6. WHO GETS WHAT - Recommendations:

Change Today

6.1. Increase the age of eligibility to 67 years for New Zealand Superannuation.

6.2. Increase the length of residence required for New Zealand Superannuation from 10 years to 25 years.

6.3. Remove the non-qualifying partner option.

6.4. Reform the direct deductions policy for overseas state pensions.

6.5. Review and adjust supplementary allowances.

6.1. Increase the age of eligibility to 67 years for New Zealand Superannuation.

- Increase the age of eligibility for New Zealand Superannuation to 67, with a gradual rise over eight years starting in 2027. Following a ten-year notice period, the eligibility age would increase by three months each year, to reach 67 in 2034.

<table>
<thead>
<tr>
<th>Date taking effect - from 1 January</th>
<th>Age eligibility for NZS</th>
<th>Year of birth - cohort impacted</th>
<th>Age in 2017 of people impacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>2027</td>
<td>65 y 3 m</td>
<td>1962</td>
<td>55</td>
</tr>
<tr>
<td>2028</td>
<td>65 y 6 m</td>
<td>1963</td>
<td>54</td>
</tr>
<tr>
<td>2029</td>
<td>65 y 9 m</td>
<td>1964</td>
<td>53</td>
</tr>
<tr>
<td>2030</td>
<td>66 y</td>
<td>1965</td>
<td>52</td>
</tr>
<tr>
<td>2031</td>
<td>66 y 3m</td>
<td>1966</td>
<td>51</td>
</tr>
<tr>
<td>2032</td>
<td>66 y 6 m</td>
<td>1967</td>
<td>50</td>
</tr>
<tr>
<td>2033</td>
<td>66 y 9 m</td>
<td>1968</td>
<td>49</td>
</tr>
<tr>
<td>2034</td>
<td>67 y</td>
<td>1969</td>
<td>48</td>
</tr>
</tbody>
</table>

The increase in eligibility age reflects the fact that people are living longer and receiving New Zealand Superannuation for a longer time. Longevity has increased for men and women, with average life expectancy going up by more than 20 years over the past century.

Many people are already working longer past 65, with 43% of all 65 to 69-year-olds participating in the workforce. In September 2016, 23.7% of those over 65 were still in paid employment.
It is recognised that some people will physically not be able to continue working in their current jobs for longer. Additional support is required for this group. Targeted earlier intervention and investment, through employment programmes and re-training for people aged over 50, should accompany raising the age of eligibility.

Internationally the age of eligibility has been increasing, with 67 the new norm for state pensions. This is in recognition of increased longevity and a larger number receiving state pensions, which has put pressure on the fiscal sustainability of pension systems.

Increasing the age of eligibility to 67 is estimated by Treasury to reduce total New Zealand Superannuation costs by approximately $3.5 billion or 10% in 2034. The savings are estimated to continue to grow each year (in nominal dollars) from 2034 onwards.

A long lead time and gradual increase over eight years provides a clearer line of sight to the age of eligibility, rather than indexing to life expectancy.

**Estimated fiscal savings for each year in NZD billions**

<table>
<thead>
<tr>
<th>NZS</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
<th>2030</th>
<th>2031</th>
<th>2032</th>
<th>2033</th>
<th>2034</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in NZS spend ($ b)</td>
<td>0.000</td>
<td>0.363</td>
<td>0.751</td>
<td>1.148</td>
<td>1.529</td>
<td>1.962</td>
<td>2.442</td>
<td>2.973</td>
<td>3.560</td>
</tr>
<tr>
<td>Reduction in NZS spend (%)</td>
<td>0.00%</td>
<td>1.5%</td>
<td>3.0%</td>
<td>4.3%</td>
<td>5.4%</td>
<td>6.5%</td>
<td>7.7%</td>
<td>8.9%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

Estimates provided by The Treasury, October 2016

**6.2. Increase the length of residence required for New Zealand Superannuation from 10 years to 25 years.**

The required length of residence in New Zealand to qualify for NZS is recommended to be 25 years after the age of 20. Years of residence would be counted cumulatively and continue beyond the age of eligibility for NZS as at present. Applicants must be ordinarily resident in New Zealand when applying for NZS. The increase in time lived in the country reflects an expectation of a longer contribution to New Zealand to be eligible to receive New Zealand Superannuation.

25 years’ residency represents just over half a working life and would allow extended periods lived outside New Zealand. The average OECD residency requirement is 26 years and many countries also require lengthy contribution periods to receive a full state pension.
The change would bring New Zealand’s policy more into line with other countries and means it does not have comparatively low criteria to qualify for a full government pension. The length of residence needs to be appropriate in the context of increasing international mobility and reform of overseas pensions. Length of residence requirements were last amended in 1990 to simplify criteria following a reduction from 20 to 10 years’ residence, in 1972.

Australia and New Zealand have the lowest residence requirement in the OECD, of 10 years. Australia however requires the 10 years’ residence to be met before age 65, and also has income and asset test criteria that apply to the age pension. For some older immigrants to New Zealand it may mean that they fulfil the residence criteria after the age of eligibility for New Zealand Superannuation.

