



BUSINESS SCHOOL

Retirement Policy and Research Centre

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To: Committee Secretariat
Finance and Expenditure Committee
Parliament Buildings
Wellington
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Submission: New Zealand Superannuation and Retirement Income (Fair Residency) Amendment Bill

The Retirement Policy and Research Centre (RPRC), an academically focused centre specialising in the economic issues of demographic change, is based in the Department of Economics at the University of Auckland Business School. Information on the people and their research is found on the website at <http://www.rprc.auckland.ac.nz>.

The RPRC is a current stakeholder in policy development concerning changing parameters of New Zealand Superannuation (NZS). This submission draws on a past decade of work in the RPRC on overseas pensions, section 70 of the Social Security Act, and entitlement to NZS.¹

Thankyou for the opportunity to submit. We also wish to make an oral submission.

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¹ We thank the Minister for the acknowledgement of the work of the RPRC in his introduction of the Bill " *In the development of this policy, I'd also like to acknowledge the large body of work that's been done by Associate Professor Susan St John and Dr Claire Dale of the Retirement Policy and Research Centre at Auckland University, who have advocated for NZS residency requirements to be extended to 25 years.* (See https://www.parliament.nz/en/pb/hansard-debates/rhr/combined/HansDeb_20200701_20200701_28)

Summary

New Zealand Superannuation and Retirement Income (Fair Residency) Amendment Bill²

New Zealand First's Member of Parliament Mark Patterson's Member's Bill 107—1³ passed its First Reading in Parliament on 1 July 2020. The New Zealand Superannuation and Retirement Income (Fair Residency) Amendment Bill amends section 8b of the New Zealand Superannuation and Retirement Income Act 2001 (the principal Act), raising the minimum residency requirement for New Zealand Superannuation (NZS) from 10 to 20 years, after age 20. The Hon. Mark Patterson noted in his introduction of the bill:

*By global standards, the current 10 years is a short timeframe for full entitlement to a generous, universal, non-means tested, non-contributory pension at age 65...*⁴

The RPRC submission summary

- The RPRC strongly supports an increased residency requirement for New Zealand Superannuation (NZS) and suggests that it offers an important opportunity to overhaul the policy of direct deduction of overseas state pensions from NZS. One issue of the direct deduction policy, the spousal deduction has already been addressed in the "New Zealand Superannuation and Veteran's Pension Legislation Amendment Bill". The RPRC submission on this bill⁵ outlined our concern that there were still grave anomalies in the treatment over overseas pensions especially when the overseas pension that is deducted is more the "equivalent of KiwiSaver contributions".
- The RPRC paper for the 2016 review of retirement incomes⁶ (outlined in option 4 of the paper) how a rise in residency requirements might be combined with a rationalisation of the treatment of overseas pensions with simplicity and equity advantages.
- The RPRC believes that this bill needs great care in implementation. It is unlikely to save money in the short-term and needs a clear timeline for introduction. It should not be passed in its current form.

1. Background

The universalism of current NZS policy is admired, as is its comparative generosity, funded by current taxpayers. The problem is the ease of access to this benefit based solely on only 10 years of residency, and those years could begin, for example, when a new immigrant was aged 63 years, and unlikely to contribute economically. The issues are international and intergenerational equity, justice and fairness.

² Information about the bill is available at https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_80767/new-zealand-superannuation-and-retirement-income-fair.

³ The bill is available at <http://www.legislation.govt.nz/bill/member/2018/0107/latest/LMS106828.html>.

⁴ See https://www.parliament.nz/en/pb/hansard-debates/rhr/combined/HansDeb_20200701_20200701_28.

⁵ https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/Submissions/RPRC%20Submission%20on%20the%20NZ%20Super%20amendment%20bill_2019%20Final.pdf.

⁶ <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/OtherPapers/RPRC%20CFFC%20overseas%20pensions%2030%20September%202016%20Final.pdf>.

In June 2020, Ministry of Social Development tables show 809,001 people in receipt of NZS (375,732 men and 433,265 women, 4,000 under 65 and an additional 6,390 in receipt of the Veteran’s Pension).⁷

*Last year [2019], NZS cost \$14.5 billion and that cost is increasing by more than \$1b each year.*⁸

Given expected years of life at age 65 of 86.9 (male) to 89.3 years (female)⁹ so that on average, a net benefit of \$490 per week¹⁰ for approximately 23 years would total \$356,720 to \$458,640, all contributed by current taxpayers.

