Grey Power
NEW ZEALAND FEDERATION INCORPORATED

21 November 2016

Submission to the Retirement Commissioner's 2016 Review of Retirement Income Policy:

1. Introduction

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This submission is made on behalf of the Grey Power New Zealand Federation Incorporated

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Grey Power New Zealand Federation Incorporated is a non-sectarian and non-party political, advocacy organisation that aims to advance, promote and protect the welfare and well-being of older people. Our policies supporting these objectives are complementary to the future interest of younger people. In our experience, on reaching age 65 years, many younger people too, will likely experience insufficient income and diminishing participation in their communities.

The 'Grey Power Federation' is made up of some 74 individual Associations representing approximately 68,000 financial members.

2. General Summary

We have consistently contributed to earlier reviews of retirement income policy.

We believe, utilising a consultative process, that the government needs to work towards an all party-political accord on superannuation, provided at age 65 years, because "citizens need confidence that the universal pension will be there when they reach the state pension age."

While implications of unsustainability in the face of a rapidly ageing population pervaded each of the 2010 and 2013 reviews we could recognise elements of incremental advancement toward the objective of cross-party accord.

These were apparent in the perceived reluctance of government and the major opposition parties to subscribe to significant reform of retirement income. New Zealand Superannuation is the 'stand-out' example within the OECD[1] for efficient, low-cost, universal coverage. In combination with high levels of unencumbered home ownership it effectively reduces poverty amongst older people and its universality encourages recipients to participate longer in the paid workforce.

New Zealand Superannuation is undoubtedly a 'good' system by most developed world standards. We suggest, maintaining the sustainability of our basic retirement income provision, as this derives from an 'ageing population' might better be achieved through compatible economic policy and exploring ways that might enhance the 'family' demographic.

However, in this present review we are bemused by the seeming lack of orderly progression and research based, preliminary discussion papers which, in effect, has denied 'focus' to the exercise. Those 'research papers' which do exist have not been updated from their 2013 issue date. It seems the Commission during the last three years has favoured the 'financial capability' objective and has been diverted from its basic requirement to gather hard data on the income needs of older people and the essential participation of government in the provision of same.

The 'terms of reference' issued by the Minister surely justified the commissioning of relevant research, similar, to that which in the past has guided public and stakeholder considerations. The Commissioner has not even communicated the timelines applicable to the presentation of her report and, in the experience of previous reviews, little time will be available for stakeholders and other serious submitters to offer their contribution to the compilation of any final report.

The material published on the web site of the Commission for Financial Capability (CFFC) amounts to nothing more than an informal public forum for expression of individual vested interest with no available prior guidance as to the factual inter-relationship between wide ranging sector interests. It is very disappointing that a generic thread has not been determined through the responses offered to date.

Is the public misled by the predications of a future fiscal crisis in funding New Zealand Superannuation?

Is all, of this debate, fuelled by covert self-interest within the financial services industry?

Are the major political parties, contrary to popular public opinion, simply recognising reality in their reluctance to initiate change to New Zealand Superannuation?

If there is any political overtone at all in the whole debate, is it ideologically driven beyond the balance required to maintain public confidence and political stability?

3. Specific Comment

3.1

The terms of reference have been reflected in the discussion topic 'headings' of each monthly publication of the 'review page' of the Commission's website.

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[1] Organisation for Economic Co-operation and Development. 'Pensions at a Glance.'

Now that the broader coverage of the subject matter of the overall exercise is revealed we, hereby, offer our commentary on each separate theme.

3. 2 KiwiSaver

We recognise the linkage between savings and retirement income sufficiency. In a final analysis, we would argue that possession of an unencumbered home has a higher priority in forestalling older people's eventual dependence on the support of government and their communities and this reality is recognised in the 'home purchase' provisions of the scheme.

Implicit, in the government sponsored introduction of KiwiSaver, is a formal acknowledgement that New Zealand Superannuation, while being an essential basic provision for income in retirement both for present and future older people: is clearly an inadequate allowance for maintaining a recipient's participation within their communities to the standard expressed in the New Zealand Positive Ageing Strategy.

Nevertheless, younger New Zealanders must continually be reminded that New Zealand Superannuation as a PAYGO, universal entitlement, remains the only realistic way of avoiding significant poverty amongst future cohorts of older people. The future well-being of our communities will be undermined by any possible elevation of KiwiSaver to priority over New Zealand Superannuation.

