THE UNIVERSITY OF AUCKLAND
BUSINESS SCHOOL

Retirement Policy and Research Centre

Spotlight on Retirement Incomes Policy

The unique New Zealand system for retirement income:
Too simple or simply genius?

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Lunchtime seminar presented by the Australian Social Policy Association (ASPA) and the Brotherhood of St Laurence (BSL).

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New Zealand retirement system

Very Simple, adaptable, ***potentially*** sustainable, integrated and coherent.

– PAYG first tier: **New Zealand Superannuation**
  - **Universal at age 65**

– Supplemented by
- **KiwiSaver Auto-enrolment national savings scheme**
- **Voluntary unsubsidised saving**

KiwiSaver
Poua he Oranga

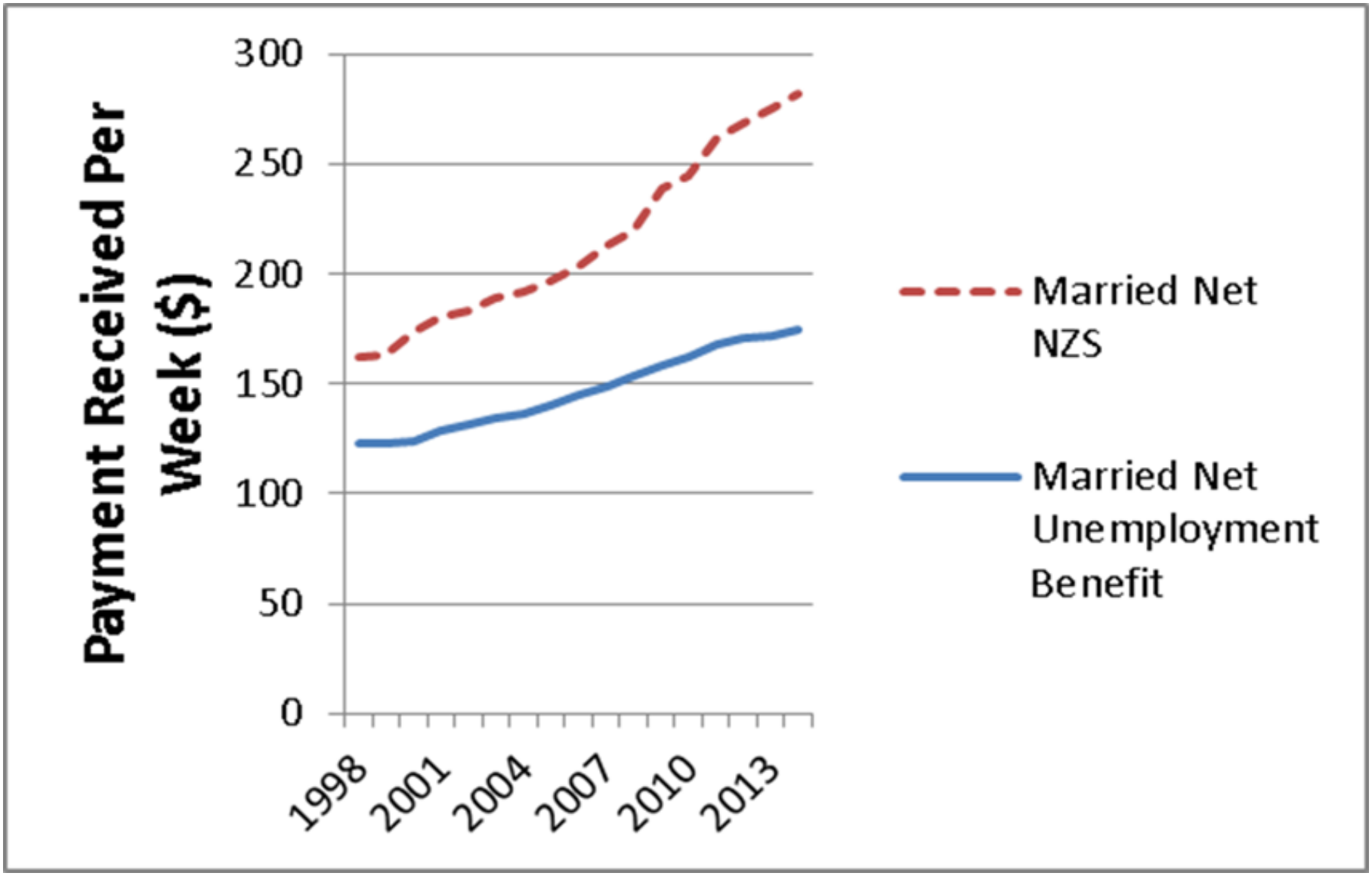
NZ Superannuation

- Universal, non contributory, flat-rate, taxable
- Easy to apply for
- Light residency requirement of 10 years

  (10) 5 after the age of 50
- Full coverage 95+% of the 65+ group
- Based on the ***individual***
  - Good for women
- Linked to prices and a wage floor
  - 33% net average earnings (married person)
  - Gold card



Importance of wage link



How much can you get?

