims of the growing aged population. Virtually none of the debate focus on economic productivity, and this should be at the center of discussion about the economic implications of an aging population. The reality is we should talk about "multipliers" more people working means increased output, a healthy stimulated economy. Furthermore older people are more economically active, boosting the participation rate and paying tax. We know that the ageing group are now working longer and contributing to the economy and income tax collection. The trend of over 65's in the workforce is likely to produce stronger economic outcomes than many commentators predict.

This means

- Older people will participate in the paid workforce.
- The economic value of older peoples paid, unpaid and voluntary work will increase
- Older peoples contribution to tax revenue will increase
- Older people will spend more

Older people are healthier and this can reduce the cost of health services. Often the social costs of an aging population are overstated, as an older population is associated with lower crime and imprisonment and fewer accidents, all lowering dollar costs.

The unpaid contributions to society of aging parents supporting younger ones in the form of child care, and the current trend of providing facilities for the unmarried/divorced sons and daughters 30-45yrs returning to the family home

(known as full nest syndrome) all need to be factored in, along with the continuing trend of baby boomers looking after each other in their own homes.

The enormous voluntary contribution by the senior community needs recognition, the voluntary input valued and costed in economic terms, and put into the discussion on economic productivity

There is also research evidence which suggests hard working late retirees, develop stress and serious health problems, not living long enough to enjoy retirement. The raising of the retirement age and superannuation entitlement for low income, and manual workers, might well mean no superannuation at all, for many as they will not get to the qualifying age.

ANNUITIES

- Kaspanz is concerned that those in receipt of annuities or contributing in New Zealand are being unfairly taxed; annuities are being taxed at 33%.
- Kaspanz supports the concerns of the Auckland Retirement Policy and Research Centre, the Government Super annuitants Association, and the Savings Working Group Final Report on this topic. John Key is on public record that the Governments approach to tax issues is fairness and equity, but the plight of those receiving or contributing to annuities schemes has not been addressed. Annuity taxation is an urgent issue!
- Apart from the taxation system requiring attention for annuities, the development of an annuities market for Kiwi Savers requires prompt attention The conundrum about what retirees should do with the money should spark renewed debate about annuities - one of the easiest, and most endangered, ways to make sure your money lasts as long as you do is annuities Discussion about an Australasian annuities market and how that could work e.g. economy of scale, is required.
- Recently made comment from the Australia Superannuation industry has relevance to NZ, and an early warning to Kiwi Savers.
 - *Super in Aussie not a retirement system at all. It has not been designed to deliver a regular and steady annual income to retirees. Instead it is an investment scheme-poor one at that- designed to deliver a lump sum to those leaving the paid workforce. As return is linked to stock market-no guarantee how much you will get. Far too many Aussies see it as windfall lump sum, rather than a capital base from which to define an income. A reasonably wealthy couple could accumulate 1million in contributions, retiring with that amount in the kitty, but it only gives them the means to earn 50-60,000 a year, if they manage their funds correctly. Few do!*

KIWI SAVER

Kaspanz notes Kiwi Saver began in 2007 July, and there have been changes to the scheme announced in 2008 and 2011 Budgets. Kaspanz is concerned that without annuities being appropriately taxed, and a significant policy focus on lump sums being able to be converted into regular payments, the sound intentions of the Kiwi Saver scheme will not materialize

The absence of annuities that convert lump sums into regular payments until death will matter more as Kiwi Saver balances grow and more members are eligible to withdraw.

It would appear that although Kiwi saver is an investment scheme in which a contract is signed with the provider, the provider appears to be able to change the contract without recourse to, or approval of the contributor. Our concern is that the 'contract' a Contributor signs are one-sided and that the Contributor to Kiwi saver, unlike other investments, does not have opportunity to be informed or have their views heard by the equivalent of an elected Board.

POPULATION AND LONGEVITY PROJECTION

Kaspanz has already commented that it's both wary and skeptical of both optimistic and pessimistic views of the implications of population and longevity arguments and economic growth. Short and medium term trends are of far more value than long term projections and consistency of decision making within the retirement income policy arena is sought.

Political meddling is also very counterproductive, and Kaspanz supports across Parliament agreements or an accord, on Retirement Income issues.

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