



**BUSINESS SCHOOL**

**Retirement Policy and Research Centre**

# **Intergenerational impacts: The sustainability of New Zealand Superannuation**

**23rd Annual Colloquium of Superannuation  
Researchers**

**2-3 December 2019**

**CEPAR and Risk and Actuarial Studies in the UNSW  
Business School, Sydney**

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# Context: the 3 yearly 2019 Retirement Income Review

**Term of Reference number 6 (TOR 6):**

**“An assessment of the impact of current retirement income policies on current and future generations, with due consideration given to the fiscal sustainability of current New Zealand superannuation settings.”**

# New Zealand retirement system

Simple and adaptable, ***Potentially*** sustainable, integrated and coherent.

- PAYG first tier: **New Zealand Superannuation**
  - Universal and taxable at age 65
- Supplemented by
  - KiwiSaver auto-enrolment national savings scheme
  - Voluntary unsubsidised saving



# NZ Superannuation

- Light residency requirement of only 10 years
- Coverage 95+% of the 65+ group
- Removes threat of poverty
- Linked to prices and a wage floor
  - 33% net average earnings (married person)

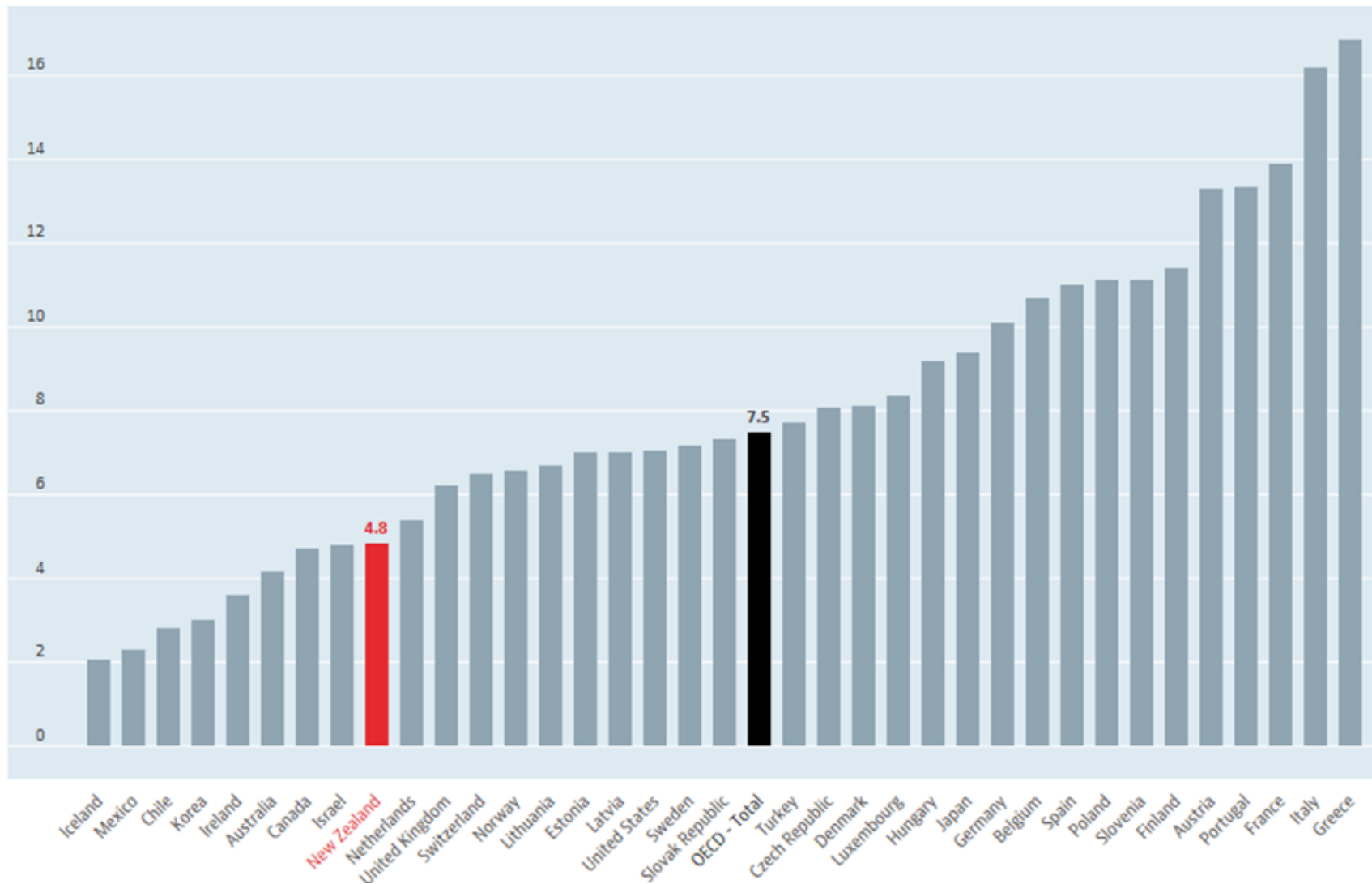


# Some very attractive features

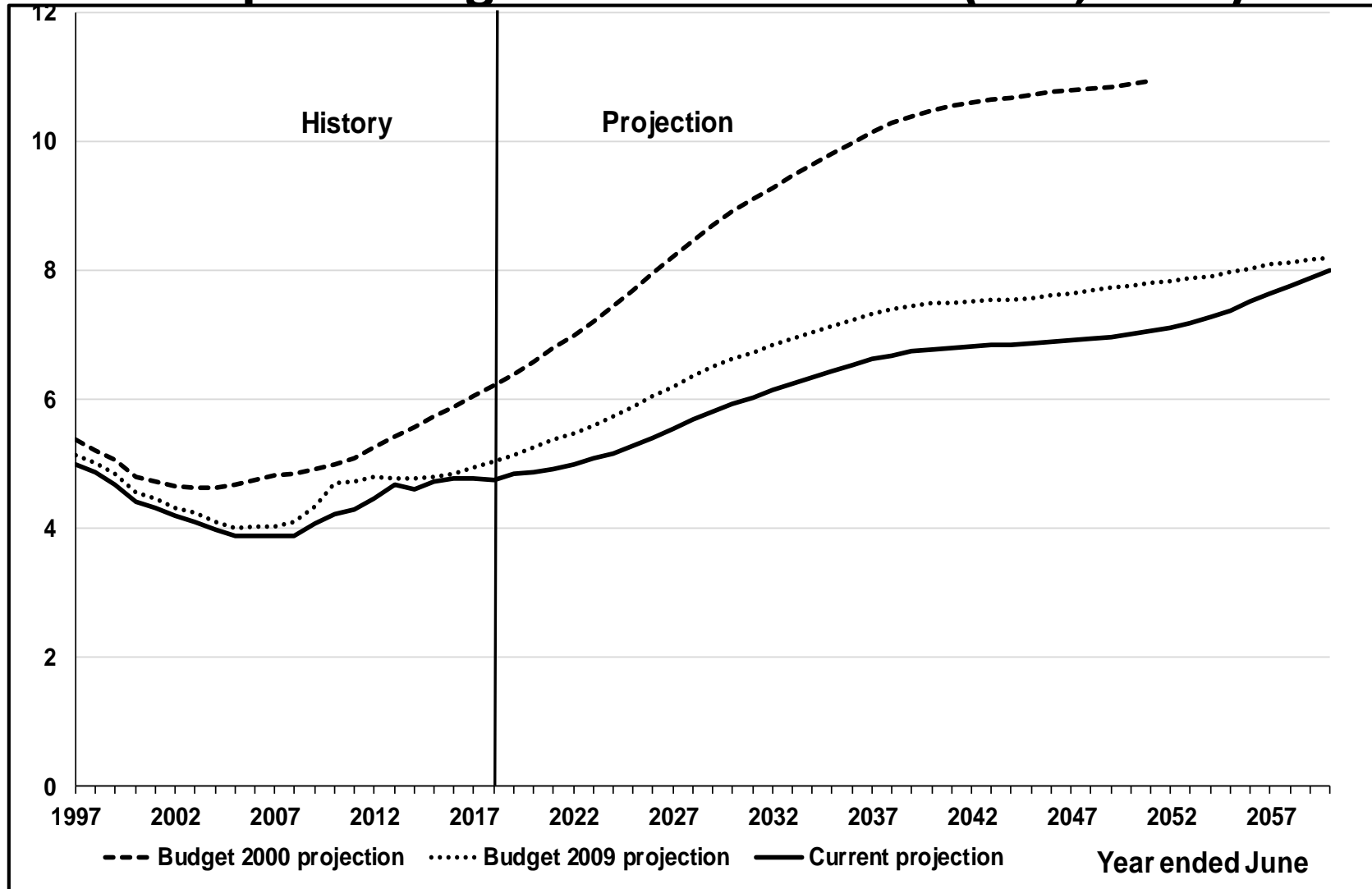