Category	Weekly rate		Fortnightly payment (net)
	Gross	Net	
Single, living alone	$431.10	$374.53	$749.06
Single, sharing accommodation	$396.17	$345.72	$691.44
Married person or partner in a civil union or de facto relationship	$326.30	$288.10	$576.20

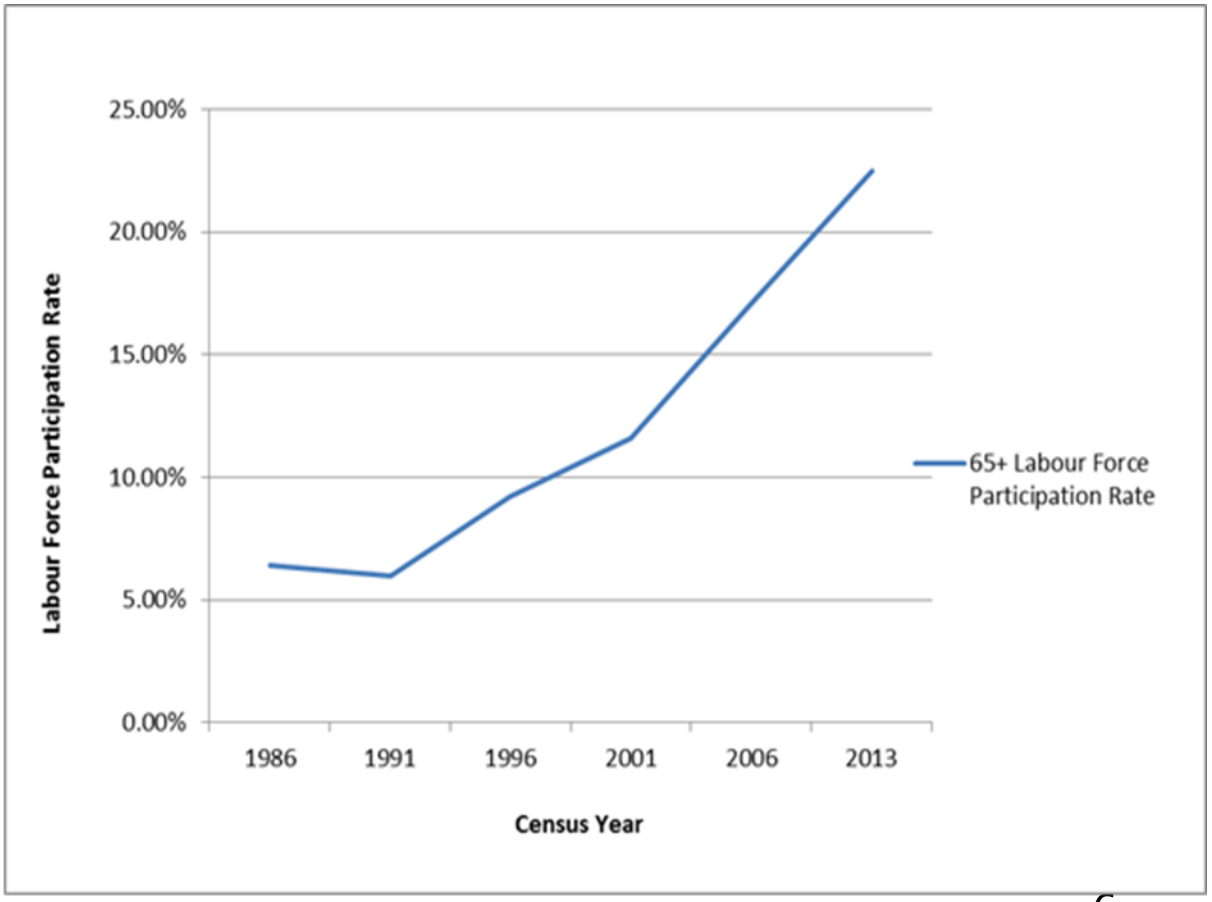
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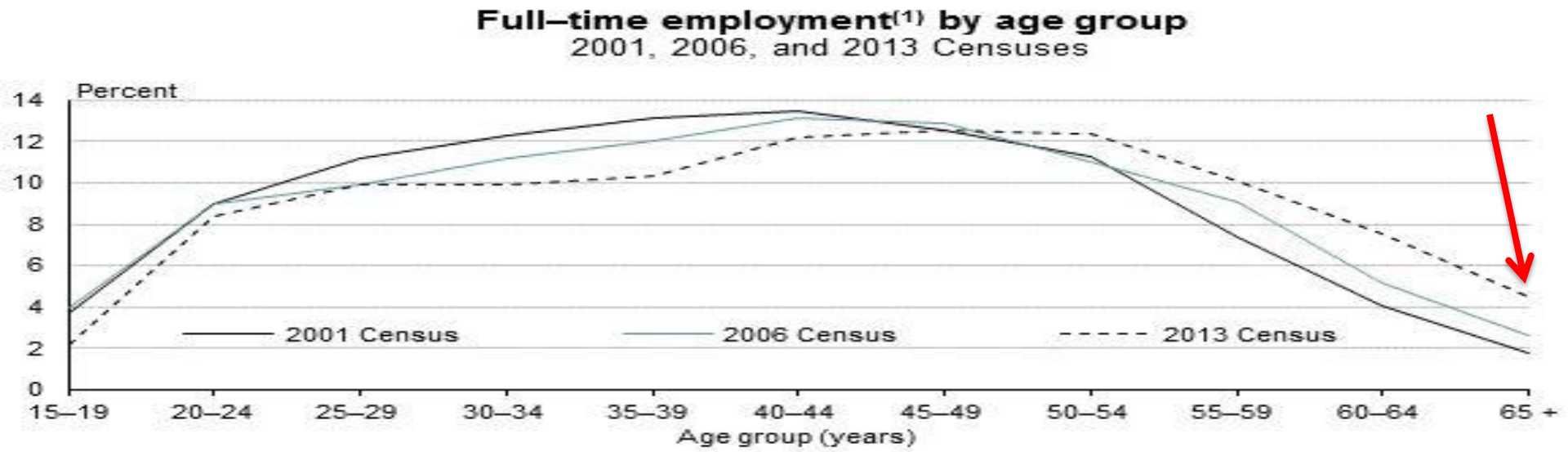
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Impact 1. No disincentive to earn or save