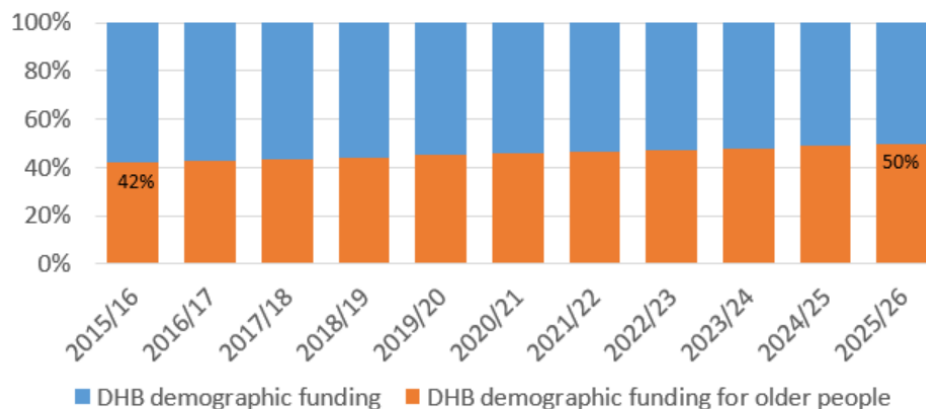
In addition to NZS, which is expected to cost \$20 billion a year by 2031, the vast array of ‘aged’ services and support (only some of which are means-tested) includes in-home care, Rest Home and Hospital subsidies, and subsidised prescription costs.¹¹

If a superannuitant’s overall income is low, or comprised primarily of NZS, further financial assistance is available. Non-recoverable government funding can contribute to or cover housing costs (rent or board, mortgage, rates, repairs and maintenance), health (doctor’s visits and prescriptions, dental treatment, home help, residential care), essentials (from glasses to car repairs or a fridge), and travel expenses.¹² There is also the SuperGold card and the many benefits and discounts it accesses.¹³

Of the 809,001 recipients of NZS, 237,970 (almost 30%) are not Pakeha or Maori or Pasifika. Of all NZS recipients, 44,757 were also receiving the Accommodation Supplement, 127, 899 were in receipt of some Disability Allowance and 8,849 in receipt of Temporary Additional Support/Special Benefit.

In addition to the NZS costs estimated above, because hospital care is publicly funded, and residential long term care costs are subsidised, older people take the greatest proportion of the health budget per capita.¹⁴

Share of health services used by people aged 65 and over



Source: Ministry of Health, estimate of future demographic-based funding for DHBs based on population growth alone

⁷ See <https://www.msd.govt.nz/about-msd-and-our-work/publications-resources/statistics/benefit/index.html>.
⁸ See https://www.parliament.nz/en/pb/bills-and-laws/bills-proposed-laws/document/BILL_80767/tab/video.
⁹ See <https://www.stats.govt.nz/topics/life-expectancy>.
¹⁰ See <https://www.workandincome.govt.nz/products/benefit-rates/benefit-rates-april-2020.html#null>.
¹¹ See <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/WorkingPaper/WP%202014-2%20LTC%20costs%20FINAL.pdf>
¹² See <https://www.govt.nz/browse/tax-benefits-and-finance/managing-your-money-in-retirement/financial-help-benefits-over-65/>.
¹³ See <https://www.govt.nz/browse/tax-benefits-and-finance/supergold-card/#who-can-get-a-card>.
¹⁴ See <https://www.health.govt.nz/nz-health-statistics/health-statistics-and-data-sets/older-peoples-health-data-and-stats/dhb-spending-services-older-people>.

In 2012/13, those aged 65+, comprising 14% of the population, accounted for 33% of the \$14 billion Health budget.¹⁵ Currently comprising around 16% of the population, people aged 65+ capture around 45% of the total Health spend. As part of this spending, District Health Boards (DHBs) spend \$983 million on support services for older people, with 60% of this going to aged residential care.¹⁶

As already noted, the issues with NZS policy are international and intergenerational equity, justice and fairness. The residency requirement is a small part of the overall policy design and argued here is intimately connected to how overseas pensions are treated under the Direct Deduction Policy (DDP). Currently the DDP affects around 90,000 people and the value of the deducted overseas pensions is around \$400 million per annum.