- **No disincentive to earn or save**
- Prototype of a basic income
- High and growing labour force participation of 65+
  - Well paid full-time for some
  - Casual part-time for others
- Good for women non- contributory basis  
BUT some old fashioned discrimination on marital status remains



# Figure 1. Public spending on pensions as % of GDP, (OECD, 2017)



# Is NZS sustainable? NZS expenditure (gross as a percentage of Nominal GDP (Bell, 2019)



# Projections for 'historical spending patterns' scenario as % of GDP (The Treasury, 2016)

	2015	2030	2045	2060
Healthcare	6.20	6.80	8.30	9.70
New Zealand Superannuation (NZS)	4.80	6.30	7.20	7.90
Education	5.30	5.40	5.50	5.70
Law and order	1.50	1.40	1.40	1.40
Welfare (excluding NZS)	4.20	4.50	4.70	4.70
Other expenses	6.30	6.70	6.70	6.70
Debt-financing costs	1.60	2.20	5.30	11.00
Expenses	30.00	33.30	39.10	47.10
Tax revenue	27.60	28.60	28.60	28.60
Other revenue	2.30	2.40	2.40	2.50
Revenue	29.90	31.00	31.00	31.10
Operating balance	-0.10	-2.30	-8.10	-16.00
Primary expenses	28.40	31.10	33.80	36.10
Primary balance	0.50	-1.20	-4.00	-6.30
Capital expenditure	0.70	0.90	1.00	1.00
Net debt	25.10	32.50	94.00	205.80
Net debt incl NZSF	12.90	11.50	68.90	174.10
Net worth	13.80	16.10	-41.30	-146.30



