

# RPRC Update

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## 2019 Review of Retirement Income Policies

The Interim Retirement Commissioner, Peter Cordtz, is overseeing the 2019 Review of Retirement Incomes Policies for the Commission for Financial Capability. The Retirement Commissioner's report and recommendations will be tabled in Parliament in December. The 2019 Review Terms of Reference are available [here](#).

Independent research papers commissioned for the Review are posted on the CFFC's website [cffc.org.nz](http://cffc.org.nz). The views expressed in these reports are entirely those of the authors and do not necessarily reflect the views of CFFC or the recommendations to be made at the end of the current Review.

Public submissions are open until October 31.

Susan St John and Claire Dale, of Auckland University's Retirement Policy and Research Centre prepared 2 research papers for the Review.

### ***Intergenerational impacts: the sustainability of New Zealand Superannuation***

is in response to Term of Reference 6: "An assessment of the impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current New Zealand Superannuation settings." That paper is available [here](#).

That paper suggests paying New Zealand Superannuation (NZS) as a tax free grant. A special tax scale for other income for those over the age of 65 could help claw back NZS from high income earners.

NZS is paid out of general taxation, and is set to take an increasing share of Government spending as the proportion of older people rises. Treasury's long-term fiscal projections to 2060 show that if all policy settings, including for tax, stay unchanged, national debt would grow unsustainably. Of course there will be changes made to prevent that, so it is not a prediction. If something has to give, with health and welfare and

education under intense pressure, tweaking NZS may be part of the solution.

St John and Dale argue that raising the age of eligibility is not the answer, nor is reducing the amount received by superannuants. These changes could create new problems, and full means testing of the age pension as in Australia would be political suicide, but they did see merit in a new tax structure for high income earners over 65.

Their "blue sky proposition" pays NZS as a universal grant not part of taxable income. When additional income is earned, it is taxed under a progressive tax regime so that high income earners effectively pay back the grant. One scenario would see a tax rate of 39% imposed, whereby the superannuant would have to earn \$123,000 before the "break even" point was reached. To protect the large majority of superannuitants who have only modest amounts of other income, a two-tier tax scale of 17.5% and 39% is proposed.

St John and Dale suggest that: "*This approach retains simplicity and universality while reigning in expenditure at the top end. Reductions in payments to high income superannuants would provide a modest contribution to the Government's overall fiscal position, making it fairer to the working age Kiwis whose tax pays for NZS.*"

In all there are 12 scenarios modelled and costed. If the two-tier tax regime along with an alignment of single and married rates had been in place in the 2017-18 financial year, around 16% of the cost of NZS could have been saved. There would be additional spending required for those with high accommodation costs. St

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John and Dale believe that a 10% saving could be readily achievable without affecting the vast majority of retirees at all. In today's terms that is about \$1.5 billion.

In a CFFC press release, Peter Cordtz said St John and Dale's suggestions were worthy of consideration: "... it's worth looking at ideas where income could be redistributed more equitably, including between generations. NZS was established to go beyond mere prevention of poverty in old age, and to ensure all superannuitants have an acceptable standard of living. We want to ensure NZS remains as a fundamental basic income for future generations." See full PR [here](#).

**Decumulation: Time to act**, is a response to Term of Reference 8: "An Assessment of decumulation of retirement savings and other assets, including how the Government can ensure New Zealanders make the most of their money in the decumulation", and is available [here](#).

In summary: *Accumulation* is the process of saving for retirement eg via KiwiSaver, while *Decumulation* is the process of spending those savings. The variability in mortality means that an individual can expect between 0 and 40 years in retirement, which makes planning decumulation a challenge. Management of property and investment income can become increasingly problematic as people age, especially if they experience cognitive decline. Various drawdown products for retirees' savings are available through banks, KiwiSaver providers and insurance companies, but even so retirees face many risks, including outliving their savings, living longer than expected and requiring expensive long-term care.

Market failure occurs when the insurance products that people desire cannot be priced and sold by private insurance companies. Such market failure arises because, rather than statistically-determinable 'risk', the real world issues involve 'uncertainty'. The risks faced by middle income retirees are largely uninsurable in the private sector. The risks of investing badly or unanticipated inflation, low interest rates, or living longer than expected, of dementia and finally of expensive long-term care, are difficult risks for private insurance companies to price accurately.

If middle-income people are to have insurance for the uncertainties they face, public policy intervention is likely to be required to overcome the limitations of private insurance. While a public health system and a basic wage-indexed state pension provide a large degree of protection, surveys show that another \$10,000-12,000 income each year is needed by middle income people.