– Prototype of a basic income

– High and growing labour force participation of 65+

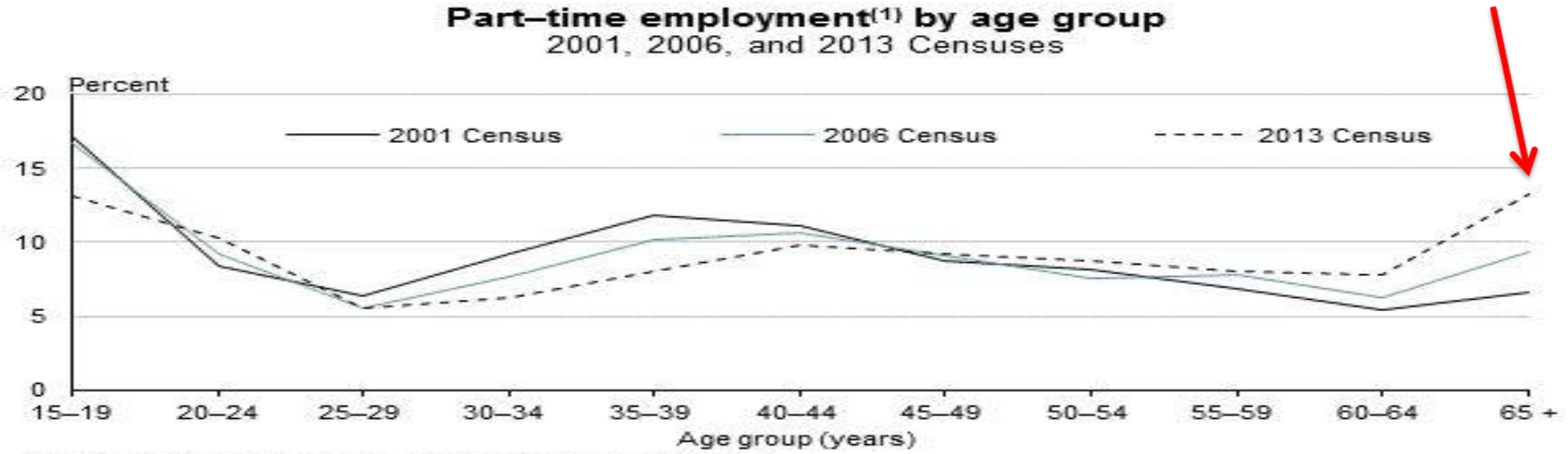




1. For full-time employed people aged 15 years and over.

Source: Statistics New Zealand

Figure 5



1. For part-time employed people aged 15 years and over.

Source: Statistics New Zealand

Impact 2. Low rates of poverty

How poor are the old?