# Can prefunding save us?

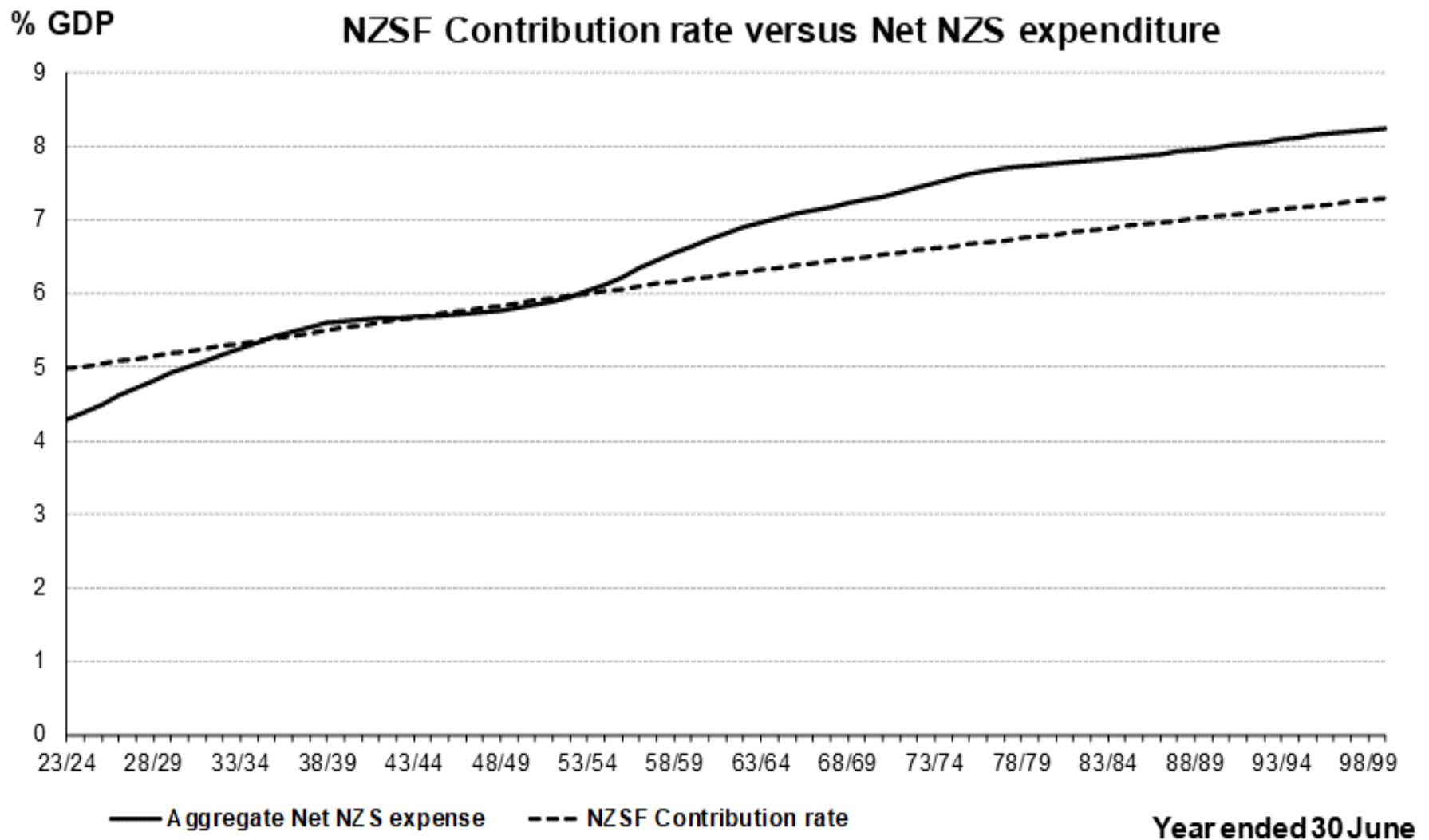
## The NZ Superannuation Fund

Year ended 30 June	2019 \$m	2020 \$m	2021 \$m	2022 \$m	2023 \$m
Contributions	1,000	1,460	2,120	2,420	2,553
Fund size	41,811	46,093	51,345	57,276	63,769

