How to Make New Zealand Superannuation More Sustainable

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PIE invited commentaries on an issue topical to this year's budget, and to inform election debates. Brian Easton is a Fellow of the Royal Statistical Society, a Chartered Statistician, a Distinguished Fellow of the New Zealand Economic Association, the long-time economics columnist of The New Zealand Listener and a PIE research associate.

There is no perfect way to deal with the rising cost of New Zealand Superannuation (NZS), but there is a simple way which would address the worst of the inequities and threats it generates.

Put all New Zealand Superannuitants on a special income tax code – let's call it S. Code S would have the same rates and conditions as the existing income tax system except that the two top rates (currently 33% and 39%) would begin at a lower level than for taxpayers who do not receive NZS. Yes, it is a kind of income surcharge, but it would impact on relatively few. Those at the bottom would be unaffected.

If we don't do this now, come the fiscal crisis it will be imposed upon us. No one knows when it will happen – politicians hope that it will not be while they are charge; Treasury officials know it will happen one day. Nor do we know what will cause it: a natural hazard catastrophe (such as a major earthquake, tsunami or volcano); a bio-hazard outbreak (such as foot and mouth disease or a pandemic); an external financial crisis (such as another GFC or a collapse in our terms of trade); ....

NZS will be one of the first spending items to be addressed. We don't know exactly what the measures will be, but past experience here and elsewhere suggests the options include an abrupt increase in its age of eligibility, cutting its level and indexing it to prices rather than wages (which we did for benefits, thereby increasing inequality). Other support for the elderly (such as on residential care and healthcare) is likely to be cut too. The impact will be greatest on the poor (as happened in 1991).

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In effect, the current regime supports the well-off at the expense of the poor. The Code S measure introduced before this happens will moderate the fiscal crisis when it occurs, protecting those at the bottom.

Finally, a word about the age of eligibility for NZS. When I first advocated raising it, I was concerned with the equity issue. It made no sense to keep it fixed when people were living longer. Suppose everybody lived to 100. Then they would be 35 years on the current NZS, about as long as most would have been working. The numbers just don’t add up.

When in 1993 Ruth Richardson and Michael Cullen (courageously) agreed to raise the age of eligibility from 60 to 65, a 65-year-old could expect to live on average 16.7 years; it has already risen to 20.5 years, or 3.8 years longer. The age of eligibility needs to rise with it, steadily say three months every year (as they did to reach 65) until it gets to the point where life expectation is 16.7 years again (currently at the age of 69 years). After that keep the age of eligibility rising in line with rising longevity.

Because it is an equity decision some of the fiscal savings should be used to support those from 60 who have health issues which limit their ability to work and have insufficient savings. We also need to put more resources into better accommodation and healthcare for the elderly.

Sitting, as we do, like possums in the middle of the road staring blindly into the future, means that one day we will be run over, with the poor elderly the most clobbered.