New Zealand has no real annuities market, nor any strong culture of annuities as do many other countries. Annuities could benefit many retirees in the current low interest an environment where older people may be prone to exploitation by institutions who offer seemingly higher returns but mask the risks involved. Annuitisation prevents the consumption of the lump sums too early in

retirement, and can provide for ongoing income to meet future healthcare costs, including long-term care that may otherwise become a cost to the state.

St John and Dale propose a new approach they have called "KiwiSpend". In exchange for a lump sum, a limited, gender neutral, KiwiSpend annuity could be provided as a opt-out default option. KiwiSpend would include long term care insurance and be limited to additional \$10,000 to 15,000 per annum. At the point of needing Long-term care the annuity would treble to reduce the burden of extra costs for middle income people.



## More on the Retirement Incomes Policy Review

RPRC's public summit, held at the University of Auckland Business School on 26 April, focused on the 2019 Retirement Income Policy Review, was reported in the June edition of the RPRC Update. Given the importance of the Review, it is revisited here. The Review [terms of reference](#) were released by the Government in March 2019, and the Retirement Commissioner's report and recommendations are to be delivered to the Government in December.

**The Summit was made possible with the support of RPRC's UK-based Associate, David Harris, Managing Director of TOR Financial Consulting, and the support of the University of Auckland's Public Policy Institute and Department of Economics.**

Presentations from the Summit are available online, and audio to presentations is available [here](#).

- **Session 1 Looking back to go forward** is the Welcome and Introduction to the Review by Susan St John (RPRC), a discussion by Michael Littlewood of his experience as a member of the 1992 Todd Task Force and the events up to the 1997 Referendum, and Diana Crossan presents the retirement income framework from 2003 to 2013, while she was the Retirement Commissioner.
- **Session 2 Ageing population fiscal and health implications** begins with Matthew Bell (NZ Treasury) presenting some long term projections and scenarios under an ageing population, then Ngaire Kerse, the Joyce Cook Chair in Ageing Well, discusses how the realities of an ageing population inform the projections. Judith Davey (IGPS) discusses the retirement income eco-system.
- **Session 3 International overview** begins with RPRC Associate and supporter, David Harris (UK) discussing the state of pension play in the UK and

Ireland. Nick Sherry (former Superannuation Minister, Australia) then offers a comparison between the Australian and New Zealand retirement systems, and Calvert Duffy (Australia) provides a short overview of the Hayne Royal Commission findings. Scott McMurray (FMA) focuses on the New Zealand conduct and culture review findings.

- **Session 4 Equity and distribution** begins with a discussion around intergenerational and gender equity by Claire Dale (RPRC) and some solutions being adopted internationally. Peter Cordtz (CFFC) focuses on low income populations and retirement issues, and Alex McKenzie (MSD) suggests some emerging trends among older New Zealanders.
- **Session 5 Ageing Working and Kiwisaver** begins with Troy Churton (CFFC) speaking on ageing workers, workplace participation and KiwiSaver, then John Cliffe (AFA) takes a closer look at KiwiSaver, particularly default funds and the regulatory environment. Richard Klipin (FSC) discusses financial service advice, with a close focus on online advice. Susan St John (RPRC) closes the session with a look at the possibilities of and support for safe decumulation.
- **Session 6 Aspirations and Overview** is a short summary of the speech by the Hon Kris Faafoi, Minister of Commerce and Consumer Affairs, stating his hopes and aspirations for ensuring lifelong wellbeing for all New Zealanders. Len Cook, former NZ Statistician and Families Commissioner, offers an overview of, and his reflections on, the Summit.
- **2019 Summit Pack** contains an outline of the Summit purpose, the Programme, short presenter bios, Terms of Reference for the 2019 Review, and links to relevant resources.

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## ***Informing the 2019 Review – 133 questions that New Zealand needs answered*, by Michael Chamberlain and Michael Littlewood.**

Michael Chamberlain, an Auckland-based actuary and investment adviser, and Michael Littlewood, now retired but an active participant in public policy issues associated with saving and superannuation and a co-founder of the RPRC, have published *Informing the 2019 Review – 133 questions that New Zealand needs answered*. This report identifies what the authors consider to be the key issues, details the available local and international evidence, and then lists the questions they consider need answering on all aspects related to saving, pensions and retirement incomes, and the review process itself.

Chamberlain and Littlewood label the terms of reference for the 2019 Review as “in the same timid mould as its

2016 equivalent” and say they do not expect much more than has been produced by the previous six equivalent Reviews. They suggest that the 2019 Review could be “another wasted opportunity”. The report *‘Informing the 2019 Review – 133 questions that New Zealand needs answered’* is available online at [www.alt-Review.com](http://www.alt-Review.com).