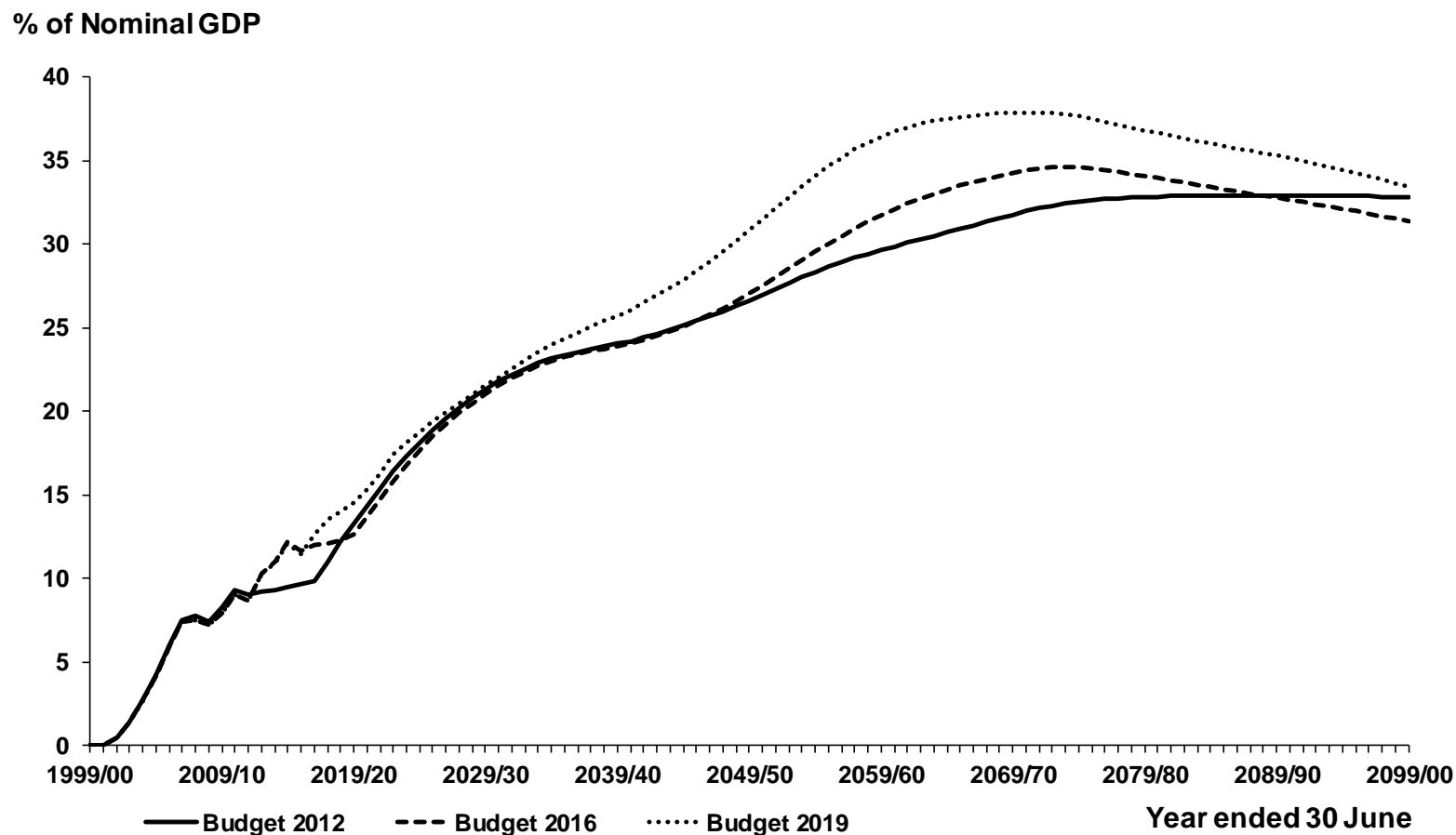
Is the fund to help pay for the babyboom retirement?

Or to tax smooth?

