

Purpose statement for New Zealand's retirement income system

SUMMARY

The Retirement Commissioner is tasked with developing and promoting methods of improving the effectiveness of New Zealand retirement income policies, and with monitoring the effects of retirement income policies that are being implemented. In order to consider whether a policy is effective requires understanding its purpose. As the retirement income system did not have a purpose statement, the Retirement Commissioner created one, and this paper considers its implications for policy design.

KEY POINTS

- NZ Super legislation does not include a purpose section and people hold a variety of views on what the purpose of NZ Super might be (poverty pension, basic standard of living, reward for previous social and economic contribution, payment of taxes).
- The purpose of the legislation enabling KiwiSaver is to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement.
- The Retirement Commissioner has created a purpose statement for the retirement income system, which includes NZ Super and KiwiSaver as well as other private savings, to facilitate policy analysis.
- The purpose statement has wide-ranging policy implications that require consideration of equity issues, as well as a broader view of which policies impact retirement income, including infrastructure.

MAIN MESSAGE

The retirement income system in New Zealand consists of NZ Superannuation, KiwiSaver, and private savings. Analysing the newly-created purpose statement of the retirement income system reveals wide-ranging policy implications including the need for transitional rules and gradual implementation of any changes, consideration of equality and equity, the need to identify any implicit assumptions, and to understand any impact on savings. It also highlights the importance of infrastructure, such as healthcare and transport, for the retirement income system.

PURPOSE STATEMENT

On 21 October 2020 the Retirement Commissioner released a statement defining the purpose of New Zealand's retirement income system.

The purpose statement was produced with assistance from the Retirement Commissioner's Expert Advisory Group [EAG]. The EAG was formed by the Commissioner to help her test and debate issues. It consists of iwi leadership, academics, and policy specialists with expertise in a range of areas.

The purpose statement will be used by the CFFC to test retirement income policy proposals and could be useful to other government and non-government entities.

“A stable retirement income framework enables trust and confidence that older New Zealand residents can live with dignity and mana, participate in and contribute to society, and enjoy a high level of belonging and connection to their whānau, community and country.¹

To help current and future retirees to achieve this, a sustainable retirement income framework's purpose is twofold:

1. To provide **NZ Superannuation** to ensure an adequate standard of living for New Zealanders of eligible age. NZ Super is the Government's primary contribution to financial security for the remainder of a person's life.
2. To actively support New Zealanders to build and manage **independent savings** that contribute to their ability to maintain their own relative standard of living.

The retirement income system sits within the broader government provision of infrastructure also needed to enable older New Zealanders to live well, such as health care, housing, and transport.”

¹ For details of these concepts within the historical context of Aotearoa, see Williams, J. (2011).

BACKGROUND

The Retirement Commissioner has a number of specific functions regarding retirement income policies (as listed in Section 83 of the New Zealand Superannuation and Retirement Income Act 2001):

- (a) to develop and promote methods of improving the effectiveness of the retirement income policies from time to time implemented by the Government of New Zealand, including the promotion of education about retirement income issues and the publication of information about those issues
- (b) to monitor the effects of retirement income policies that are being implemented in New Zealand
- (c) to review the retirement income policies being implemented by the Government and to report to the Minister by 31 December 2007 and at 3-yearly intervals thereafter
- (d) to advise on retirement income issues, when requested to do so by the Minister

In order to determine the effectiveness of retirement income policies, it is necessary to define the term, and understand the intended purpose of the policies, which is difficult without legislative clarity.

The main retirement income policies are NZ Super and KiwiSaver, followed by all policies that impact on private savings, which can be held in any form (cash, stocks, property).

Other transfer (benefit) policies impact some people's retirement income, including the Accommodation Supplement and the Disability Allowance, but these are not intended to be primary sources of retirement income (and so are only briefly referenced here).

Infrastructure policies such as urban planning, transport, and healthcare also impact retirement incomes (and these are discussed further below).