3. 3 Decumulation

While we have learned from our own experiences that one or another of the various forms of 'decumulation' might occur in the early years of retirement it is not and need not be, a characteristic at this stage of an individual's retirement lifestyle. Commonly, retirees receive little reminder of their personal mortality before the age of 75 years. In these early years, individuals simply have no indication of the immediacy of their own demise.

Those retirees fortunate enough to have accumulated a cash reserve need first to regard such resources as a 'rainy day' fund, something to be preserved rather than expended to preserve a lifestyle similar, to that of their pre-retirement years. Upon retiring the first principle to be adopted is 'to practise the art of living within the restraints of reduced income'.

'Financial capability' is a variable attribute within any cohort of retired people. Where it does exist, it is already practised as a personal responsibility, something of an inherent ability in an individual who has survived the perils of a market driven economy through to significant possessions at age of retirement. Wisdom commonly existing amongst older people is to hold such reserves in fixed term deposits, avoiding risk and high management fees. Older people already have an annuity, one of the better ones in fact. It's called New Zealand Superannuation.

3. 4 Ageing work-force

In the author's opinion, continuing wholly or partly in paid employment after the age of 65 years is a limited option for people who offer their labour or other skills for hire. Indeed, people who are displaced from such employment at the age of 50 years or more find it difficult there forward to regain employment.

Research is needed to better illustrate the occupational and professional categories of the increasing participation of older persons in the paid work-force.

Equally, continuing celebration of the significant and valuable, economic contribution through voluntary work of many 'nominally retired' people will help dispel any notion that ageing is a drain on economic performance.

Increasing the age of entitlement to New Zealand Superannuation beyond the age of 65 years will decrease the valuable resource of voluntary workers and, over time, it might well add a significant additional cost through the introduction of increased government provision of many of the services presently maintained by the voluntary sector.

3. 5 Who pays for what?

In this section the Commissioner asks "whose responsibility is it to pay for our retirement?"

> Grey Power maintains that in the context of New Zealand it is clearly the responsibility of Government, on a PAYGO basis, to provide a basic, universal, first tier retirement income, as is presently known as New Zealand Superannuation. Having said this, older people readily acknowledge the desirability of personal saving to accumulate by retirement age a supplementary resource sufficient to maintain pre-retirement participation within their communities.

Grey Power notes but does not agree with the Commissioner's assertion on the CFFC website that "Kiwis say they should pay for their own retirement."

The video clip on the very same webpage records the commissioners report that their surveying activity reveals "eighty percent (80%) expect 'Government' to pay with seventy-three percent (73%) nominating 'Me' as their secondary, personal contribution. This clearly supports Grey Power's strong belief that New Zealand Superannuation must continue in its present form as the primary, tier 1 scheme for younger generations albeit with continuing personal supplementation through the KiwiSaver scheme.

3. 6 Vulnerable groups

When KiwiSaver was introduced on 1 July 2007 there were 488,161[2] existing recipients of New Zealand Superannuation who were excluded from claiming the subsidies inherent in this new retirement savings scheme.

In our submission to the 2013 Report on Retirement Income Policy we noted that the fifth anniversary of the KiwiSaver scheme heralded an emerging threat of undesirable income inequality between retirees of similar income capacity and savings habit.

The Financial Marketing Authority indicates that at 30th June 2015, the third year of matured KiwiSaver accounts, 20,415 persons aged 65 plus exited their accounts; valued at $422 million. An average of nearly $21,000 per person.

Bearing in mind the well documented fact that as many as fifty percent (50%) of New Zealand Superannuation recipients, excluded from the KiwiSaver scheme, have no significant savings and are virtually reliant on 'super' alone; the relative impoverishment of older people born before 1 July 1942 will gain considerable momentum in the next few years.

In terms of immediacy, holders of the Community Services Card, born before 1 July 1942 are the 'most vulnerable' group. We recommend sympathetic 'case management' services are offered to these community veterans with a view to quantifying the nature and extent of supplementary assistance to meet their individual needs.

We do not overlook the fact that other vulnerable groups such as those whose income is so small or non-existent; people who provide(d) unpaid labour etc. and cannot or could not save; through unforeseen and unchangeable circumstances could not participate in KiwiSaver, also need to be provided for.

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[2] Ministry of Social Development, Statistical Report (30th June 2007)

3. 7 Who gets what?