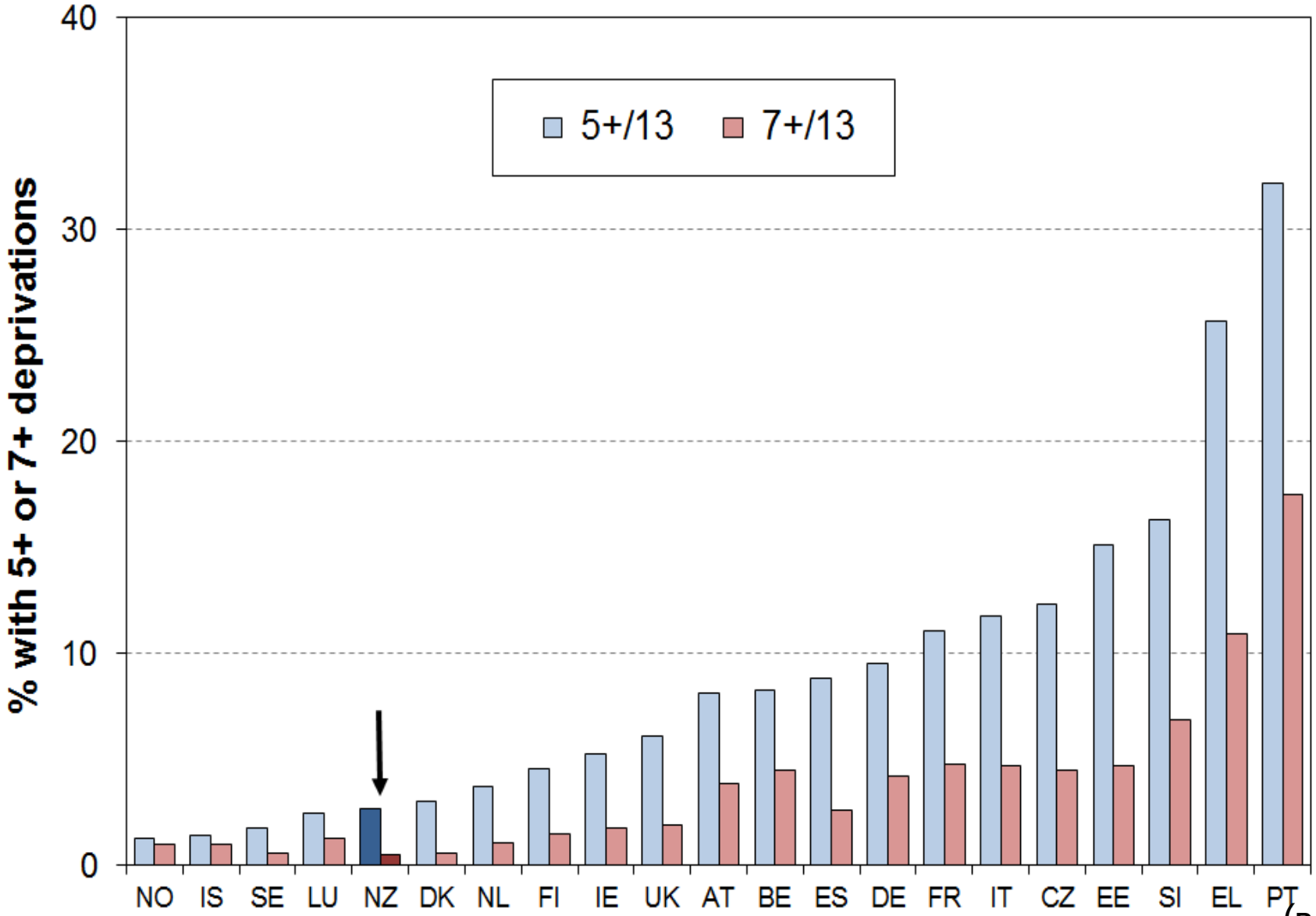
OECD figures (60% BHC median) make both Australia and NZ look bad

"There is growing unease about the robustness of the household income approach for international comparisons of material hardship on both theoretical-conceptual and empirical grounds." (Perry 2015)

Deprivation approach: Enforced lacks

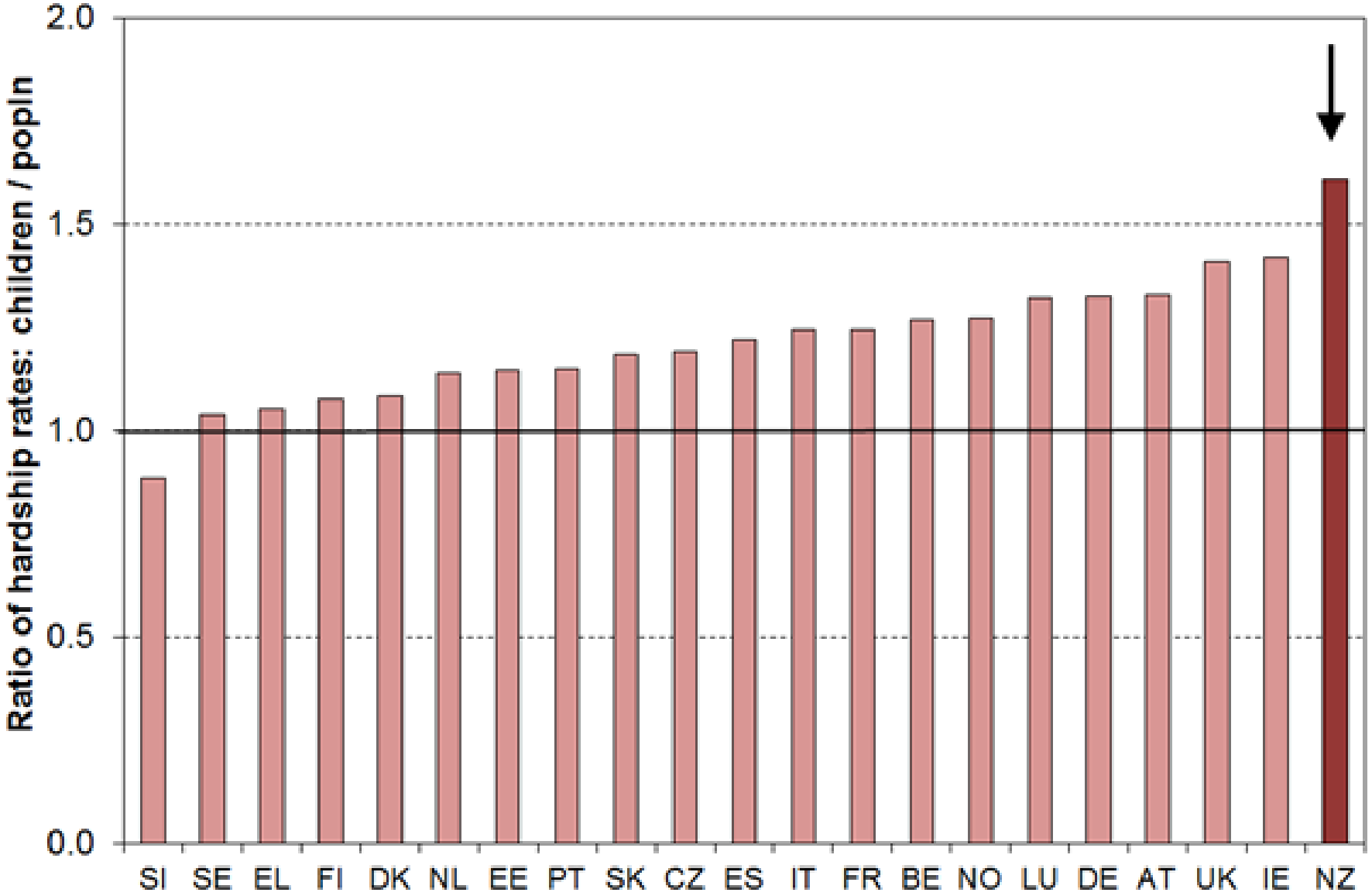
- have a meal with meat, fish or chicken every second day
- keep the home adequately warm
- replace worn-out clothes by some new ones
- have two pairs of properly fitting shoes
- replace worn-out furniture
- have access to a car / van for personal use
- avoid arrears in mortgage or rent, utility bills or HP instalments
- spend a small amount of money each week on oneself
- have both a computer and an internet connection
- have regular leisure activities
- have a get together with friends/family for a drink/meal at least monthly
- have one week's annual holiday away from home
- ability to face unexpected expenses of NZD1500