Legislative clarity is generally provided in New Zealand legislation. Acts of Parliament often start with a title, commencement, and purpose.

This is true of the KiwiSaver Act 2006. Its purpose is outlined as follows:

- (1) The purpose of this Act is to encourage a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. The Act aims to increase individuals' well-being and financial independence, particularly in retirement, and to provide retirement benefits.
- (2) To that end, this Act provides for schemes (KiwiSaver schemes) to facilitate individuals' savings, principally through the workplace.

The New Zealand Superannuation and Retirement Income Act 2001 also includes a purpose but it does not explain the purpose of NZ Super itself:

The purpose of this Act is—

- (a) to continue current entitlements to New Zealand superannuation:
- (b) to establish a New Zealand Superannuation Fund (the Fund) with sufficient resources to meet the present and future cost of New Zealand superannuation:
- (c) to provide for Government contributions to the Fund:
- (d) to establish a Crown entity called the Guardians of New Zealand Superannuation, which will manage and administer the Fund and the Venture Capital Fund established under the Venture Capital Fund Act 2019:
- (e) to establish a process for signalling political agreement on the parameters for New Zealand superannuation entitlements and funding:
- (f) to bring together in one Act all of the provisions for each of those matters.

In the absence of legislative clarity – or even with it – people form their own views on policies. This is the case for NZ Super in particular, which is viewed variously as preventing poverty and ensuring dignity in old age, as maintaining a basic standard of living and care for the elderly, and by others as a reward for previous paid work and taxes (CFFC, 2016).

The Retirement Commissioner has, therefore, developed a purpose statement that can be used to test retirement income policy proposals. CFFC is already using it for its policy work and other government entities and non-government entities may also find it useful.

A note on Terminology: NZ Super is referred to in the purpose statement and in that context includes the Veteran's Pension (see Veteran's Affairs for further detail).

DETAIL

The meaning behind the words, and their importance, are outlined in the sections below.

A stable retirement income framework

After people have retired from paid work, or significantly reduced their hours, they have less ability to make changes to their financial situation. Therefore, people need the retirement income framework to be stable, so they can plan for their retirement. This means the stability of the framework is important not only to retired people, but also those who have not yet retired, but are making financial decisions (such as spending, savings, and investments) with a view to their retirement.

Policy implication – any changes to retirement income policies must be introduced with sound transitional provisions and sufficient advance notice so that people can change their financial decisions if required.

Trust and confidence

Trust and confidence can only arise when the retirement income framework is stable. Changes to policy can erode trust and confidence unless they are signalled sufficiently far in advance, the implications are well understood, and the change is generally accepted as necessary or beneficial.

Trust and confidence may be supported by equity (Putland, 2013). Equity can be thought of as the means to achieving equality, as it allows different measures for different groups, to achieve equality of outcomes and results.

Equality measures treat everyone the same, regardless of their current situation. Retirement income policy is currently informed by equality rather than equity (for example, NZ Super is not means-tested, and KiwiSaver has equality of access, but not outcome, because employees receive greater benefits than the self-employed and as people earn more they can receive more from their employer). Other support to which older people may be entitled, such as the Accommodation Supplement, is means-tested based on income and assets. This is an example of an equity approach where support is provided only to those who are considered in need.

Equity considerations arise when considering the different level of retirement incomes (people with a lower rate of participation in the workforce, or who earn less, will have lower KiwiSaver balances than people with a history of regular and well-paid work). This may include groups for whom structural barriers to equity have been acknowledged (some women, some Māori and Pacific Peoples, and members of the disability community).

Analyses of policy in Aotearoa need to be undertaken in a context which is framed by the Treaty of Waitangi. The Treaty gave undertakings of partnership, protection and participation which are yet to be fully honoured. As a result, the development of government policy, legislation and regulation has been locked into Western models which have been a barrier to Māori achieving equity.

Policy implication – equity should be considered when making any change to retirement income policies, including differences from gender, ethnic, and accessibility perspectives.