We note this entire theme assumes that changes will be made to New Zealand Superannuation. This is a direct conflict with our conscientious 'policy on retirement income' and we cannot seriously consider any proposal to reduce the funding costs of New Zealand Superannuation.

If the income redistributive features of New Zealand Superannuation are diminished, relative poverty amongst older people will markedly increase.

Progression over time to future predominance of KiwiSaver accumulation will introduce unacceptable levels of income and wealth disparity and this scourge, already one of the causes of the problems present among our nation's children, will reach endemic proportions across all age cohorts.

In the shorter term, fiscal imbalance resulting from an ageing population must be addressed through increased taxation. In the longer term the other implications of an 'ageing' population, including the risk of marginalisation and personal isolation should be addressed through an overall economic policy that encourages family formation.

Grey Power presently finds itself needing to fight a rear-guard action. The increasingly apparent deterioration in the 'social' fabric of our nation diverts us from our recognised mandate of protecting the immediate interest of our membership. Rather we are now absorbed by concern that the opportunities we ourselves enjoyed on our own journey toward retirement, are denied too many of our younger people. Without gainful employment, home ownership and continuing family support through to eventual retirement, arrival at 'old age' will be a bleak prospect indeed!

3. 8 International picture.

The three public responses thus far displayed in the October 'review' section of the Commission's website all suggest that in an international context New Zealand should be able to comfortably accommodate population ageing of the predicted proportions.

Grey Power has similar sentiments to those three commentators.

We bridle at the misleading and continuing suggestion in the activities of the Commission for Financial Capability and the financial services industry that New Zealand Superannuation is unsustainable. OECD literature predominately acknowledges the contrary.

We quote from 'Allianz 2016 Pension Sustainability Index':

> *"New Zealand's (sustainability) score deteriorated slightly compared to 2014, but…. continues to exhibit well-balanced old-age provisioning structures with baseline public pensions complemented by funded pillars (tiers). Moreover, (it has) favourable demographics and well-managed public finances, which means that the pressure to reform is low."*

3.9 Recent Additions to CFFL website

We acknowledge the addition in the last few days, of an interesting and useful background paper to the Commission's web site.[3]

Claire Dale and Susan St John have reviewed the Direct Deduction (DD) provisions of Section 70 of the Social Security Act 1964 and have concluded there are reasonable grounds for:

1. Immediate removal of the Spousal Deduction aspect of DD policy, and
2. The future change of eligibility requirements for New Zealand Superannuation (NZS) from its present 10 years (5 years beyond 50) residency to a minimum of 25 years' residence between ages 20 and 65; this accompanied by abandonment of Section 70 as this concerns overseas pensions.

With regard, to 'spousal deduction,' we stated as part of our submission to the 2013 Review of Retirement Income Policy that we too regarded this provision as draconian. In principle, the 'Dale/St. John' proposal once evaluated in terms of its peripheral implications for income equality amongst older people, might well fit comfortably with Grey Power policy. What we will need assurances on relates to maintaining fair and consistent treatment of the deduction policy equally applied to New Zealand Superannuation at the 'unqualified spouse' rate of payment. Specifically, if Section 70, direct deduction policy was abandoned, what requirement would remain to declare overseas pensions for the purposes of total income determination for the NZS deduction rate of $0.70 per dollar?

Further, the abandonment of Section 70, direct deduction accompanied by an increase in the residency requirement for eligibility purposes might be neutral or even beneficial in terms of fiscal impact. However, the average $4,000+ thus returned to existing overseas recipients will severely exacerbate income inequality with older people who have dedicated their entire life to working within the New Zealand economy and are already exposed to rapidly increasing, income inequality, because of their exclusion from KiwiSaver. More of our concern on income inequality is reported in section 3.6 of this submission.

4. Recommendations

Why are we concerned for the well-being of younger generations as they in turn progress to retirement?

I. We are only too aware that the opportunity we commonly enjoyed as younger people is demonstrably beyond the reach of far too many of today's younger people. The apparent resilience of New Zealand Superannuation results from the pre-retirement economic catalysts of full and gainful employment, a combination of home ownership and affordable community housing along with the supporting environment within strong family relationships.