Material deprivation rates (% with 5+ and 7+ enforced lacks), EU-13, those aged 65+



(Perry 201

Deprivation rates for children (0-17 yrs) relative to overall population deprivation rate
(% with 5+ enforced lacks using the EU-13 index)



New Zealand Superannuation

- Achieves a stable and secure basic lifetime income
  - with homeownership high, prevents most poverty
  - equalising effect on distribution
- **Context of no traditional tax incentives**
  - They were regressive, favoured male, full-time well paid careers with same company
  - Distorted savings flows
  - Removed between 1988 and 1990
  - All saving for retirement or anything else: TTE
  - Once gone little appetite to bring them back

Coverage in work-based savings

- Without tax concessions many superannuation schemes closed
- Coverage fell. From around 22% of the workforce in 1995 to only 10% by 2012
- Shift from DB to DC schemes
  - Public sector DB schemes closed to new members 1992.
  - Assets in employer-based DB schemes fell by a third Membership halved
  - the numbers of pensioners dropped by a third to 20,772
- Membership of DC schemes also fell by 20%,
  - assets under management rose from $2.8 billion to $10.6 billion in the same time period (FMA, 2015).

Gulp Was retirement policy too simple?

2007: Enter KiwiSaver

Purpose To boost savings among

"*individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement*". (KiwiSaver Act).

- **Acknowledged the advantages of work-based saving**
- **Convenient budget surplus in 2007**
  - Allowed scope for attractive KiwiSaver subsidies
  - Reduced the pressures for tax cuts

KiwiSaver has some very clever features

- including branding

Wide coverage and uptake

World's first national auto-enrolment opt-out savings scheme

– includes children and non-employees

– membership rapidly increased now 2.5 million (75% of those 18-65)

- 3% employer/3% employee contributions
- Choice of provider and fund
- Opt-out between 2- 8 weeks. Net opt-out low
- After 12 months can take contributions holiday up to 5 years, and then roll it over

Flexibility and choice

- Lump-sums contributed at any time
- Dont have to be working to get the subsidy
- Existing schemes may be kiwiSaver compliant and get some of subsidies
- Ability switch Provider and funds
- Choice of contribution rate 3%,4%,8%
- Contributions holidays- unlimited after 12 months
- Withdrawals for financial hardship
- Use for first home purchase
  - Modest targeted subsidies
- Many contribute very little

Improved Regulatory regime

- **Prior to KiwiSaver**
  - regulation too light handed and under policed
  - Background of collapse of 45 finance companies 2006-2011- loss of faith
- **Need to enhance the public confidence**
  - New crown entity: Financial Markets Authority 2011
    - manage mergers, registrations, closures, exits
    - monitor disclosure, appoint independent trustees
    - Public education
    - Reporting
    - Hands-on approach