# Tax smoothing role of the NZ Super Fund (Bell, 2019b)



# NZSF closing balance, as a percentage of GDP, as projected at Budget 2012, Budget 2016 and Budget 2019 (Bell, 2019b)

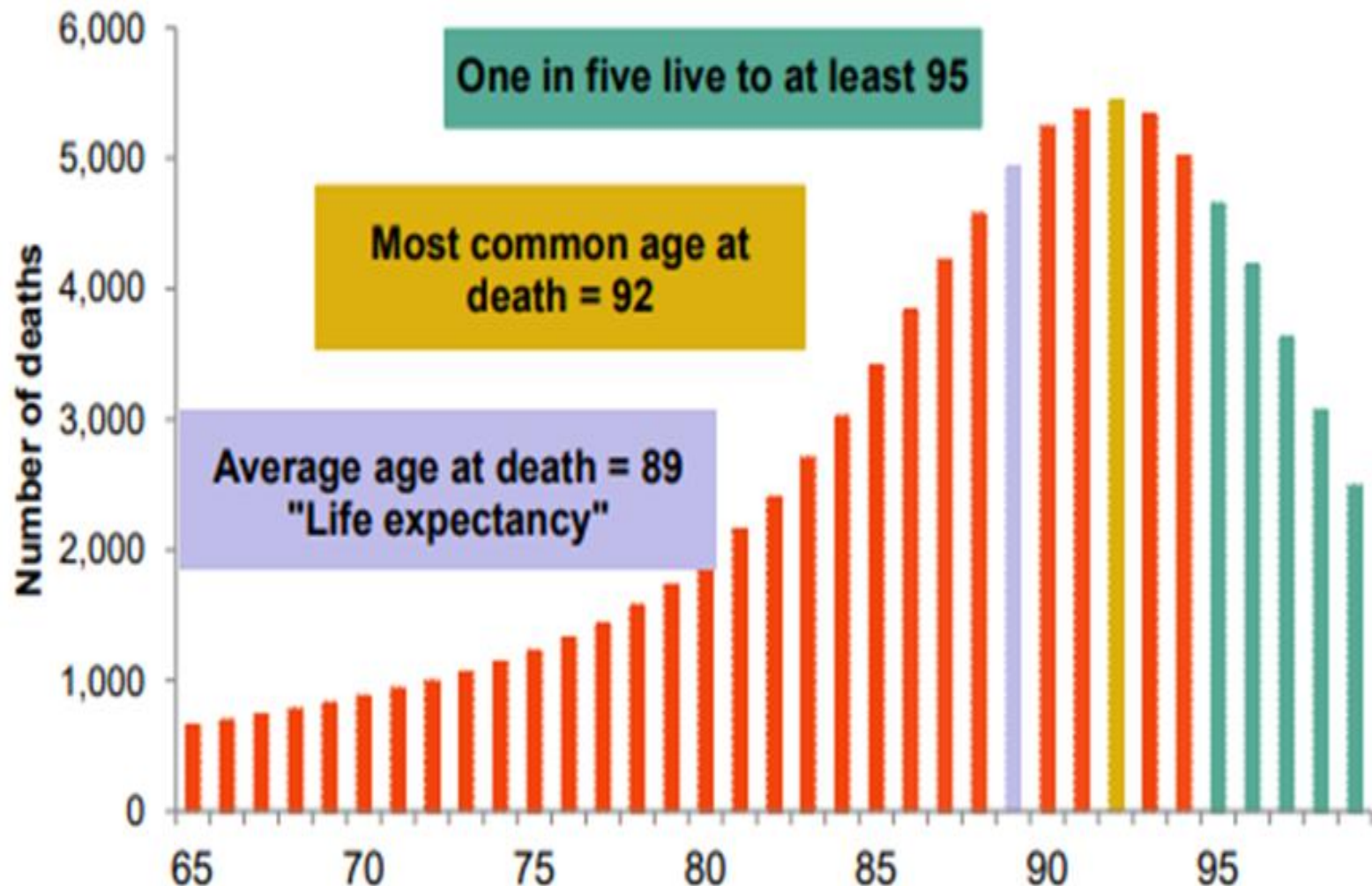


# Adjusting the levers

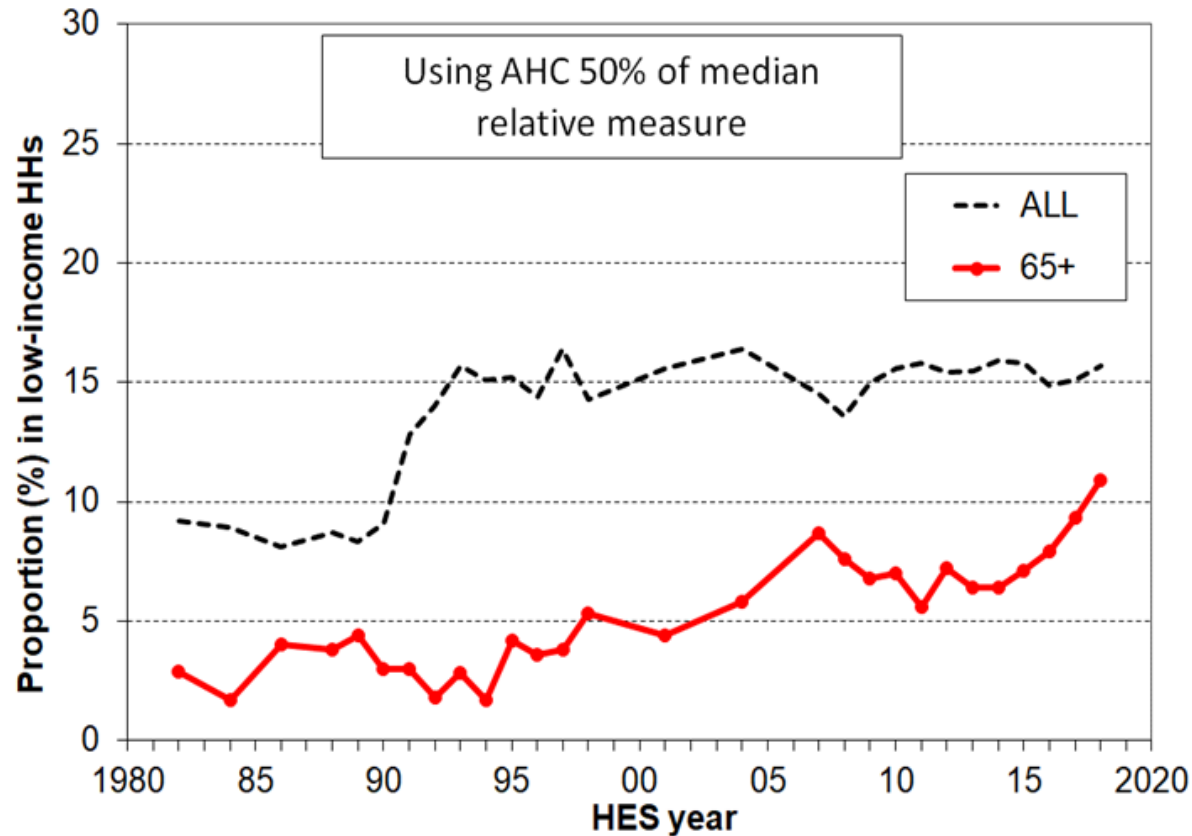
- Raising the age
  - National 67 by 2041
  - Labour – not on our watch
- Reducing the level
  - Aligning single and married
- Introducing a means test

