The Section 70 Direct Deduction Policy debacle.

It is now 12 years since the Ministry of Social Development (MSD) with participation from other government departments presented the then Minister of Finance a report suggesting the implementation of proportional payments of New Zealand Superannuation based on the length of time a person had resided in New Zealand. This proposal would have eliminated all the unfairness that people with overseas pensions presently suffer under the 'dollar for dollar' direct deduction policy.

In recommending package 'A' the report from the MSD proposed: -

"That Package 'A' maintains the provision of a universal age pension, but changes the residence requirement. The current 'all or nothing' approach is replaced with a proportionalised rate that depends on the number of years a person has spent in New Zealand between the ages of 20-65. To obtain full New Zealand superannuation (NZS) a person needs to be resident in New Zealand for 40 years during this time. People who have lived overseas but are now resident in New Zealand will receive 1/40th the full rate of NZS for every year of New Zealand residence between the ages of 20-65. A person will need at least 10 years residence to receive a NZS payment. The direct deduction payment policy will be abolished for these people. They will be able to keep their overseas pensions but their NZS will be based on their working life years in New Zealand".

The report further stated that the proposal "also establishes genuine cost-sharing between countries thereby providing an incentive for people to claim their overseas pension and enabling us to negotiate more social security agreements with other countries. In addition, it facilitates the Government's objective of greater migration and labour market flows into and out of New Zealand. By awarding the same rate of portable NZS as domestic NZS, it removes the main obstacle we currently face in negotiating a social security agreement with the United States".

Obviously those politicians from 12 years ago did absolutely nothing to address either the direct deduction policy or proportional pensions as recommended by the MSD. One major downside of that inaction is the insane amount of superannuation now being paid out to over 80,000 pensioners who have migrated to New Zealand under the 'Family Parent' immigration policy in those 12 years since that report was presented to
the government. Those pensioners are now being paid the full rate of NZ superannuation after fulfilling ten years’ residency in the country whereas if the 2004 report had been implemented they would only be entitled to 1/4 of the superannuation rate if indeed they had still decided to migrate to New Zealand under such a pension policy. The inaction of every government since then to implement the 2004 report recommendations has already and will continue into the future to needlessly cost the country billions of dollars in superannuation payments quite apart from the inevitable future health costs.

All the more shameful that last year the present government with the assistance of two crony political party supporters denied the opportunity for a Private Member's Bill mirroring the exact same proportional payment of superannuation recommended by the MSD in 2004 to be sent to the Select Committee for public consultation. I really can't see what the government had against the proposed Bill's intent to pay out pensions proportionally based on length of residence in New Zealand. Not only would the Bill have abolished the hated direct deduction policy but the very same proportional payment system it proposed is already used by the government to work out pension payments for people wishing to retire to an overseas country. I recently moved overseas for my retirement and my New Zealand pension is now proportionally paid to me based on my almost 40 years’ residence in the country. (Current legislation requires 45 years’ residence in New Zealand to receive full NZS if living overseas in a non-agreement country). I didn't see any government MPs jumping up and down in Parliament during the debate on the proposed Bill claiming that the proportional treatment of my pension was unfair!

Just as successive governments have ignored the unfairness when implementing the direct deduction policy which mainly affects pensioners from Western countries, so they have also turned a blind eye to the inevitable problems that migrant workers from Eastern countries will face upon retirement. How many of those migrants realise that should they return home to live before reaching the age of 65 they will not be entitled to even a partial New Zealand pension despite having worked in the country for many years. Practically every other progressive country in the world has initiated bilateral social security agreements whereby pensions are paid out based on years worked in each country and allows applications for pensions to be made whilst living in another country. New Zealand only has pension agreements with a handful of countries not one of which covers any Eastern country where many migrants have originated from over the last twenty years.
It really is a disgrace that government politicians continue to bury their heads in the sand rather than tackle the obvious major problems facing National Superannuation. As shown above government inaction to implement changes recommended by one of its own departments has needlessly cost the country billions of dollars. The younger generation rightly question whether National Superannuation will be viable when they eventually retire. I would suggest that question can only be answered in a positive manner if government politicians drop their arrogant stance and instead initiate a genuine multiple political party superannuation debate to bring about a workable consensus.

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