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## ***Why we should care about retirement policy***

**Extract from an article by Peter Cordtz, the interim Retirement Commissioner, in e-tangata, 29 September 2019.**

*... I tell my friends that CFFC’s kaupapa is not just about what happens after retirement, but how we put ourselves in the best possible shape to enjoy, rather than endure, that stage of our lives. The specifics of that will look different for everyone, but the goal for most will be to live those years with dignity, relative comfort, and choices. Those choices may range from travel to “toys”, or just enjoying more time with the whānau. Having choices is what I think wealth is really about...*

*Previous reviews have come and gone with all the usual bases hit, including the perennial issue of whether the country can afford to keep paying for NZS as it’s currently set. It’s a universal benefit provided to all eligible New Zealanders when they reach the age of 65 – \$411 per week for a person on their own, or \$632 for a couple.*

*While this sounds fairly modest, it currently represents a taxpayer-funded investment of \$39 million per day. Yes, you read that right. That’s \$14 billion per year, compared to the \$15 billion spent on health and \$14 billion on education...*

*So where does the money for NZS come from? Not from a separate fund or ring-fenced pool of taxpayer money. No, it comes from the same taxes used to pay for health, education, and every other government service. Today’s taxpayers fund today’s superannuants.*

*This is why long-term affordability is a recurring theme of these reviews, with the default debate tending to be on issues like raising the age of eligibility, means testing, how best to support New Zealanders in retirement, and whether to compel people to save more for their retirement...*

*We’re all going to be retired one day, and many of our whānau are already approaching that time in their lives when they want or need to finish paid work. Our aim is to ensure every New Zealander has a good standard of living as they age, now and in the future.*

*Mō tātou, ā, mō kā uri ā muri ake nei. For us and our children after us.*

The full article is available [here](#).

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## (Small) progress toward fair treatment of overseas pensions

The RPRC heralded the removal of the spousal deduction and the Non-qualified partner (NQP) provision in the last RPRC Update see [here](#).

The RPRC is concerned that the abolition of this discriminatory treatment will not be retrospective, and may even be delayed. While the expected removal is for 1 July 2020, the Minister has said this will be subject "to the enabling legislation being passed by that date". The legislation may be contested as the Minister has coupled this change with another more expensive and controversial change for underage spouses: the removal of the NQP provision.

In the New Zealand Superannuation and Veteran's Pension: Modernisation and Simplification Proposal, Minister Sepuloni, Chair of the Cabinet Social Wellbeing Committee, proposes to: *'exempt any voluntary component of a government-administered overseas pension from 'direct deduction''*.

In summary: In some countries people make additional voluntary contributions to their mandatory government-administered pension schemes. The current wording of section 187 of the Social Security Act enables MSD to deduct the entire overseas pension amount, including the voluntary contributions (with the exception under our social security agreement with the Netherlands). There are currently around 90 people whose voluntary overseas pension component is known and who have this portion of their pension deferred from direct deduction, with a current annual value of \$0.602 million. The Minister proposes to amend the SSA so that any portion of a government-administered overseas pension that is based on voluntary contributions is not deducted. Government-administered overseas pensions based on compulsory contributions will continue to be deducted.

The total package of changes to New Zealand Superannuation and Veteran's Pension that Cabinet has agreed to is available [here](#).

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## 1<sup>st</sup> October: UN International Day of Older Persons

The theme this year for the UN International Day of Older Persons was "The Journey to Age Equality". The awareness day provides the opportunity to acknowledge the contributions older people make to our society and raise awareness of the challenges of ageing.

Events held around the country to celebrate, recognise and thank seniors for the important contributions they make included afternoon teas in Nelson and Napier, and in Auckland the Minister for Seniors launched the new SuperGold website and app. Wellington will host the first ever Senior Regional Games, followed by a week-long celebration as part of Seniors Week from October 14-20.

It is 50 years since the term 'ageism' was coined in 1969, yet ageing and later life are still commonly associated with being frail, lonely and sad. This negative societal narrative risks damaging our sense of self-worth and limiting our opportunities and aspirations as we grow older. The outdated, ageist attitudes that prevent too many people from making the most of their longer lives need to be challenged.

One response to New Zealand's ageing population is the **Positive Ageing Strategy: Better Later Life He Oranga Kaumātua 2019 to 2034**. The Strategy was publicly consulted in 2018 and is now being updated. A summary of the new strategy is available [here](#).