# Raising the age?

Estimated number of deaths at each age (from 65 to 100) for 100,000 female New Zealanders who reach their 65th birthday in 2015 (O'Connell et al., 2015)



# How well are older New Zealanders doing ?



- Housing problems
- Employment issues
- Poor welfare provision for 60-65 yrs

Perry 2019

# Reducing the level of NZS

- No evidence NZS is too generous to those who do not have anything much else
- Rate structure is poorly targeted
  - Single living alone
  - Single sharing
  - married

# Rates of NZS

Category	% Net average wage	Weekly rate Gross	Weekly Net Primary Tax	Weekly Net 33% Tax
NZS Single, living alone	43%	\$475	\$411	\$319
NZS Single, sharing	40%	\$437	\$380	\$293
NZS Married person or partner in civil union or de facto relationship (each)	33%	\$360	\$316	\$241
Jobseeker Single, 25+ years	23%	\$245	\$219	
Jobseeker Married, civil union or de facto couple (without children, each)	19%	\$204	\$182	
Supported living payment single 18+	29%	\$309	\$274	
Supported living payment (married couple each)	24%	\$254	\$228	



# Why different rates of NZS?

- Couples living together in a married, civil union or de facto relationship are paid less than double the single rate because it is considered *that they can take advantage of certain economies of scale that individuals in shared accommodation cannot*. Thus, the rate paid to a married person is less than that paid to a single person. For example, a married couple:
  - could be able to enjoy lower accommodation costs than two single people
  - could be able to have their personal household effects on one insurance policy whereas two single people who are sharing accommodation would be more likely to have separate insurance costs totalling a higher amount
  - could share vehicle expenses, while two single people may be more likely to have their own individual transport and vehicle costs
  - could generally share meals, while two single people sharing accommodation may not have merged their lives to that extent.

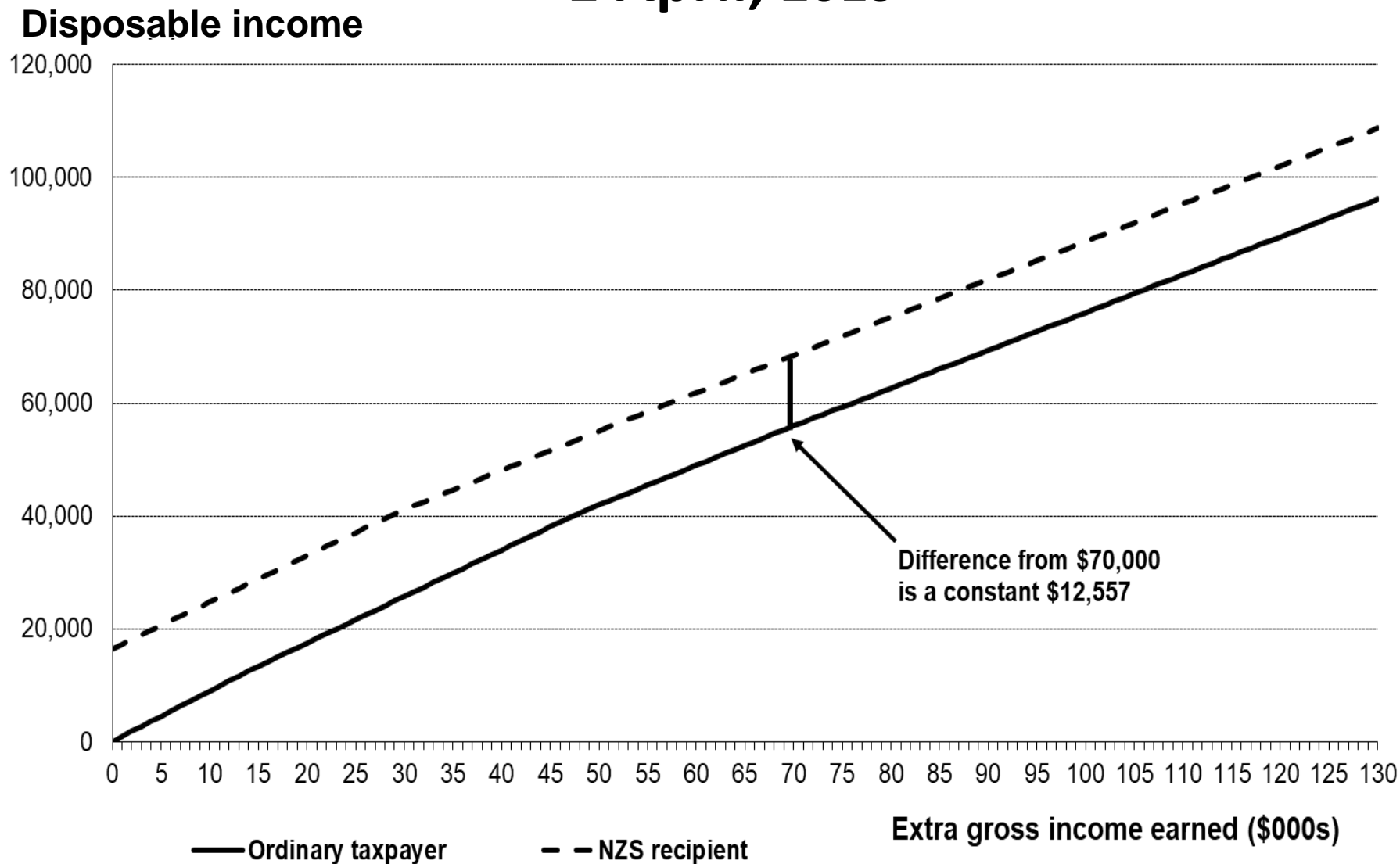
Can we take it away from those who don't need it?