2. Historical background of RPRC work on residency and overseas pensions

In 2009, with partial funding from the Human Rights Commission, the RPRC published *New Zealand superannuation and overseas pensions: Issues and principles for reform*.¹⁷ That paper argued that the direct deduction policy (DDP) as set out in Section 70(a) of the Social Security Act 1964 (SSA), was an increasing cause of hardship and injustice as populations become more mobile.

If a resident receives a pension from another country, the Chief Executive of the Ministry of Social Development (MSD) may apply Section 70(a) of the Social Security Act 1964 (SSA), the DDP, and deduct that pension from the resident's NZS entitlement... An overseas pension of the kind that the Chief Executive decides should be taken into account in the calculation of NZS need not be from a country with which New Zealand has a reciprocal Social Security Agreement. It is sufficient, as stated in section 70(a) of the SSA, that the pension is "administered by or on behalf of the Government of the country from which the benefit, pension or periodical allowance is received."¹⁸

Option 1 in that paper, raising the residency requirement to 25 years, described as promoting "the principles of egalitarianism, equity, income adequacy, efficiency, and simplicity and transparency"¹⁹ would avoid the creation of injustice and hardship.

This option identifies that problems arise, not so much in section 70, as in the low residency requirement for NZS... From the time it was introduced in 1898, until 1937 when it was reduced, probably to encourage immigration, entitlement to the age pension in New Zealand included a residency requirement of 25 years. The current 10(5) residency requirement for entitlement to NZS sets up potentially perverse incentives for immigrants, and creates an unfair and potentially costly burden for New Zealand taxpayers.

Option 1 proposes raising the residency requirement for entitlement to NZS to 25 years for everyone, to be achieved between the ages of 20 and 65 years. It would not be possible to meet the requirement by using residency after age 65. Where a

¹⁵ Ibid, p. 4

¹⁶ See <https://www.health.govt.nz/nz-health-statistics/health-statistics-and-data-sets/older-peoples-health-data-and-stats/dhb-spending-services-older-people>.

¹⁷ See <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/WorkingPaper/New%20Zealand%20superannuation%20and%20overseas%20pensions%20Issue%20and%20principles%20for%20reform%20.pdf>.

¹⁸ Ibid, pp. 5-6.

¹⁹ Ibid, p. 44.

reciprocal Social Security Agreement exists, totalisation would apply in the residency test for NZS so that years of residence in the overseas country could be used.

Using totalisation would mean that only one basic pension is payable.... **Where the 25 years of residence is satisfied without totalisation, any other basic pension entitlements would be ignored, other than for tax purposes. Where there is no Social Security Agreement, any overseas pension to which the New Zealand resident is entitled from that other country will not be taken into account in the calculation of NZS.**

If NZS required at least 25 years between the ages of 20 and 65, it may then be far less important to identify the kind of overseas pensions that are brought into New Zealand.

Where the 25 year residency test is not met at age 65, NZS would not be payable but access to an income-tested benefit, at a level that could be set between a standard social welfare benefit and NZS, may apply. In this case, any overseas pension would be taken into account in the beneficiary's household income-test.

... For ordinary New Zealanders applying for NZS, establishing a 25 year residency record should not be much more complex than the present requirement.²⁰

In 2010, again partly funded by the Human Rights Commission, the RPRC published *Reform Option 1: Reforming New Zealand Superannuation for a mobile trans-Tasman population*.²¹

*New Zealand's current overseas pension and pension portability policies fall short of the principles of equity, transparency, sustainability, economic efficiency and administrative simplicity in a variety of ways. Many of these shortcomings were noted and repeated in the MSD's Reviews of pension policy (Ministry of Social Development, 2004b, 2005, 2008b).*²²

The current 10(5) residency requirement²³ for entitlement to NZS sets up potentially perverse incentives for immigrants, and creates an unfair and potentially costly burden for New Zealand taxpayers. Option 1 proposes raising the residency requirement for entitlement to NZS to 25 years for everyone, to be achieved between the ages of 20 and 65 years. It would not be possible to meet the requirement by using residency after age 65....