For new immigrants to New Zealand the 25-year requirement would apply immediately. The current 10-year residency criteria would apply for any applicants currently living in New Zealand, so the transition would take up to 15 years to fully implement.

6.3. Remove Non-Qualifying Partners rate option.

- The non-qualifying partners (NQP) rate option should be removed as an option for new NZS applicants.

The existing non-qualifying partners rate option should be phased out over five years. Eligibility for New Zealand Superannuation should be based on an individual meeting the eligibility criteria and this option does not meet that principle. New Zealand is the only remaining country in the world that has a non-qualifying partners pension rate.

As at September 2016 there were 12,997 non-qualifying partners included in their partners’ NZS. The majority of NQPs were within five years of the age of eligibility for NZS, with 8,226 aged between 60 to 64. There were 3,885 non-qualifying partners aged under 60, including 80 under the age of 40.

NQPs can also receive a couple rate for NZS if they have not met the minimum residency criteria of 10 years in New Zealand; there are currently 846 who do not meet this.

The annual cost of including non-qualifying partners in New Zealand Superannuation is estimated at $200 million based on current numbers.

6.4. Reform the direct deduction policy for overseas state pensions.

Overseas state pensions are deducted from New Zealand Superannuation payments. The direct deduction policy, under section 70 of the Social Security Act, along with Social Security Agreements require reform to address some areas of inequity and the evolving complexity in pension policy internationally.
The review recommends:

- Removing spousal/partner deductions with immediate effect.
- Specifying that voluntary contributions to the state pensions are not deducted.
- The Ministry of Social Development publish a determination list of state pensions that are deducted under the policy, which is periodically updated.

Increasing international migration and the reform of overseas state pension systems is adding complexity to the operation of New Zealand’s direct deduction policy for overseas pensions. More New Zealanders are living and working overseas, and high levels of migration are contributing to an increasing number of NZS recipients who have overseas pensions which are offset against NZS.

In 2016, 11.8% of all NZS recipients received an overseas pension. The number of people has increased by 30,000 since 2010 to 83,982 in 2016.

The deductions policy is based on being equitable with New Zealand residents who only receive NZS, so there is no advantage or disadvantage with receiving an overseas state pension. This has been the enduring purpose of the policy since 1938 and means that you cannot receive two state pensions.

Further review and reform of the deduction policy is necessary to ensure it continues to be fit for purpose as the nature of overseas pensions change. Increasingly, countries are transferring responsibility for pensions from the state towards individuals, with a range of private savings schemes supplementing state safety net pensions. It is becoming more difficult to clearly define what overseas pensions are comparable to New Zealand Superannuation and should qualify to be deducted.

Spousal deductions

A recognised inequity in the current policy is spousal/partner deductions. Where someone who receives an overseas state pension that exceeds their individual NZS payment rate, any excess is deducted from their partner’s NZS payment. This is inconsistent with the individual eligibility basis of NZS and should be removed with immediate effect. It is estimated that around 500 people receiving overseas pensions and their partners are affected by this policy. Removing this provision is estimated to reduce the amount recovered by $2 million per annum.

Voluntary contributions

Voluntary contributions are also an issue and should not be included in any deduction of overseas pensions. The Social Security Agreement between New Zealand and the Netherlands has provisions that exclude any voluntary contributions from the deductions policy. This provision should apply to all voluntary contributions to overseas pensions and not be deducted.
Determination list

The deductions policy includes pensions that are administered by or on behalf of a government even though there may not be any state contribution, while the same type of schemes administered privately are not included. Defining a state pension or contribution, the objective of schemes, and what counts as a state-administered scheme can be difficult as the lines blur between state and private provision and contributions. A published list of pensions determined to be subject to the deduction policy would provide transparency.

Many countries, including Australia, have compulsory savings schemes that are privately provided and are not included under the deduction policy. These schemes often provide lump sums that are not deducted against NZS. Accumulated financial assets are however means-tested for the Australian age pension. From 2017 the asset test has tightened, which will reduce or stop payments for an estimated 300,000 Australians. This would result in less being offset against NZS if they moved to New Zealand and were eligible for NZS. This is an example of how the impact of change in one country can affect the operation of direct deduction and cost of NZS.

A longer residency requirement to be eligible for NZS will likely reduce the value of overseas pensions transferred to New Zealand. In 2016, $342 million was offset by overseas pensions against NZS payments.

New Zealand has social security agreements with nine countries whose state pensions are deducted from New Zealand Superannuation under the Social Security Act or other regulations. A number of these will likely need amending to reflect implementation of the recommendations and provide greater consistency.

6.5. Review and adjust supplementary allowances.

Currently supplementary assistance, in addition to NZ Super, is means-tested using a combination of income and cash asset testing. These settings require review and appropriate adjustment.

The present cash tests for an accommodation supplement were set in 1988. The rates of $8,100 for a single person and $16,200 for a couple are very modest levels and without any change for over 20 years have resulted in a much stricter test due to inflation.

The maximum amount of accommodation supplements were last reviewed in 2005. Given the significant rise in housing costs the lack of periodic review means an increasing share of income is being used for housing costs as the purchasing power of the supplements declines.