Dignity and mana

The retirement income framework should enable people to retain their dignity and mana in their old age. While these concepts refer to life beyond financial wellbeing, they can be eroded if an older person faces financial challenges, or is in poverty.

Some people attach a stigma to receiving state support, especially if it is means-tested, as impacting their mana. Migrants may feel financially restricted in their ability to return to their home country on retirement if their country does not have a reciprocal agreement with New Zealand which would allow the portability of NZ Super. In that case they may face a challenge to their dignity if they are unable to fulfil their cultural obligations.

Policy implication – retirement income policies need to respect people's dignity and mana by providing them with adequate incomes.

Participate in and contribute to society

Older people have a critical role to play in society, as kaumātua who teach younger people, and as important family members. A poor financial situation can prevent older people from participating in society to the extent they might wish. One way in which older people contribute to society is through volunteering - the over 65s represent 31.2% of those who volunteered in the past year (Volunteer NZ, 2020:10).

Policy implication - retirement income policies should reflect the contribution made by older people and enable their continued participation in society.

High level of belonging and connection

Research has shown that individuals receive various benefits from their social connections to others. They provide a sense of belonging as well as emotional, instrumental, and informational support. The lack of social attachments has been linked to reduced physical and mental wellbeing (Frieling, 2018:4). Social isolation is not necessarily the same as loneliness (Coyle & Dugan, 2012).

For Māori, this sense of belonging and connection may be thought of in terms of whakawhanaungatanga, the attaining and maintaining of relationships between whānau and others.

International research on older people has found that belonging is experienced through connection, contribution, and cooperation and as well as identifying the importance of infrastructure in supporting social connections, such as transportation and support for diverse groups and individuals, including translation services (Jakubec et al, 2018).

Policy implication - opportunities to recognise the importance of belonging and connection should be taken in policy formation and design, for example, in collective rather than individual approaches and in the use of marae for service delivery.

An adequate standard of living

The calculation that determines the rate at which NZ Super is paid reflects both earnings and inflation and is indexed with reference to these annually on 1 April. The elements are average ordinary time weekly earnings [AOTWE] and Consumers Price Index [CPI] inflation - although over the last decade only the first element has been relevant.

The net (after tax) weekly NZ Super rate payable to a married or civil union couple is set to 66% of the net (after tax and ACC Earner levy) AOTWE. The gross value of AOTWE is determined in the previous December quarter publication of Stats NZ's Quarterly Employment Survey. This rate of payment is sometimes referred to as the 'wage floor' for NZ Super.

The second element of the indexation calculation is to check the rate produced by applying CPI inflation over the year to the previous December quarter. That rate is used instead if it is higher than the AOTWE calculation but this has not been the case recently. There is also a restriction of no higher than 72.5% of the net AOTWE but this constraint has never actually had to be applied.

The net married or civil union couple rate is then used to set the amount for a single person living alone (at 65%) and for a single person sharing accommodation (at 60%).

Whether the payment rate provides an adequate standard of living naturally depends on the nature of expenses it is intended to cover. Historically, the majority of New Zealanders have retired with a mortgage free home, so NZ Super did not generally have to cover housing costs. However, home ownership levels have fallen (and have been lower, on average, for Māori and Pacific Peoples, and members of the disability community), and residential rental prices have been increasing. This puts pressure on the adequacy of NZ Super to cover basic living costs.

A second consideration for adequacy is whether it is intended to 'stand-alone' as sufficient for an adequate standard of living or become sufficient alongside other income. It was noted above that KiwiSaver was introduced to provide retirement benefits by fostering a long-term savings habit and asset accumulation by individuals who are not in a position to enjoy standards of living in retirement similar to those in pre-retirement. However, it was also noted that KiwiSaver provides the greatest benefits to those in regular, well-paid work, and less benefit to those who in low-paid work, or with irregular or broken periods of employment.

Policy implication – The payment rates of NZ Super, for couples and singles, should represent an adequate standard of living. The financial meaning of 'adequate' depends on what it is intended to cover.