## Spectrum of Means testing

- Fully universal untaxed
- **Fully universal taxed--- NZ**
- Surcharge on other individual income
- **Basic income, progressive tax**
- **Asset and joint income test– Australia-affluence test**
- Welfare –stringent only for the poor

# Disposable income with NZS, married rate NZS

## 1 April, 2019



# “A Basic income” reform

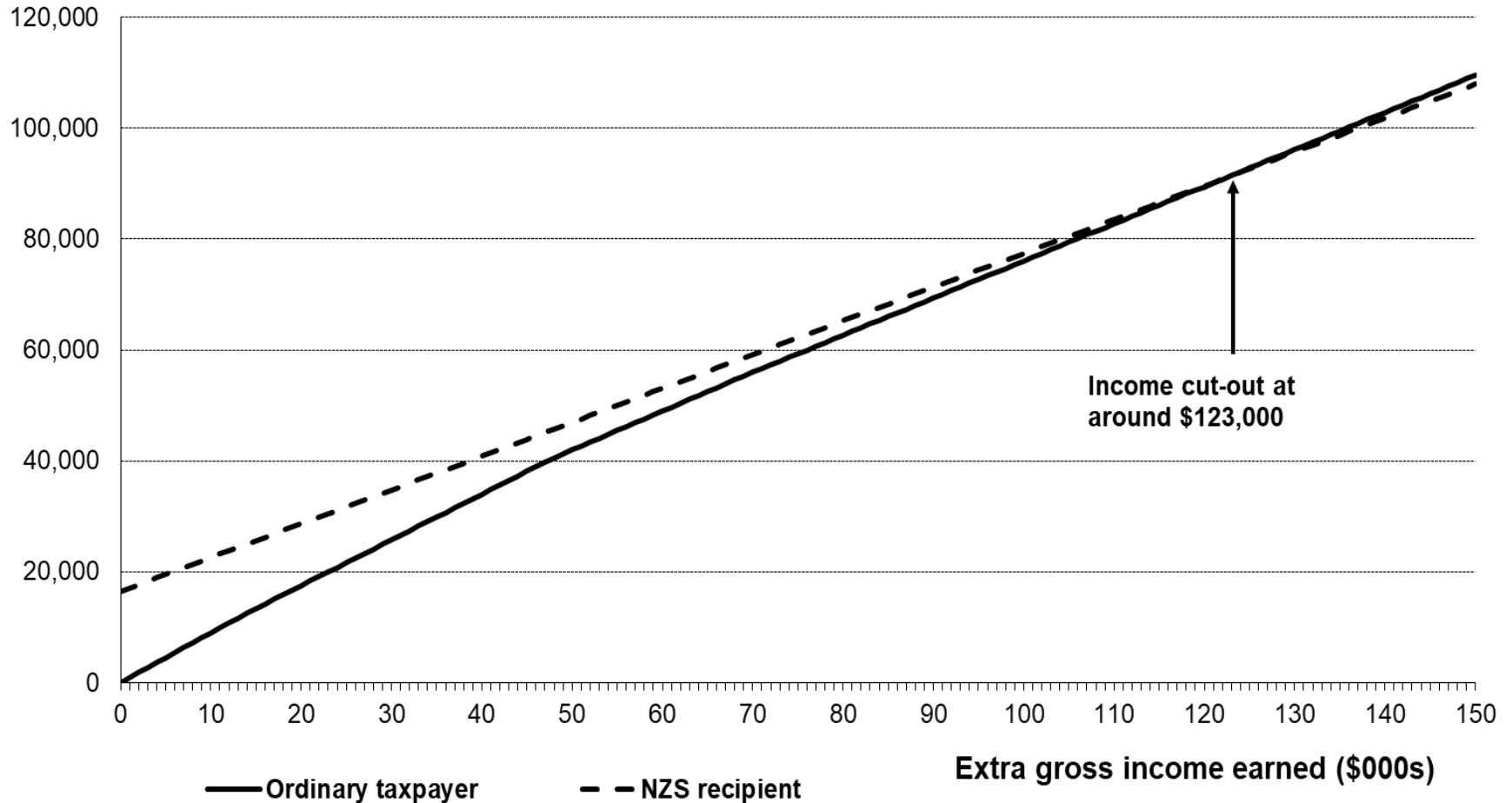
- Pay everyone the netmarried rate as a non taxable grant- The NZ Superannuation grant
- Put NZSG recipients on their own tax scale for other income