Possible priorities for the Positive Ageing Strategy include:

- Ensure all older people are respected and valued, and those who can't work up to the qualifying age of NZS are supported.
- Ensure older workers are treated fairly, and their skills and experience recognised.
- Improve access health and social services, and coordinate assistance to vulnerable older people.
- Increase supply of public housing for older people and improve housing options.
- Enable older people to use technology to have a better life and ensure those who do not use technology can still access the services they need.
- Encourage local authorities to plan for, and take action to respond to, an ageing population.
- Continue to encourage the development of the Age-friendly Cities and Communities programme.

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## Submission: National Policy Statement on Urban Development (NPS-UD)

It is disappointing, given the Positive Ageing Strategy and the call for Age-friendly Cities and Communities (as outlined above), that the proposed NPS-UD makes no mention of the changed requirements imposed by an ageing population. That proposed Policy Statement is available [here](#).

Submissions closed 10 October 2019.

RPRC's submission is available [here](#).



## Review of Funding Model for Residential Care

### Ernst & Young report delivered August 2019 to Ministry of Health and 20 District Health Boards

The Ministry of Health and District Health Boards (DHBs) commissioned the first comprehensive Review of the funding model in 20 years to see if the way funding is currently allocated is fit for purpose now and into the

future. The aged residential care (ARC) sector receives about \$1.95 billion in funding, of which \$1.2 billion comes from DHBs. Care for older people is funded according to the level of care they require: 90% of residents fall into either the rest home or the hospital categories, and the other 10% need dementia or psychogeriatric care. As a result of the 'ageing in place' strategy pursued by DHBs and the increasing range of retirement living options available, older people are living at home longer, going into care at an average age of 85, and then frequently have complex needs requiring specialist, around-the-clock care.

The ARC funding model Review was conducted in three stages over the course of 2018, engaging with older people (or their families), funders, providers, health professionals, and regulators. The Review analysed available data on older people's needs, use of ARC, trends in ARC capacity, and costs of ARC service provision, including analysing differences across DHBs, urban and rural locations, and providers of different scale, scope and ownership structures. Funding models used in Australia and Canada were also considered due to both cultural similarities, and the functional separation of accommodation and care in their models.

Stage 2 documented the key assumptions about the needs of older people and costs of service provision underpinning the existing funding model, and considered the existing funding model's strengths and weakness. Stage 3 resulted in a number of future funding model options being identified and, where possible, prioritised as recommended ways to improve the allocation of DHB funding to ARC.

*The Review's assessment of providing targeted assistance to residents of lesser means to access (currently) unfunded preventive/maintenance health services suggests this option ... will support improved equity of access to care, and the prevention of acute care needs, most notably resulting from poorer oral health. The option should also support providers with high proportions of residents with lesser financial means to improve the efficacy of their care as they will incur lower costs in terms of coordinating/funding access to relevant services and/or managing a resident's adverse outcomes. Further detailed policy work is required to understand the cost/benefit of targeted assistance (EY, p. 24).*

The Ernst & Young report is [here](#).

## pensionreforms

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In the third quarter of 2019, 12 new reports were added to PensionReforms. Several of these are directly relevant to the current three-yearly Retirement Commissioner's review of retirement income policies.

### **Embracing a Super Model – the superannuation sky is not falling**

The New Zealand Institute has looked at New Zealand's relatively generous Tier 1 pension. Its 2018 report suggests some 'tweaks' to the design and also that the 'New Zealand Superannuation Fund', set up in 2001, should be dismantled. See [here](#).

### **Ageing is a drag: Projecting labour force participation in New Zealand**

New Zealand's labour force participation rates have grown significantly in the last 25 years and look set to increase further in the next 15, especially amongst the age 55+ group, already amongst the highest in the OECD. See [here](#).

A report from two of PensionReforms' editors forms a submission to the Retirement Commissioner's review: **Informing the 2019 Review – 133 questions that New Zealand needs answered**. See [here](#).

There are now 805 reports by 1,052 authors from 282 institutions that have PensionReforms' abstracts. The reports cover 71 countries (and country groups) and are indexed (and searchable) by 176 topics.

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## **RPRC media mentions and public presentations:**

**11 June 2019, TVNZ** M.Claire Dale interviewed in documentary on ageing New Zealand, 'What next'.

**9 July 2019, NewsRoom**, Susan St John writes "[Poverty not an earthquake but still a crisis](#)". .

**4 September 2019, Press Release**, M.Claire Dale PR on Minister Faafoi's interest rate cap – [controlling the maximum rate at 300% annually](#). This is an improvement!

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