WHO GETS WHAT - Month Organiser

ACTIVITY IN SEPTEMBER

- Our ‘Tales from the Tent’ mobile video recording studio captured the public’s thoughts in Christchurch – see ‘Caught on camera’.

- An online public survey attracted 2,700 participants, who also contributed an additional 5,300 comments – see ‘What NZ told us’.

- Results from our survey on financial security in retirement were released during Money Week – see ‘Making headlines’.

- A background paper was published on New Zealand’s current retirement income policies, prepared for the Commission by the Ministry of Social Development – see ‘Heavy stuff’.

HIGHLIGHTS

- New Zealand Superannuation (NZS) is a simple, universal pension paid to New Zealand citizens or permanent residents, who qualify on the basis of being over 65 years of age and resident in New Zealand for more than ten years since the age of 20, including five years after 50. NZS is not means-tested and does not require contributions.

- New Zealand’s Old Age Pension Act was enacted in 1898 with an eligibility age of 65, a residency requirement of 25 years and a strict income and asset test. Since then substantive changes were made in the 1938 Social Security Act and then during the 1970s, with the introduction in 1977 of National Superannuation from age 60, set at 80% of the average wage for a couple.

- Significant cost increases resulted in a surcharge on superannuitants’ other income and then an increase in age of eligibility from 60 to 65 between 1992 to 2001. The basis of our current NZS was developed by a 1991 taskforce and given effect in the 1993 multi-party accord, with surcharges removed in 1998.

- As of March 2016, there were 696,803 NZS recipients, an increase of 12.5% since March 2013. The number of recipients is projected to reach one million in ten years.

- The rate of NZS payments are adjusted every year based on annual inflation (CPI) and further adjusted, if required, to 66% of the average weekly net wages for a couple. On 1 April 2016, the NZS payment rate increased by 2.7% reflecting the annual increase in CPI and average wage growth.

- The cost of NZS in 2016/17, after tax, is $10.96 billion and is forecast to double in the next 12 years to $22.6b in 2028/29. As a percentage, this represents an increase from 4.2% to 5.2% of net nominal GDP.
• In 2016, 83,271 NZS recipients, or 11.8% of the total, had deductions from their payments based on the amount they received from overseas pensions.

THEMES

• As our population ages and we live longer the cost of NZ is rapidly growing. To afford NZ long term the government has to consider options including: raising taxes, spending less in other areas or changing New Zealand Superannuation settings and ‘who gets what’.
• There are limited options for making changes to NZS policy to reduce the costs, being: increasing the starting age of eligibility; reducing the payment rate; or restricting the number of recipients by means testing.
• Internationally, the move has been to raise retirement ages to improve the sustainability of pensions systems and in recognition of increasing longevity. Australia is raising its age to 67 by 2023. When the pension age was first introduced in 1898 at 65 about 3% of the population were eligible, this has risen to 15% today. The review recommends lifting the NZS age to 67, with a ten-year lead-in period, so no one over the age of 55 is affected.
• Indexing NZS to CPI and average wage growth means the cost increases in line with economic growth. Since 2008 the rate of NZS has increased by 34%, this compares to 11.2% inflation, which is used as the rate of adjustment for all other benefits. No change is recommended to the indexation of NZS.
• New Zealand has the lowest residency requirement of 10 years for a pension in the OECD, while also having one of the most generous relative to average wages. Australia also has a 10-year residence period but income and asset testing as well. The OECD average is 26 years with many countries requiring 40 years’ residence and lengthy contribution periods for a full pension. A Commission survey found 63% of respondents thought the length of residence for NZS should be more than 15 years.
• 23.7% of all those over 65 are participating in the workforce and are also eligible to receive NZS. Because NZS is not income-tested there is an incentive to continue working.
• While not clearly defined in law, the purpose of NZS is important when considering ‘who gets what’. The primary purpose is to prevent hardship and poverty in older age. Providing sufficient income to allow a reasonable level of continued participation in society is also widely held to be important as part of an enduring intergenerational social contract, but will come under pressure.
• Purpose is important to consider before discussing questions of NZS affordability. There are limited options to reduce the increasing cost of NZS, and each option has quite different implications. The universal basis of NZS is held to be important, which removes means-testing and requiring contributions as options. Preventing hardship, and the high level of dependence on NZS as the sole source of income, limits changes to the payment rate.
• Raising the age of eligibility impacts those who physically struggle to work into their 60s or are not able to find suitable work. These issues extend beyond retirement policy and require earlier intervention and investment from age 50.
• Our ageing population structure is driving future cost increases and consideration of 'who gets what'. The earlier that decisions are made the better to allow a long transition time. Policy change must be stable, with cross-party agreement, to provide assurance of future settings and enable long-term retirement planning.

MORE INFORMATION
• Recommendations – see ‘Change Today’.
• Results of our online public survey – see ‘What NZ told us’.
• Background paper on New Zealand’s current retirement income policies, Ministry of Social Development, May 2016 – see ‘Heavy stuff’.
• New Zealand Superannuation policy and overseas state pensions, Retirement Policy and Research Centre, September 2016 – see ‘Heavy stuff’.
• Treasury 2016 Statement on the Long-term Fiscal Position – see ‘Heavy stuff’.