Clearing house role of the Inland Revenue Department

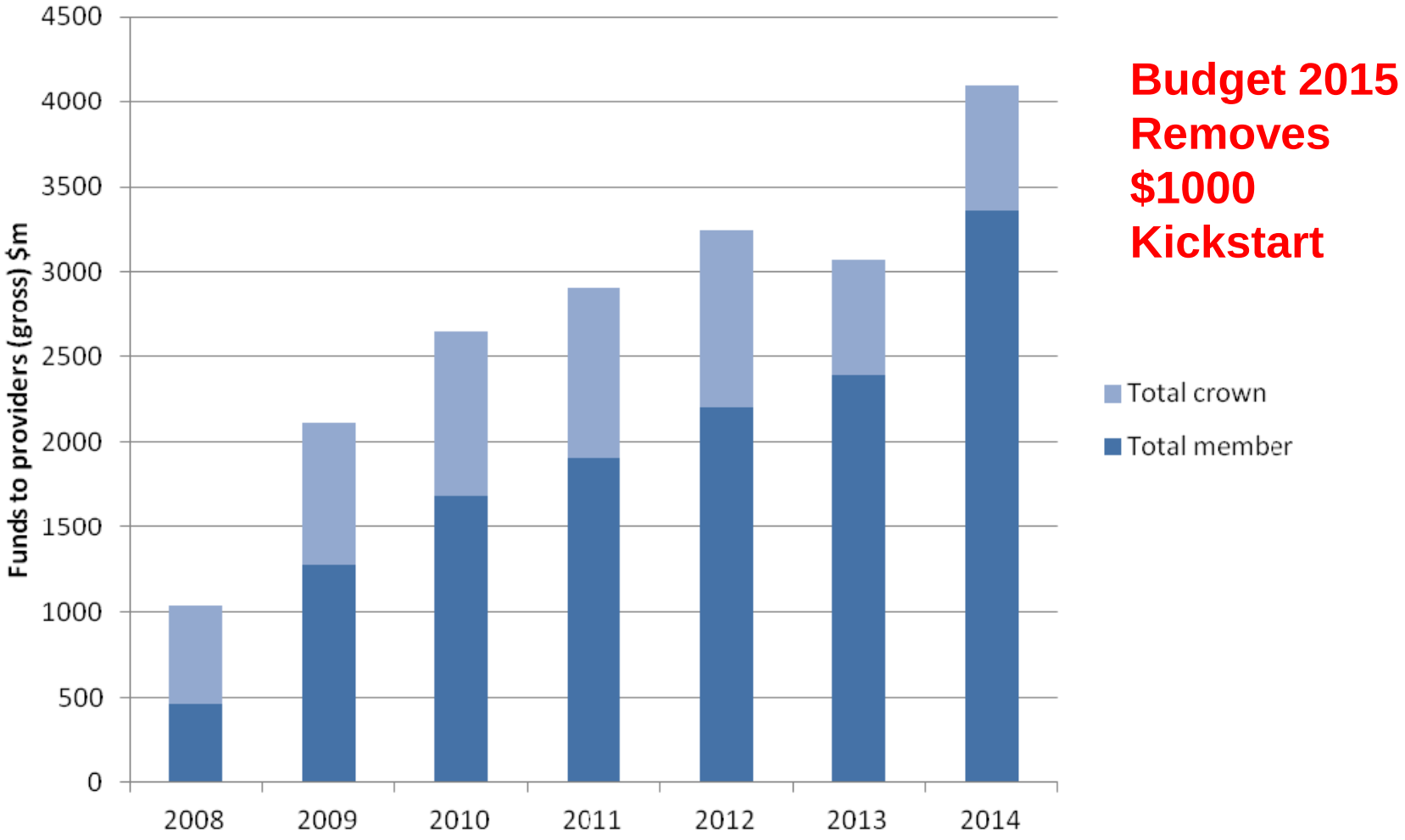
Hugely important

- PAYE system used rather than new infrastructure
- Big factor in trust and acceptance
- Each KiwiSaver member **has one provider** regardless of job changes- unique identifier is IRD number
- Compliance is achieved through ordinary channels of check-ups and education
- Biggest administration problem for IRD is opt-out
- Employers reasonably happy

Was New Zealand also clever about incentives?

- **Sweeteners VERY modest initially**
  - -Kickstart $1000 and small fees subsidy $40 pa
  - -Visible, tangible, seen as fair
- **6 weeks before start govt subsidies vastly expanded**
  - -Too good to miss
  - -Increased interest and enrolment
- **2009-2013 subsidies dramatically reduced, down to**
  - -Limited, *unindexed* flat rate KickStart $1,000
  - -Matching *unindexed* 50% subsidy up to $520 pa

KiwiSaver contributions, 2008-2014 (June years)



Budget 2015 Removes $1000 Kickstart

NZ Treasury, 2015

Is KiwiSaver too simple?

Need to keep the eye on the purpose of the scheme

- need for good savings vehicles to supplement income for the majority of low /middle income people

Lack of attention to decumulation

- Lumpsums may be quickly dissipated
- With no intervention of any kind under the 'pure' New Zealand approach ***private annuity markets*** disappear
- Decumulation needed attention at the start
- Opportunity now to design a subsidised but ***limited*** annuity, maybe with long-term care insurance

  New Zealand has unique chance to get this product right

Can New Zealand relax over retirement policy?

