

## Future Superannuation Concerns

I recently read a Mary Holm column in which you asked for input on ideas on future superannuation savings.

**Superannuation:** The idea of a future pension fund has been bandied about for the last 150 years with the efficacy of it varying during that time.

The purpose of superannuation, as I understand it, is that the aged in our population should not be placed in dire financial straits when, because of age, they can no longer work for a living. Varying societies have different ways of dealing with this.

In some societies that don't have superannuation, the aged are expected to be cared for by their families. Or the aged work till they die. In most of the developed world, the government provides some sort of financial assistance on reaching a certain age. That assistance is either self-generated by a percentage of the wage/salary going into a retirement fund, or as in NZ, the government funds a general pay out across the board to all citizens reaching 65 years of age. However that system can no longer carry the burden and must be changed.

Tackling the superannuation matter in isolation would be a futile task. There are many precursors to getting superannuation.

So what I propose is to submit my ideas under certain headings –

Birth Rate, Housing, Immigration, Ethnicity, Taxation, Banking Safeguards, Scheme Safety, Increasing the Age of Availability.

**Birth rate:** An article in the Herald -

[http://www.nzherald.co.nz/lifestyle/news/article.cfm?c\\_id=6&objectid=11403961](http://www.nzherald.co.nz/lifestyle/news/article.cfm?c_id=6&objectid=11403961), Showed that our replacement birth rate should be 2.1 babies per woman but it is in fact 1.94. That obviously has serious consequences for the future viability of NZ Superannuation.

One of the reasons for the lowering birth rate is the necessity for women to have to go out to work in order that there is sufficient money to pay the

mortgage. Therefore the incentive is to work for the money. When they do have enough money to have children their biological clock is running out of time. And this in turn may mean that there are more medical interventions to ensure healthy babies not to mention the more emotional problems there may be with older parents trying to cope with raising children. The days of the man earning sufficient money to support a family are long gone. (Has any research been done to see if women are happy to go out and work, or if they would be happier at home raising children?).

**Housing:** Up until recently we have been lucky in NZ in that we have been able to afford to buy our own homes. That situation (at least in Auckland) has now ended. Owning our own homes means that in retirement the state does not have to fund our accommodation. And the corollary is also true. If, by the time we retire, we don't own our own home the government may have to fund an accommodation supplement.

If, in the future, the state doesn't fund the accommodation allowance the burden will fall on the children to look after their parents, which could lead to family tensions not to mention the inability of the family to long plan for that elder accommodation – worst case scenario, four people.

Because young people cannot afford to buy their own homes (and in fact there are some who cannot even afford to rent) there are people who have to live on the streets, in their cars, and in garages. The "Dunedin Study" (TV 1, "Why am I") showed that children who are brought up in substandard conditions never achieve the longevity of children who are brought up in acceptable conditions. The medical and psychological results of those substandard conditions are set in stone by the time they are 18 years of age. Even if they become rich in later life, those conditions cannot be reversed. While the substandard conditions are not part of the superannuation debate, in fact it means that we are short changing a portion of our population of their superannuation.

The government recently legislated to ascertain how many of our homes were being bought by overseas buyers. That legislation had not even been enacted for 6 months when it was acknowledged that it was totally inadequate. It did not show the houses that were bought by overseas trusts, it did not show the

houses that were being bought for overseas buyers by NZ entities. I am aware of two houses within a half kilometre of my own home that have been bought by an overseas based Indian, and an overseas based Chinese. Both have remained empty for the last two months.

Two offshoots of the housing issue are immigration and ethnicity of immigrants.

**Immigration:** Presently there are a large number of immigrants being brought into the country because of our lack of qualified staff, particularly in the building industry. A large percentage of those people are needed for the Christchurch re-build. Once that rebuild is finished it should (in theory) release those qualified staff to concentrate on the Auckland housing shortage.

Would some of those immigrants (Philipinos, Indians, Chinese) then be able to claim some sort of right to remain in NZ and become citizens? On one hand the argument could be yes. They helped us out in our hour of need therefore we have a duty to allow them to stay in NZ and to become citizens. On the other hand we could argue no. They were here under contract and when the contract finishes their stay in NZ terminates.

In any case, at present, we must have immigrants to fund our birth rate and to hopefully fund our work force, as obviously without sufficient work force we won't be able to afford to fund our present superannuation scheme.

My concern is how much immigration is too much. In 1968 Conservative politician Enoch Powell gave a speech to the English Parliament that went down in history and in fact cost him his job - <http://www.telegraph.co.uk/comment/3643823/Enoch-Powells-Rivers-of-Blood-speech.html>. At first reading it is a straight up racist speech. At second reading it is a speech by someone who is genuinely afraid for the wellbeing of his country. At third reading it is a speech about economics and how he sees immigration affecting his country. I am old enough to remember Enoch Powell and how he was derided as a racist. Unfortunately all he spoke of has come to pass in the UK.