Since 85% of the 51,618 NZS recipients caught by the DDP have lived in New Zealand for more than 30 years (Ministry of Social Development, 2005, p. 14), a 25 year residency record could largely eliminate the inequities related to the DDP.²⁴

In October 2016,²⁵ the Ministry of Business, Innovation & Employment's (MBIE) New Zealand Residence Programme Cabinet Paper addressed the issue of older migrants, and

²⁰ Ibid, pp. 43-44.

²¹ See <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/WorkingPaper/Reforming%20New%20Zealand%20Superannuation%20for%20a%20mobile%20trans-Tasman%20population.pdf>.

²² Ibid p. 17.

²³ The current 10(5) residency requirement is 10 years total after age 20, with 5 of those years after age 50.

²⁴ Ibid, p. 18.

²⁵ For a useful sketch of immigration policy in New Zealand, see *Immigration chronology: selected events 1840-2018*, at <https://www.parliament.nz/en/pb/library-research-papers/research-papers/immigration-chronology-selected-events-1840-2018/>.

recognised the potential costs as well as presumed benefits of the 'Parent Category'. As noted previously, in 2016, the Government had closed the category to new visa applications as there were sufficient applications already in the system to fill the revised cap of 2,000 annually.

*There are arguments that a migrant's parents positively contribute to the family, cultural and economic wellbeing of their children (the sponsors) and their families. This support can be direct through parents enabling their migrant children to work, providing child care, care for sick children and assistance with household tasks.... Migrants' parents' contributions to the wider economy and community are less clear and may be negative particularly as migrant parents age. Older parents can incur additional publicly-funded healthcare costs that cannot currently be recovered from their sponsors. **Migrant parents can receive superannuation payments after ten years of residence. While research suggests that these costs are in line with aging New Zealanders, they are additional because if the parent had not been granted residence the Government would not have incurred them.***

Recommended Action:

... 19. agree to set a cap for the capped family categories (largely comprising Parent Category applicants) of 4,000 places over the two years, a reduction equivalent to 7,000 places on the previous NZRP;

20. agree to temporarily close the current Parent Category (Tiers One and Two) from the date of announcement of the NZRP, noting that NZRP places will need to be made available to grant residence to capped family applications in train (including EOIs that have been selected or invited to apply) at that point.²⁶

The Government agreed to the recommendations, becoming increasingly aware of the risks inherent in current retirement policy.

For the 2016 Retirement Commissioner's Review of Retirement Income Policy, the RPRC researched and wrote *New Zealand Superannuation policy and overseas state pensions*.²⁷ Again, the primary recommendation was to increase the residency requirement for NZS.

Rather than tinker with administrative rules to apportion NZS a possible solution may lie in reform of the residency requirement for NZS, and abandoning the DDP. If NZS required a much longer residency between the ages of 20 and 65, it may unnecessary to identify the kinds of overseas pensions that are brought into New Zealand. Requiring longer residency in New Zealand gives far less time to accumulate significant overseas contributory state pensions.

The residency requirement for eligibility to NZS, for example, could be increased from the current 10(5) rule to a single test of, say, 25 years' residence between ages 20 and 65. Unlike the current arrangement, there would be no possibility of meeting the requirement using residency after age 65 (this is consistent with the way NZS is treated for emigration to non-agreement countries, see above)....

²⁶ See <https://www.mbie.govt.nz/assets/9efa98e1ab/new-zealand-residence-programme-2016-17-to-2017-18-redacted-combined-docs.pdf>.

²⁷ See <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/OtherPapers/RPRC%20CFFC%20overseas%20pensions%2030%20September%202016%20Final.pdf>.

*In general, this option for reform improves equity and transparency and acknowledges the complexity of state involvement. Vertical equity considerations may require reform of the taxation of other income and NZS, so that local and overseas retirees with higher incomes, including incomes from lump sum superannuation benefits, pay appropriate taxation.*²⁸

The RPRC has continued to research and publish on the eligibility requirements for NZS, including age and residency. Given governments' ongoing reluctance to touch retirement policy, it was surprising in 2016 when the new Prime Minister of the National-led Government, Bill English, proposed raising the age of eligibility for NZS to 67 years, starting from 2037, and in that same year increase residency requirements (with grandparenting) to 20 years. Research showed that by 2041, \$4 billion or 0.6% of GDP could be saved.²⁹