"The Prime Minister has personally committed to maintaining the NZ Superannuation married rate payment at 66 per cent of the after-tax average wage, from the age of 65. Future funding at this level is locked into the Government's long-term spending path." (B English 2010)



The Fiscal Problem

Affording our futures- LTFS 2013

% of nominal GDP	2010	2020	2030	2040	2050	2060
Healthcare	6.8	6.8	7.7	8.9	9.9	10.8
NZ Super	4.3	5.1	6.4	7.1	7.2	7.9
Education	6.1	5.3	5.2	5.2	5.1	5.2
Law and order	1.7	1.4	1.4	1.4	1.4	1.4
Welfare (excluding NZ Super)	6.7	4.8	4.4	4.2	4.0	3.8
Other	6.5	5.6	5.7	5.8	5.9	6.1
Debt-financing costs	1.2	1.8	2.5	4.2	7.1	11.7
Total government expenses	33.4	30.8	33.4	36.9	40.6	46.8
Tax revenue	26.5	28.9	29.0	29.0	29.0	29.0
Other revenue	3.2	3.0	3.2	3.2	3.3	3.6
Total government revenue	29.7	31.9	32.2	32.2	32.3	32.6
Expenses less revenue	3.6	-1.1	1.2	4.6	8.3	14.3
Net government debt	13.9	27.4	37.1	67.2	118.9	198.3

Adjusting the levers?

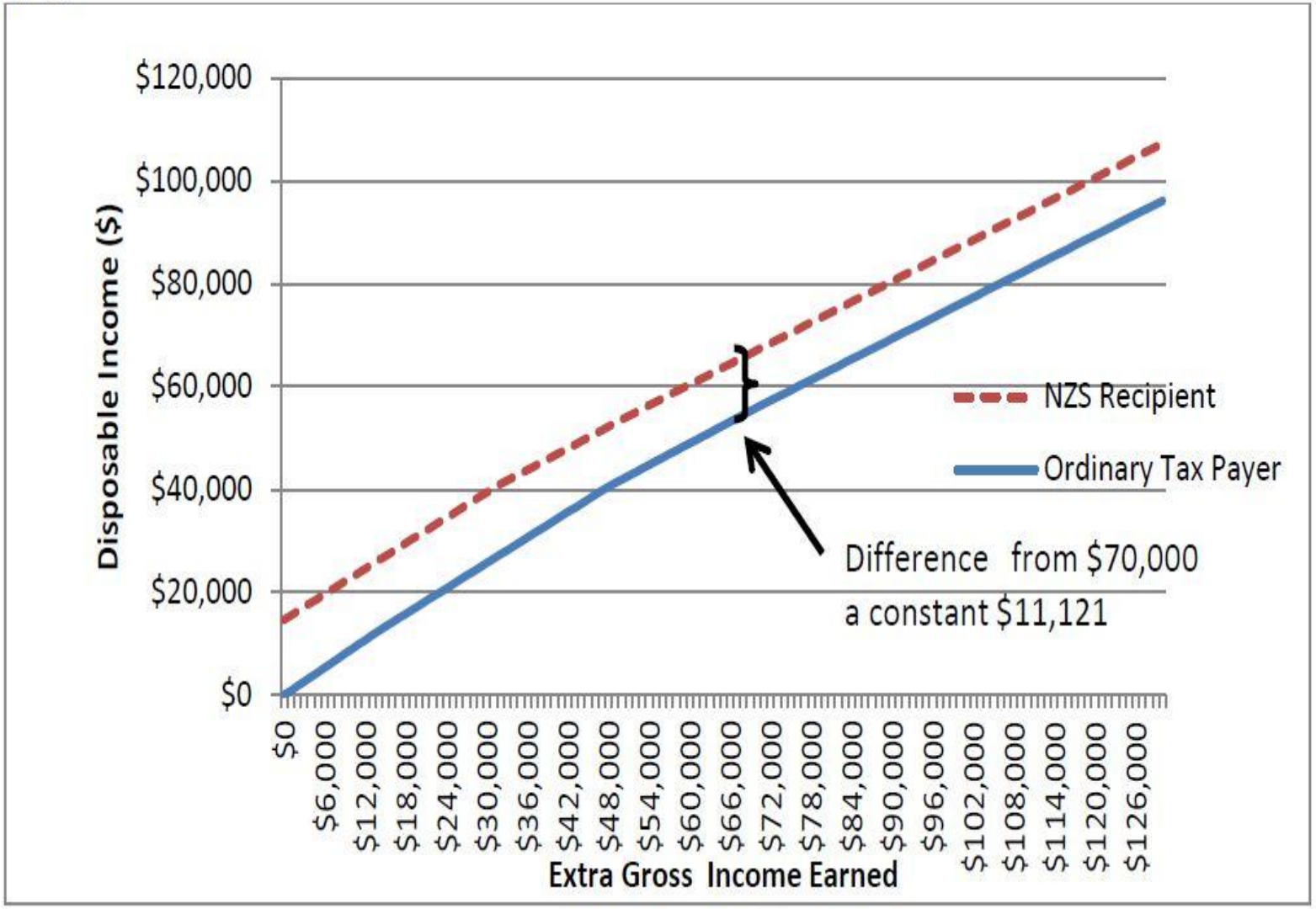
- Raising the age
- Reducing the level
  - Aligning single and married rates
- Introducing a means test



Spectrum of Means testing

- Fully universal untaxed
- **Fully universal taxed--- NZ**
- Surcharge on other individual income
- **Basic income, progressive tax**
- **Asset and joint income test– Australia-affluence test**
- Welfare –stringent only for the poor