**Ethnicity:** Years ago I was a Driving Licence Testing Officer working in South Auckland. Hardly a week went by that I wasn't involved with or heard of corruption with overseas applicants. From the Middle East, from India, from China, corruption is endemic in those countries. These are the countries that we are taking a large number of our immigrants from. And unfortunately when they are allowed to settle in NZ they bring their attitudes with them. I'm not saying this from a prejudiced position, I am saying this as a fact. I have seen it and dealt with it.

You only have to look at the types of crime that started to occur as the various ethnicities arrived in NZ. In my 32 years as a Police Officer I cannot remember a violent kidnapping happening until 2 Chinese students kidnapped a fellow student, demanded money from his parents, killed him and disposed of his body in a suitcase in the harbour. There have been similar crimes since then. The violence perpetrated on our own women by our own men is bad enough, but when we get Indian males throwing acid in the face of women because of supposed loss of face (pardon the pun), when we get a young Indian male kidnapped to facilitate the cleaning out of his bank account and is then burned to death in the hopes that the offences will go un noticed is in my opinion beyond the pale. Then there was the recent incident of the Indian Testing Officer who was selling NZ drivers licences. It is those attitudes that concern me because of the damage it will do to our country.

The above examples were not quoted from the point of view of colour or racial prejudice, they were quoted as examples of attitude prejudice.

Most New Zealanders are honest, and while they may occasionally try and 'game' the system, very few actually make an occupation of it. If we continue to bring in immigrants from corrupt countries, our benefits such as our superannuation must decline and eventually disappear. Over a period of time corruption becomes the norm, particularly as immigrants tend to remain within their own group – they don't assimilate.

**Taxation:** There's no such thing as a free lunch. If we wish to continue with a funded, affordable superannuation scheme we are going to have to pay for it. Presently it's paid for from government earnings. It's acknowledged that it

cannot continue in its present form, hence the "Cullen Fund". That too will run out.

The problem with our present superannuation, is that when it becomes too expensive I can see the government using that as a ploy to reduce or cancel the benefit. I believe the Kiwisaver scheme will not be able to take up the slack as it will have been reduced considerably because of people having used it to buy their own homes and as a result will have insufficient funds to support them in their retirement. Once the money has been withdrawn from the Kiwisaver scheme, it is lost to superannuation forever. If the house is later sold and the money frittered away or there is a relationship break up, the ability of that person to provide for themselves in retirement is lost. And of course the Kiwisaver scheme is of no use to those people who have been unable to work. In that case who will support them?

Decades ago we had a scheme where a percentage of our tax funded our own retirement and it was kept in our own names, separate from government funds. For whatever reason that was disbanded and retirement was funded from government revenue.

If we had a specific superannuation scheme for each person, it could be run by a government department similar to the **Government Superannuation Fund (GSF)**. The fund would pay a percentage of its earnings back to the contributors (perhaps 2% more than the term deposit rate). The GSF would then have a pool of money it could lend out for government and local council infrastructure schemes at perhaps 5% more than the term deposit rate. I believe the Australian government already has such a scheme running.

I believe that if we want a comfortable retirement we are going to have to pay for it. Today's politicians appear to be hell bent on cutting public spending to the bone. Why can't we have a public health scheme that allows us to build up 'credits' while we're young and don't need health care? Then those 'credits' can be transferred to our superannuation account to be used to subsidise or totally offset any health debits we might need in our old age. Or analyse the population's health needs from cradle to the grave and set a median value for costs through a person's life span including the increasing costs through that

period. If a superannuitant needed a non-urgent operation he or she could have it partially paid for by their 'health credits'.

Start off by increasing taxation. That will be a red rag to a bull to some sectors of society. But I believe it will have beneficial consequences for everyone.

1. The elderly will be able to have better and quicker public medical services. Higher taxes would hopefully eliminate age bias in statutes. For example the process of age banding in insurance such as health insurance. It is age discrimination, (age banding is not allowed in Australia)
2. The Education system will actually be able to provide free education instead of parents having to pay for their children. (Subsidised university education)
3. A public service that can actually do what they are suppose to – no more Pike Creek deaths because there was only one mine inspector for the whole of NZ.
4. A Defence Force that actually cares for its staff instead of the staff having to individually insure themselves when they go on overseas operations, a Police Service that can actually attend incidents instead of writing them off or getting the complainants to go to their nearest Police Station to report them, an ambulance service that is fully funded to attend incidents with two staff instead of sending a single female officer to a rural incident that turns out to be a stabbing at a gang residence.
5. We may even get Parliamentary Advisors who are public servants who give parliamentarians unbiased advice instead of getting paid advisors who will tell MP's what they want to hear instead of what they need to hear.