## Two scenarios

1. **Flat rate of 39%**
2. **Two tier 17.5% on income up to \$15,000 and 39% above that**

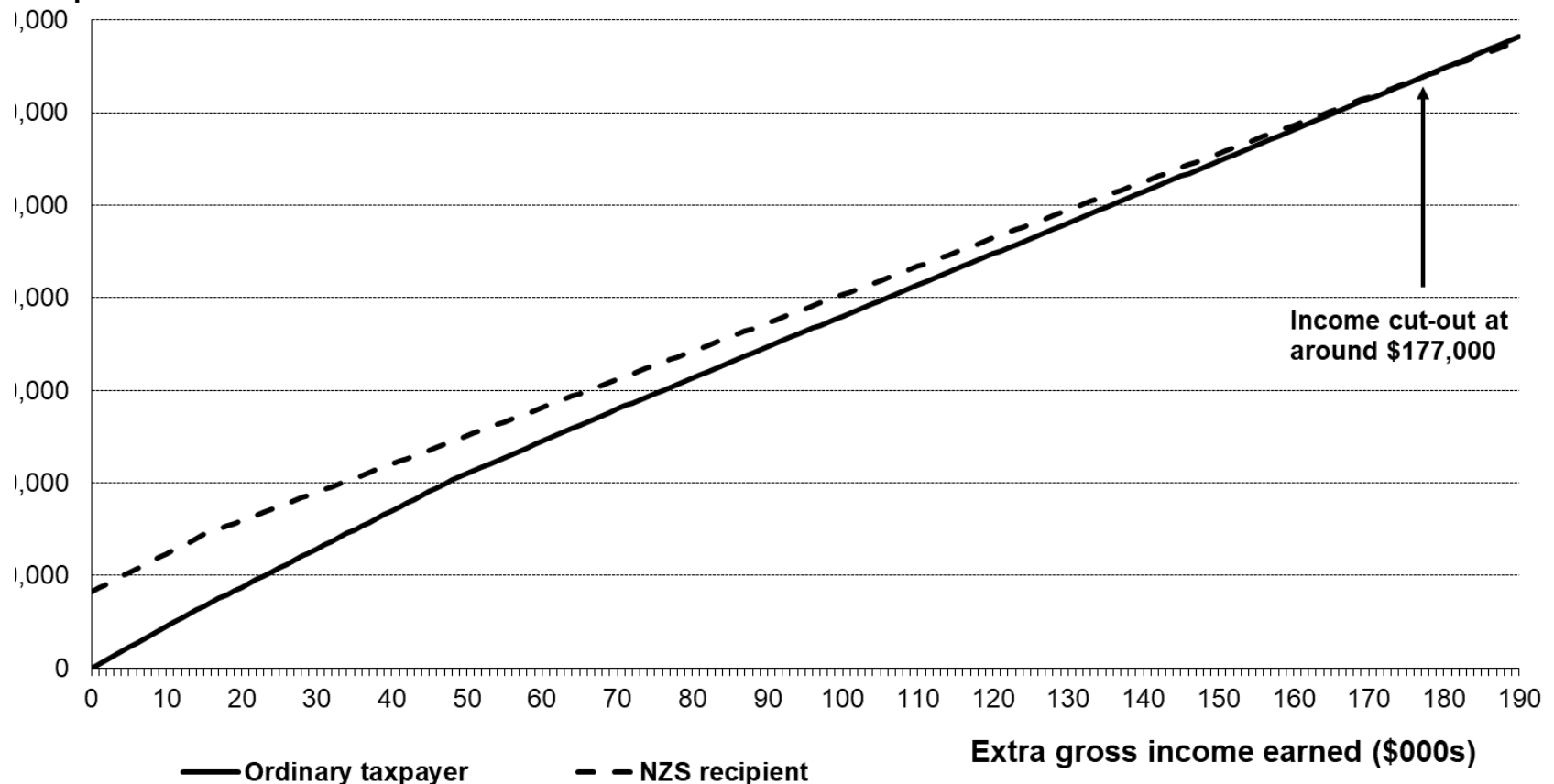
# Flat tax of 39% on other income: married rate NZS 1 April, 2019

## Disposable income



# Two-tiered rate of 17.5% (for first \$15,000 earned) and 39% above \$15,000: married rate NZS 1 April, 2019

Disposable income



# How much can be saved?

## Two tiered tax scale

- Saves easily 7-16% depending on how rates are aligned
- Married/single rate alignment can be done over time
- Makes those on incomes above \$20,000 progressively worse off
- Cut out at over \$177,000
- Need to include all income including PIE income

# Why it is a good idea?

- Immediate saving possible
- Simple
- Retains full universality and inclusivity
- Good for intergenerational equity perceptions
- Trans Tasman harmonisation?
- May be the prototype of a basic income extended to other groups over time?