

Retirement Policy and Research Centre

www.rprc.auckland.ac.nz

The University of Auckland Business School

Owen G Glenn Building

12 Grafton Road, Auckland, 1142

19 July 2016

To: Social Services Committee

Committee Secretariat: select.committees@parliament.govt.nz

Oral submission: Social Security Legislation Rewrite Bill

The Retirement Policy and Research Centre thanks the Social Services Committee for the opportunity to submit on this important Bill.

Contact:

Dr M.Claire Dale Email: m.dale@auckland.ac.nz

- 1. Human rights:** There appears to be increasing avoidance in legislation and policy of the real link between poverty and risk, whether young, old or in between. The RPRC joins with the Human Rights Commission in recommending a new clause 3(a)(iv) that provides that a purpose of the Act is to protect the Government's human rights obligations, including the reduction and alleviation of hardship due to income poverty and material deprivation. This rights issue affects pension policy.
- 2. Overseas pensions accumulated through private savings vs taxpayer-funded:** Populations are becoming more and more mobile, with many people spending some time working in other countries and contributing to retirement savings schemes in those countries. As section 70 is currently applied, and as clauses 173-175 of the Bill describe, some people's private overseas savings, equivalent to KiwiSaver, will continue to be deducted from the New Zealand Superannuation (NZS) entitlement. The RPRC urges the Social Services Committee to reconsider the equity and fairness of this policy. There is a great need for the Ministry of Social Development (MSD) to not only understand the complex retirement savings schemes in place overseas, but also to distinguish between those schemes that are equivalent to NZS, and those that are equivalent to KiwiSaver, and treat them accordingly.

For example, a 'government-administered' scheme like the Canada Pension Plan (CPP)¹ is not the same as a 'government-funded' scheme, like the income-tested Canadian Old Age Security (OAS)² programme. The CPP is funded entirely by employers and their employees,

¹ See <http://www.esdc.gc.ca/en/cpp/index.page>.

² See http://www.esdc.gc.ca/en/cpp/oas/index.page?_ga=1.74286801.2100941495.1468878168

with their contributions calculated by the CPP's actuary. Retirement pension amounts are determined by reference to individual contributions, and when a CPP pensioner dies, survivor benefits may be paid to their estate, surviving spouse or common-law partner and children. Although contributions to the CPP are compulsory, it is structurally a closer equivalent to KiwiSaver than to NZS, yet MSD deducts CPP from NZS entitlements.

Australia's Superannuation Guarantee (SG) is also a compulsory retirement saving scheme out of employer and employee contributions, but MSD does not deduct SG from NZS.

3. **Spousal deduction:** NZS is an individual entitlement, and rightly admired as 'universal'. However, when one partner has a large overseas-based age pension, the MSD applies a 'spousal deduction', so that any amount greater than NZS is deducted from the NZS entitlement of their partner. This is an abuse of the individual rights of the 'spouse or partner', and places such affected people in the position of being financially reliant or dependent on their spouse, rather than receiving their individual entitlement. The RPRC urges the Committee to consider the individual right to an age pension, and to reconsider clauses 173 to 175 of the Bill.
4. **Transparency:** There is a need for greater transparency where section 70 will and will not be applied. If the Ministry of Social Development published a comprehensive list of immigrants' source countries and their pensions, and whether or not section 70 was applied, the current unfairness and injustice would be clearly visible.
5. **Qualifying conditions for NZS:** The Rewrite Bill provides an opportunity to revisit the current minimal qualifying conditions for accessing NZS: a comparatively low age (65 years vs 67 years in Australia and the UK), short residency (10 years vs 35 years), and zero contribution (vs pension amount related precisely to contributions). These conditions make New Zealand a very desirable retirement destination for ageing citizens of countries with less benign retirement conditions, and consequently impose an avoidable fiscal risk.
6. **Royal Commission:** Pension policy is an extremely complex and fraught area. Given the global issues of increasing mobility and increasing longevity, and the need for fairness and justice as well as certainty regarding retirement savings and retirement incomes, perhaps it is time for a Royal Commission.