*It was estimated that 120,000 fewer people would be eligible for NZS in the year 2041. Of this number, only 6,800 were those who needed to wait longer to meet the new 20 year residency requirements. It was estimated that there would be an offsetting cost from raising residency of an additional 3,100 more Jobseeker and Supported Living Payments. **Overall net savings in 2041 were expected to be only \$195 million.***³⁰

We note that the minimal amount saved is partially because under Bill English's proposal there were grandfathering arrangements. **It is not clear that NZ First has any grandfathering arrangements in mind and the current Bill needs a thorough economic and social evaluation. We attempt to provide some factual material for the Select Committee deliberations.**

A 2018 MBIE Cabinet Paper reports that the annual net gain of migrants was 63,800 for the year ending July 2018, falling from a record high of 72,400 in July 2017. The MBIE September 2018 baseline forecast is for annual net migration to decline by 9%, reducing to 57,000 in the September 2020 year.³¹

*... 4. The New Zealand Residence Programme (NZRP) is the Government's statement on who can get New Zealand residence each year. In 2016, the previous Government set a planning range for the NZRP of between 85,000 and 95,000 visas for the two year period that expired at the end of June 2018. Visas were proportionately allocated across the three residence streams: Business/Skilled Stream (60%), Family Stream (32 – 33%), and International/Humanitarian Stream (7 – 8%).*³²

*... 18. Granting residence to migrants allows them to settle long-term in New Zealand with a level of security that enables them to fully contribute to New Zealand society through their work, their businesses and their links within their communities. Residence provides migrants with opportunities to work, access to social services and healthcare, and options to bring their partner, children and/or parents to live with them in New Zealand.*³³

²⁸ Ibid, pp. 27-29.

²⁹ See Office of the Minister of Finance. (2016). *New Zealand Superannuation: Proposal to Cabinet*. Wellington.

³⁰ Ibid.

³¹ See <https://www.mbie.govt.nz/dmsdocument/4577-cabinet-paper-new-zealand-residence-programme-pdf>.

³² Ibid.

³³ Ibid.

Annex 1 of the Cabinet Paper shows an actual total of 3,753 in the 'Old Parent' category in the Residence Stream in the 2016/2018 years.³⁴

On 24 August 2018, MBIE delivered to the Minister of Immigration 'Proposals to change the New Zealand Residence Programme Parent Category and update its requirements'.³⁵

The Parent Category has a two-tier system, introduced in 2012, to help attract and retain high contributing migrants as well as reduce the fiscal costs arising from the category. It is currently capped at 2,000 places per year. Tier One has higher financial requirements for applicants and sponsors and looser family requirements than Tier Two. Tier One receives priority processing.... In 2016, the previous Government closed the category to new visa applications as there were sufficient applications already in the system to fill the revised cap.... There are arguments that a migrant's parents positively contribute to the family, cultural and economic wellbeing of their children (the sponsors) and their families....

Migrants' parents' contributions to the wider economy and community are less clear and may be negative particularly as migrant parents age. Older parents can incur additional publicly-funded healthcare costs that cannot currently be recovered from their sponsors. Migrant parents can receive superannuation payments after ten years of residence. While research suggests that these costs are in line with ageing New Zealanders, they are additional because if the parent had not been granted residence the Government would not have incurred them...

We recommend re-opening the Parent Category visa with its current cap as a single-tier system limited to Tier One applicants only, and re-starting selection of new applications. In addition to removing the Tier Two sub-category, we propose two further changes to the Parent Category policy that are consistent with the policy objectives. These changes are:

- Update the level of financial requirements to make sure sponsors keep being able to meet their sponsorship obligations, and*
- Update the evidential requirements of sponsors' income, to ensure sponsors genuinely have the means to support their parents.*³⁶

Clause 10 states that while Immigration New Zealand (INZ) had not made any further selections from the Parent Category pool since the category was closed in 2016, the Expression of Interest (EOI) system had remained open for both Tiers 1 and 2, and INZ had continued to receive EOIs from prospective applicants. The size and make-up of the Tier 1 Parent Category EOI pools was 4,900 EOIs registered, representing around 8,000 people. The main nationalities represented in that pool were: China (2,273), India (765), United Kingdom (452), South Africa (272), Fiji (252) and the Philippines (184).³⁷

MBIE recommended that the Government allow New Zealand residents and citizens to sponsor their migrant parents for residence in New Zealand (capped at a maximum of 2,000 visas per year), subject to financial requirements and a 10-year undertaking to cover their parents' accommodation and living costs. The Parent Retirement Category would require NZ\$1 million to invest in New Zealand for 4 years plus another NZ\$500,000 to live on.³⁸ This is a recognition of the costs of elderly dependants.