II. The economic system we are presently adhering to is failing to preserve these necessary pre-retirement catalysts.

III. The human experience has no doubt changed from that which predominated when we were younger. The environment we grew up in enabled us to attain financial independence as early as age 15years and thereby, to contribute to household economics. Without it being a conscious objective, personal responsibility was thrust upon us at an early age, leading the majority to early family formation and acquisition of a modest family home.

IV. Possibly, we might have better enjoyed a longer 'youthfulness' but now that we are experiencing 'retirement' those circumstances prevailing during our youth have

[3] 'New Zealand Superannuation Policy and Overseas pensions,' **M. Claire Dale and Susan St John (September 2016)**

ensured most of us enjoy the practical and psychological support derived from our revered 'head of family' relationships.

V. We suggest it is overdue time that critical public focus should shift away from misguided adjustments to the coverage of New Zealand Superannuation to be replaced by public encouragement of government looking elsewhere, in the economic system itself, for a solution to the causative factors of growing inequality of income and of wealth. We need to revert to a more egalitarian society so that our descendants, in their declining years, have the satisfaction of believing our families and our communities have been well provided for.

The observations we offer in this submission generally are not 'research' based. Rather they are formed from literature review and personal experience aided by a large contribution of anecdotal experience of others across the spectrum of older people; from those who have arrived in retirement with little independent financial resources to others, comfortably situated but motivated by strong social conscience.

The 'literature review' discipline, honoured by the author of this submission has identified the well published findings of Michael Littlewood as the predominant influence on the logical soundness of the direction of this submission.

Michael Littlewood's submission[4] to this 2016 Review recognises societal influences which conform closely to the outlook we hold as retired people based upon our attitudes and expectations through our progress to maturity; representing the sum of our individual experiences. We recommend his commentary as essential reading for all people and organisations responding to this 2016 Review of Retirement Income Policy.

Grey Power New Zealand Federation objectives for retirement income policy are stated in the policy document attached to this submission. (see Appendix No. 1.)

Submission ends.

[4] Michael Littlewood. "**Ageing populations, retirement incomes and public policy: the four 'first principles' of policy-making http://www.cffc.org.nz/assets/Retirement-Income-Review-2016-submissions/Michael-Littlewood-Ageing-populations-retirement-incomes-and-public-policy-what-really-matters.pdf**

Appendix No. 1

Extract from
Grey Power New Zealand Federation Incorporated, Policy Manual

14. Retirement Income and Taxation Policy

Policy Mission

To maintain state-funded, universal, non-means tested New Zealand Superannuation (NZS) payable at age 65 years as the basic provision, supplemented by continuing government and employer subsidisation of individual contributory savings accounts under the KiwiSaver scheme. Additionally, that government re-commence contributions to the New Zealand Superannuation Fund to add a state based 'pay as you earn' element to partially pre-fund NZS.

Further, that the fiscal sustainability of the above-mentioned provisions be addressed by funding derived to the extent necessary, from increased taxation on higher incomes and the repositories of wealth.

14.1 Problems the policy addresses

1. A concerted campaign by vested interests in the financial sector seeks to convince all that the current 'pay as you go' superannuation scheme with an age of eligibility of 65 years is not sustainable.

2. The current level of superannuation is insufficient to maintain a person as an active participant in society in accordance with the New Zealand Positive Ageing Strategy.

14.2 Proposed Solutions

1. Demonstrate through researched articles the fallacies and assumptions made in the arguments for changing the structure and/or age of eligibility for New Zealand Superannuation (addresses problem 1).

2. To achieve a level of payment for couples who both qualify, of not less than 72.5% of net, average, ordinary time, weekly earnings (NAOWE) and, for single persons living alone, a payment equivalent to 65% of that 'shared' by couples who both qualify. (addresses problem 2).

3. To establish an independent non-party political authority to review the adequacy of the level of superannuation on a tri-annual basis.

14.3 Policy Goals

Grey Power will:

1. Prepare a comprehensive literature review of research on the implications of 'population ageing' related to the sustainability of New Zealand Superannuation over the next twenty-five years (addresses solution 1).

2. Establish a close working relationship with researchers in the field of retirement income including the Commission for Financial Capability, Institute for Governance and Policy Studies and the Retirement Policy and Research Centre (addresses all solutions).

3. Work with Statistics New Zealand to establish a targeted cost of living index applicable to the 65+ age cohort (Addresses solution 2).

4. Survey the Grey Power membership to determine the adequacy of current New Zealand Superannuation (addresses solution 2).