Actively support New Zealanders to build and manage independent savings

Independent savings are those acquired outside of formal government mechanisms, such as KiwiSaver, and may be held by individually or as part of a collective.

KiwiSaver is the main retirement savings mechanism for many people. All New Zealand-based adults who are entitled to live in New Zealand indefinitely (citizens and permanent residents) can open and contribute to a KiwiSaver account. However, as the purpose statement in the legislation (above) outlines, KiwiSaver was designed primarily for the traditional employee/ employer relationship.

Employees are auto-enrolled when they start a new job and receive an employer contribution alongside their own contribution. The government also contributes an amount (currently \$521.43) each year if the KiwiSaver member has contributed a minimum of \$1,042.86. KiwiSaver is open to non-employees too but they do not have the same incentives to participate (as they do not receive an employer contribution).

Although there are over 3 million members in KiwiSaver schemes, 1.2 million members are not contributing (FMA, 2020:14). KiwiSaver funds are 'locked-in' until age 65, unless permission for early access is given to purchase a first home, in situations of extreme hardship, or if permanently leaving New Zealand (Inland Revenue, 2021).

KiwiSaver is reliant on several factors for its continued success. Sustainable returns require a stable market for portfolio investments, so that members can see their KiwiSaver balance retain, and ideally grow in value over time. Economic downturns and the resulting reduction in value of investments may put pressure on KiwiSaver Schemes. Salary and wage adequacy is needed to enable voluntary contributions to be made during pre-retirement without negatively impacting current wellbeing. If the labour market shifts towards greater self-employment, KiwiSaver may become less attractive, leaving some people with fewer retirement savings unless alternative saving is undertaken.

Other savings also form part of the retirement income framework, although New Zealanders have low levels of personal savings outside KiwiSaver, and many prefer property as their long-term investment. However, non-KiwiSaver cash savings have the benefit of being accessible before age 65, so they are available for any unexpected emergencies.

As Supreme Court Judge Joe Williams has articulated in *Ko Aotearoa Tēnei* (Williams, 2011) Māori knowledge (mātauranga Māori) differs philosophically from western knowledge in key respects. In matters of iwi affairs strategic planning is undertaken in long term horizons (100 to 1000 years) as tangata whenua, rather than the 25 year scenarios routinely considered “long term” in business strategic planning. Policy analysis is undertaken in an integrated context (social, cultural, economic, environmental) which business planning would recognise as a “quadruple bottom line” approach, rather than a siloed approach considering, say, economic analyses exclusively. The collective (whānau, hapu, iwi) is prioritised over the individual.

Iwi models of financial planning and saving, designed from a Te Ao Māori worldview, take such considerations into account as design principles. Iwi approach planning, in any context, including financial planning, as Treaty partners and as tangata whenua. That positioning has implications for how the iwi expect the Crown to behave, from central to regional and local government, and how iwi choose to behave.

Policy implication – policy changes that encourage further independent savings should be considered including iwi models of financial planning and saving. All policy changes should be reviewed for any negative implications for savings.

Broader government provision of infrastructure

For older New Zealanders to live well they require more than an adequate income. Infrastructure plays a key role as healthcare, housing, and transport must be accessible for older people. As we age, we are likely to have greater health needs, require smaller or modified housing, and become more reliant on public transport or private taxi services. A lack of investment in infrastructure can leave older people with unmet health or accessibility needs. These can restrict social interaction leaving older people isolated.

Policy implication – infrastructure policy at national, regional, and local levels should be informed by an inclusive approach that meets the cultural needs of all older New Zealanders. An inclusive approach would value Māori knowledge and other world views.

NEXT STEPS

Over the coming year the CFFC will issue further Policy Papers on aspects of current and alternative design for NZ Super and KiwiSaver. The purpose statement will be used as a guide for the analysis in those papers. This elaboration of the purpose statement is intended to facilitate understanding of those papers.

CFFC
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