**Protection of scheme:**

The scheme must be protected from external forces (overseas interest/influence). By that I mean if there is another Global Financial Crisis, the scheme must be protected from attempts from overseas interests (banks/financial interests) gaining access to the funds for whatever reason. The NZ government must agree that the scheme will be exempt from the Open

Bank Resolution. That statute authorises the Reserve Bank to remove a certain percentage of your bank account to prop up a failing bank in the event that the failure of that bank could affect the stability of the banking system. In other words if you have your savings in an overseas based NZ bank and that bank was on the brink of failure, overnight the NZ government could step in and remove between 10% and 80% of your savings and give it to that overseas bank in the hopes that the bank would remain solvent. There is nothing to say that you would ever get that money returned. (Think of the Greek banking system). There is very little incentive for bankers, anywhere, to take responsibility for their actions with your money. Think of the Global Financial Crisis and the almost negligible sanctions that were given out to bank managers. Our superannuation is too important to be given into the hands of selfish people who have only their own interests at heart. See – <http://www.stuff.co.nz/manawatu-standard/opinion/9988749/OBR-policy-a-scary-bank-secret>.

NZ has opened itself to allow equal opportunity to overseas entities to conduct their businesses here. I have no problem with that provided those businesses conduct themselves with the same ethics and honesty that NZ businesses do.

Unfortunately some don't. Enron's treatment of its pension fund is a prize example – <http://www.businessinsider.com.au/10-years-later-what-happened-to-the-former-employees-of-enron-2011-12?r=US&IR=T>.

Although it doesn't make it clear in this article, Enron in fact raided its pension scheme in order to prop up its failing business. My understanding of the rules of its scheme were that the business and the pension scheme were to remain totally separate.

I've embedded two web addresses at the end of this submission regarding the security of any superannuation scheme in the event of another Global Financial Crisis.

The government must guarantee the fund otherwise there is no incentive to protect the funds and under no circumstances should the money go into a bank. The system for the theft of those funds is already in place (OBR).

**Future Age and Asset Eligibility:**

It's quite obvious that the present scheme must be altered to ensure its future viability. There are not enough working people to pay for the retirement of present day workers. Therefore all workers should pay a percentage of their salary into a scheme to provide for their retirement. The Government would pay perhaps 3% interest on that money and then lend it out to government or local bodies at perhaps 5%. The difference in that interest could pay for a liveable pension for any person unable to work for medical or family reasons. The present retirement age should be lifted from 65 years to 70 years. Having said that, there must be provision for those whose work is so physically or mentally demanding, to retire on a full pension at an earlier age.

It could be argued that the scheme should be means tested as the rich have no need for government support, but as they had been contributing to the scheme through their working life, they are entitled to their money in retirement – it is their money, not the governments.

**Benefits of a Government Controlled Scheme:**

If the scheme were government controlled it could provide funding for a large number of national and local infrastructure.

For example the Auckland City rail extension could have been funded from the scheme much earlier than it has been.

Northern Canterbury has and will suffer from drought. The scheme could fund the building of a dam on the western side of the Alps and the water from that dam could be piped through the Alps to provide an irrigation system for the area. That water, on its way through the Alps, could turn turbines for extra power generation. It's been done before – Manapouri. It could be funded by NZ for NZ with no need for the likes of The World Bank to charge exorbitant interest rates.

Middlemore Hospital recently had to allow an American company to build a dialysis unit at the hospital. The cost of that could have been funded from the scheme, probably much cheaper.

It's been done before – through the Government Superannuation Fund. However it must be made clear that if a particular project should fail, then the Superannuation loan to that project must be refunded first above all other loans.

Some question re the Open Bank Resolution –

<http://rbnz.govt.nz/faqs/open-bank-resolution-policy-faqs>.

As you look through these FAQ's you won't find any answers as to the percentage of the money you are likely to lose in the event that our funds are frozen. But you can guarantee that it will be at the high end as government has to insure that there will be sufficient funds to meet the banks short fall. The government only gets one chance to “steal” the money.

A truly frightening description of depositor rights is approximately half way down in the following -

<http://neweconomics.net.nz/index.php/tag/open-bank-resolution>

And it is confirmed as NZ bank policy a few lines after that.

A number of years ago a question was put to the Reserve Bank about the ability of the Australian parent banks being able to “raid” their NZ subsidiaries in the event that the parent s got into financial difficulty. In reply the RBNZ that it could have been a problem but they had enacted legislation to prevent that happening. However, in the process of researching this document I came across the above question on one of the RBNZ releases. The document said that it could still happen.

I apologise for the length of this document. My original intention was to place a few of my personal ideas in front of you but the more I researched the matter, the more concerned I became. I daresay that 95% of future superannuitants have no idea how perilous their retirement will be. My own 47 year old son just laughed when I tried to discuss the matter with him and said I was overanalysing things. Perhaps.....but??

The other way of looking at it is to allow superannuation to become voluntary and allow people to be the authors of their own misfortune.

Some of us are terminally stupid.

P. Donachie.