Figure 1: The current situation for a married superannuitant: disposable income with NZS

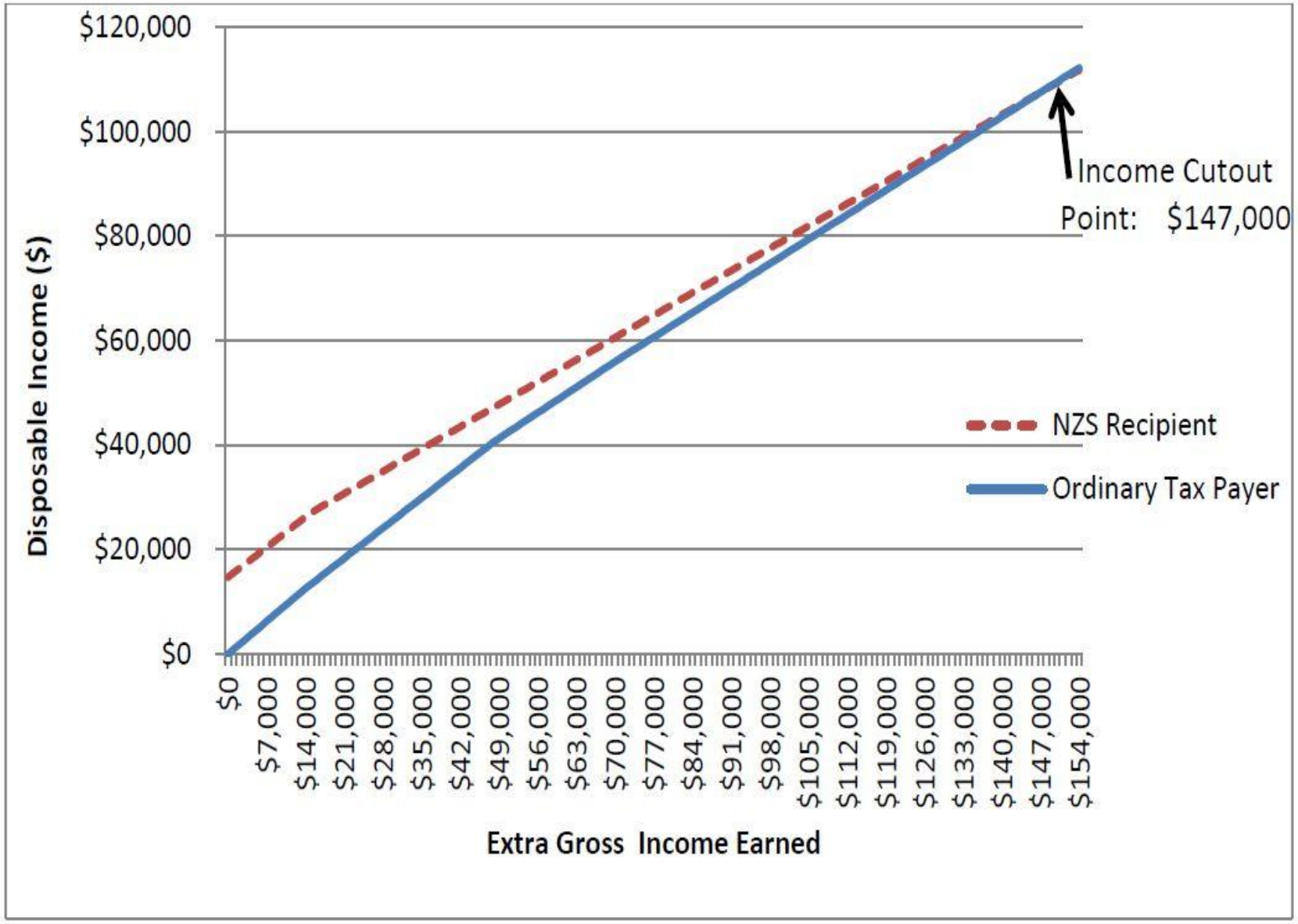


"A Basic income" reform

- Pay all over 65 the married rate net as a non taxable unconditional grant.
- Put recipients own tax scale for other income
- Gentle scale can generate $1 billion in saving without really hurting anyone

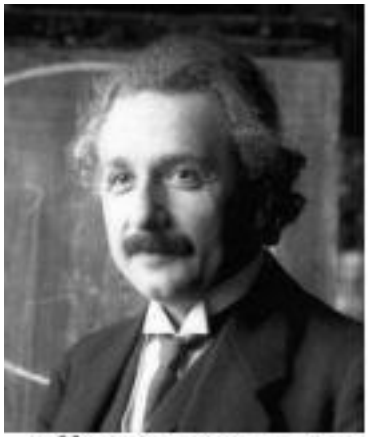
St John, S. (2015), Improving the Affordability of New Zealand Superannuation, Psychosociological Issues in Human Resource Management 3(1): 81–100.

Figure 3: Scenario 2. Two-tiered rate of 17.5% (for first $15,000 earned) and 39% above $15,000



Conclusion

“Everything should be made as simple as possible, but not simpler”



Albert Einstein

$$E = mc^2$$

The Flat New Zealand tax scale