³⁴ Ibid, p. 13.

³⁵ See <https://www.mbie.govt.nz/assets/proposals-to-change-the-new-zealand-residence-programme-parent-category-and-update-its-requirements.pdf>.

³⁶ Ibid, pp. 1-3.

³⁷ Ibid, p. 6.

³⁸ Ibid, p. 3.

However, MBIE also noted that the health system does not allow the recovery of health costs for sponsored parents. Moreover, the Minister of Health's Eligibility Direction 2011 provides that a person who holds "a residence class visa" is eligible for publicly funded health care, including for rest home care. "This prevents costs incurred by parent migrants from being acknowledged as a debt and so these costs cannot be recovered from sponsors."³⁹

Interest.co.nz in October 2019 published statistics on immigrants, with migrants aged 60+ making up an increasing percentage. Statistics NZ figures show 8,923 migrants aged 60 or over arrived in this country in the 12 months to the end of July, the highest number since they began compiling the information in 2015. The net gain of migrants aged 60 and over was 1,887 in the 12 months to July 2019, 3.6% of the total net gain of 52,722 over the same period, down from 4.5% in the 12 months to July 2015 (see table below).⁴⁰

While the number of migrants aged 60 and over who left New Zealand long term has been growing at an even faster rate, with 7,036 leaving in the 12 months to July, the majority of those who have qualified for NZS will be taking it with them.

Migrant Arrivals Aged 60 Years and Over					
Year to July	Arrivals	Departures	Net Gain	% of Total	Total Net Gain
2015	7341	4905	2436	4.5%	54,235
2016	7839	4988	2851	4.5%	63,948
2017	7767	5299	2468	4.3%	57,878
2018	6991	5152	1839	3.8%	48,709
2019	8923	7036	1887	3.6%	52,722

In 2019, as part of the Review of Retirement Income Policy by the Retirement Commissioner, the RPRC published *Intergenerational impacts: the sustainability of New Zealand Superannuation*.⁴¹

*Raising residency requirements ... means that revenue would be foregone from the overseas pensions direct deductions policy. **Dale & St John (2016) argue that any increase in residency should be in the context of reforming section 70 of the Social Security Act. They proposed a residency increase to 25 years and abolition of the deduction of an overseas state pension from a person's NZS while retaining and updating certain reciprocal agreements such as with the UK and Australia.***

*The cost of the long overdue reform of section 70 might simply offset the savings from increasing residency. Even without this offset, increasing residency is not a serious contender for improving fiscal sustainability and especially not in the short run. In terms of intergenerational perceptions of fairness however it may be a popular policy.*⁴²

³⁹ Ibid, p. 9.

⁴⁰ See <https://www.interest.co.nz/property/102012/children-and-migrants-aged-60-and-over-are-making-increasing-percentage-migrants>.

⁴¹ See <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/RPRC/OtherPapers/ToR%206%20FINAL%20St%20John%20and%20Dale%204%20Oct%20revised.pdf>.

⁴² Ibid, p. 54.

3. Concluding remarks

The current NZS policy is admired for its universalism, its comparative generosity, and its prevention of poverty among the older population. It is funded by current taxpayers. The policy problems include the ease of access to this benefit based solely on only 10 years of residency. We agree that this raises issues of international and intergenerational equity, justice and fairness.

Increasing the residency requirement on its own would improve intergenerational equity, reducing the unfair burden somewhat on current taxpayers. However it does depend on how it is done and this bill is very light on detail of that. Moreover if it is phased in with grandparenting the savings will be negligible.

The RPRC strongly supports increasing the residency requirement to a minimum of 20 years (preferably 25 years) without grandparenting but with compensation through removing the DDP except for international agreement countries such as Australia when totalisation of years for 20 years residency is applied. This would greatly simplify the administration of section 70, and bring improved equity to the treatment of overseas pensions.